The Danish Government

Denmark's Convergence Programme 2021

Ministry of Finance

APRIL 2021

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Content

1. Challenges and goals for economic policy

1.1 The economy towards 2025

In the wake of the corona pandemic, a significant economic and political response has been set in place in order to support the economy in the best way possible. The fiscal policy measures include both compensation schemes and stimulus packages with a combined supporting impact amounting to around 85,000 jobs in 2021 and 40,000 jobs in 2022. Thus, the implemented fiscal policy is significantly limiting the economic downturn following from the pandemic.

Currently, the Danish economy is in the process of reopening after the second wave of infections and lockdown over the winter. The associated rise in economic activity is, according to high frequency data, reflected in increasing private consumption and a decreasing level of unemployment. Reflecting the positive economic development, GDP is expected to grow at 2 per cent this year, and up to 4 per cent in 2022, *cf. figure 1.1.* A GDP growth of almost 4 per cent in 2022 will be the highest growth rate for the Danish economy in 15 years.

Thus, the outlook is favourable expecting a significant rise in economic activity in the Danish economy after the setback of 2¾ per cent in 2020 caused by the pandemic. In 2022, GDP is expected to exceed the 2019-level, and thereby surpassing the level of GDP before the pandemic, *cf. figure 1.2.* By 2022, economic conditions are expected to be roughly neutral.

Figure 1.1
GDP growth, 2000-2025

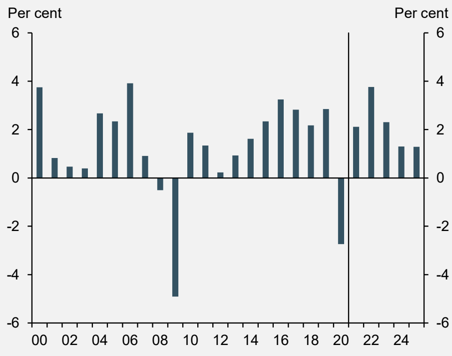
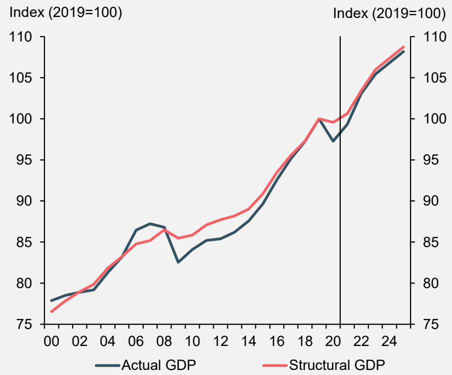


Figure 1.2
Level of actual and structural GDP, 2000-2025



Source: Statistics Denmark and own calculations.

The winter lockdown aimed at containing the pandemic, as well as the changes in behaviour etc. have caused a temporary decline in economic activity. However, despite a longer lasting and, in certain aspects, more encompassing lockdown, the decline in activity has been less pronounced compared to the decline following the lockdown last spring. This should be viewed in connection with the transition towards e-commerce among households and businesses, the experience with compensation schemes, and expectations of a rapid increase in economic activity.

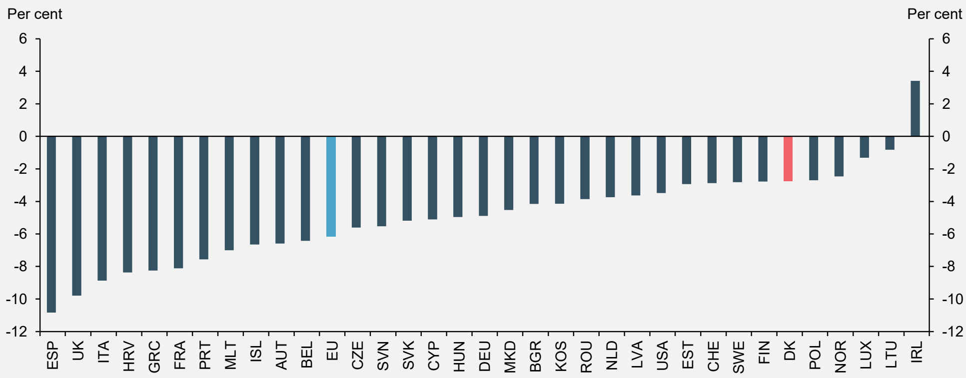
The potential for a rapid increase in activity should be seen in light of the fiscal measures that support businesses and jobs throughout the health crisis by means of compensation schemes, liquidity provision, and stimulus. Furthermore, the setback in economic activity following the corona pandemic is different from regular economic downturns, which are usually followed by longer periods of weak expectations. Instead, the decline in economic activity during the pandemic is more likely caused by cautious consumers and the restrictions implemented in order to contain the spread of the virus.

The solid foundation underlying the Danish economy facilitates the potential for a rapid increase in economic activity as restrictions gradually can be lifted. Additionally, the outlook for the global economy is increasingly optimistic as the vaccines provide renewed hope. International organizations now expect the global economy to grow at the highest rate since 1973.

Even though the corona crisis still has its grip on the Danish economy, the experience from 2020 show the potential for a fast increase in economic activity. During the pandemic and lockdown in the spring of 2020, GDP decreased by 7.9 per cent in the 2nd quarter of 2020 relative to the 4th quarter of 2019. However, the decline was reduced to only 1.5 per cent in the 4th quarter of 2020.

The outlook following the historical decline in GDP last spring appears much brighter compared to the outlook in the aftermaths of the financial crisis where conditions were affected negatively for a number of years – reflecting the need for consolidation and correction of imbalances following from the overheating of the economy prior to the financial crisis.

Figure 1.3
GDP-growth in Denmark, European countries, EU and the US, 2020



Note: The GDP-growth for Norway only includes the mainland of Norway. Overall, the GDP for Norway declined by 0.8 per cent in 2020.
Source: Macrobond and Eurostat.

Furthermore, the downturn of the Danish economy in 2020 was relatively mild in comparison with many other European countries. In 2020, GDP decreased by more than 10 per cent in Spain, while many other Southern European countries also experienced severe setbacks. Similarly, GDP decreased by almost 10 per cent in the UK, while other Nordic countries, including Denmark, performed relatively well in an international perspective, e.g. in comparison with the EU as a whole and with the United States, *cf. figure 1.3.*

The degree of COVID-19 contagion across countries has greatly influenced the extent of the impact on the economy from the pandemic. Generally, countries characterized by a larger excess mortality have also experienced a larger decline in GDP, *cf. figure 1.4.* This suggests that reducing the health related consequences of the pandemic also contributes to limiting the economic consequences.

Figure 1.4
Excess mortality and GDP-growth, 2020

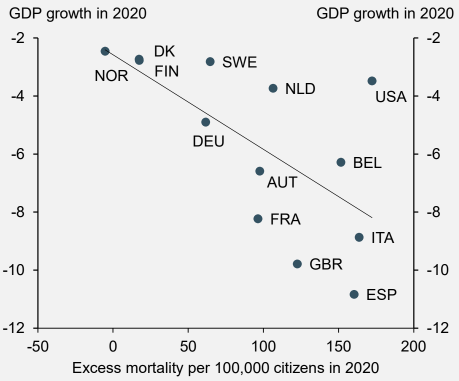
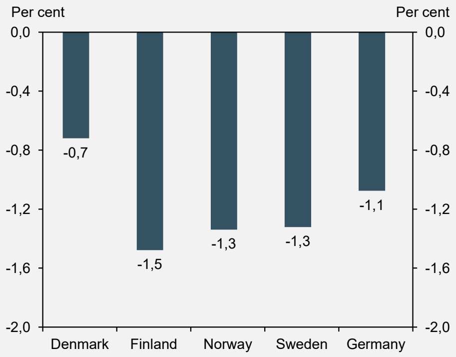


Figure 1.5
Employment growth in Denmark and neighbouring countries, 2020



Note: Excess mortality in figure 1.4 measures deaths per 100,000 persons in 2020 compared to the average in the period 2015-2019. Any differences in trend growth have not been accounted for. The GDP-growth for Norway only includes the mainland of Norway. In figure 1.5 the entire economy of Norway is included.
Source: Macrobond, Eurostat, Ourworldindata.org, and own calculations.

While the setback of Danish GDP was similar to that of other Nordic countries, the labour market downturn measured by number of employed workers, was relatively smaller in Denmark. In 2020, employment decreased by 0.7 per cent in Denmark while the decline was slightly larger in neighbouring countries, *cf. figure 1.5*. However, direct comparison is subject to caution due to differences in labour market policies – especially regarding Norway, where employees on wage compensation ('permitterede') counts as unemployed as opposed to Denmark where they counts as employed.

Extensive fiscal response

Following the outbreak of the corona crisis, an expansionary fiscal policy has been planned, including both extensive temporary compensation schemes as well as a range of stimulus packages supporting economic activity. Combined, the temporary compensation schemes and stimulus packages constitute a historical fiscal policy response with a large supporting impact on economic activity in Denmark, *cf. box 1.1.*

As a recent measure, the government decided to allocate additional funds to the handling of COVID-19 by means of a fiscal easing of 0.1 per cent of GDP in 2021 as restrictions over the winter and a range of related initiatives have put pressure on the temporary funds allocated to the handling of COVID-19. The additional funds amount to approximately DKK 2.4 bn. and the easing should be viewed in the context of an underlying improvement of the estimated structural budget balance by 0.1 per cent of GDP in the *Economic Survey* from December 2020. The easing is thus in line with the Budget Bill for 2021, where fiscal policy was planned in accordance with the lower limit for the structural balance of -0.5 per cent of GDP as defined by the Danish budget law.

Box 1.1
Historically large fiscal response following COVID-19 supports fast recovery

Since the beginning of the corona pandemic in March 2020, Denmark’s fiscal response has been historically large. The measures taken are crucial in terms of keeping businesses and the labour market ready for renewed economic progress and thus a rapid increase in economic activity. Furthermore, several agreements have a longer horizon enabling investments in the future while supporting short-term economic activity at the same time. In total, the recovery and stimulus measures imply that approximately DKK 135 bn. has been activated in the period 2020-2022 in order to support economic activity. Among the measures taken are:

Agreements and adopted measures in the spring and summer of 2020:
- Green housing agreement 2020: The funds of the National Buildig Foundation 2021-2026 and advancement of initiatives in 2020 (May 2020)
- Suspension of the 2020 construction ceilings applying to local governments and regions (March 2020)
- The 2021 budget agreements with local governments including a significant expansion of the construction ceilings for 2021 (May 2020)
- Agreement between the central govenment, labour unions and employees concerning extraordinary aid directed at trainees etc. as well as businesses (May 2020)
- Climate agreement for energy and industry 2020 (June 2020)
- Agreement on enhanced further training and Agreement on extraordinary lift of unemployed (June 2020)
- Agreement on the phasing-out of existing compensation schemes and launch of new stimulus and export initiatives (June 2020)

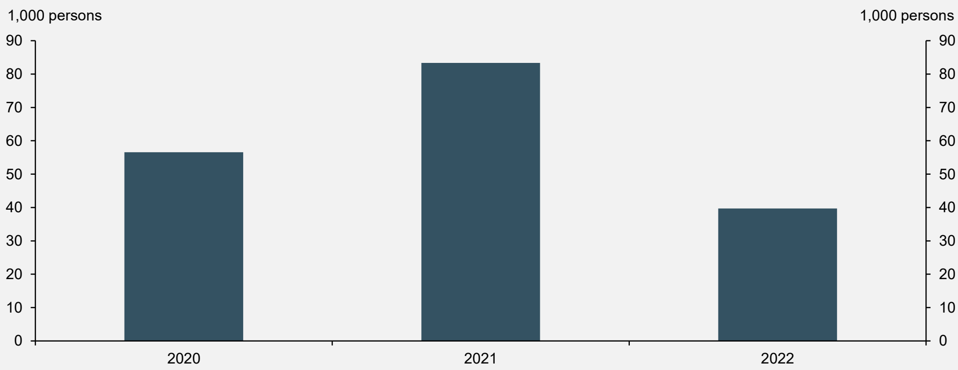
Agreements supporting Denmark’s green recovery from December 2020:
- Agreement on the release of the remaining two weeks of frozen holiday pay, export package, and funds for the extension of the compensation schemes
- Agreement on green transition of road transport
- Agreement on the 2021 budget bill
- Agreement on stimulus and green recovery
- Agreement on green tax reform

In addition, the extraordinary compensation schemes contribute to supporting Danish businesses and jobs. In total, the compensation schemes amount to approximately DKK 35 bn., and more than 300.000 workers have been sent home on wage compensation. Finally, a number of state-guarantee and loan provision schemes, extensions of payment deadlines and other measures provides liquidity for Danish businesses.

In total, fiscal policy supports economic activity significantly in 2020-2022 and is expected to support approximately 55,000 jobs in 2020, 85,000 jobs in 2021 and 40,000 jobs in 2022, *cf. figure 1.6.* This includes workers sent home on wage compensation during 2020 and 2021 (counted as employed).

The ongoing reopening of the economy and the strong foundation for a rapid increase in economic activity in combination with the already implemented fiscal policy response imply that fiscal policy overall is aligned with the cyclical stance of the economy, which is expected to be roughly neutral by 2022. However, regarding the fiscal policy, specific parts of the Danish economy are expected to be influenced by the crisis for a longer period than the economy as a whole.

Figure 1.6
Expansive fiscal policy supports employment in 2020-2022



Note: The effect on economic activity is calculated as the fiscal policy's multi-year demand effects on employment excl. the effect from structural reforms on the capacity pressure.
Source: Statistics Denmark and own calculations.

The significant fiscal response already taken includes a range of initiatives financed by the expected funds to Denmark from the EU Recovery and Resilience Facility (RRF) of approximately DKK 11½ bn. over the period 2021-2025. The Danish recovery plan constituting the basis for Denmark's access to funds from the RRF contributes to financing the agreements on a green restart of Denmark agreed upon concurrently with the 2021 budget bill.

The initiatives included in the Danish recovery plan in regard to the short term outlook aim at stimulating economic activity and supporting Danish businesses and jobs. With regard to long-term impact, a key element in the recovery plan is to support both the green and the digital transition, including the objective of reducing climate related greenhouse gas emissions by 70 per cent by 2030. The Danish recovery plan is to be assessed and approved by the EU.

Thus, the Danish crisis policy focuses not only on the short term, i.e. helping Denmark through the crisis. The crisis policy also actively invests in the future and in the long-term development of Denmark. Initiatives include investments in the green transition, tax deductions on research and innovation, digitization, renovation of infrastructure and further training and education of the work force.

In addition, approximately DKK 15 bn. was allocated to increased public investments in 2021-2025 as part of the new 2025-frame presented in August 2020. The increase in public investments are amongst other things part of the basis for the government's newly proposed infrastructure plan *Denmark Forward – Infrastructure Plan 2035*, April 2021.

The government's focus on investing in the future should also be viewed in connection with the range of green and climate agreements that have been agreed upon since the government took office in the summer of 2019. These agreements contribute to reaching the Danish goal of reducing climate related greenhouse gas emissions by 70 per cent by 2030, *cf. box 1.2*.

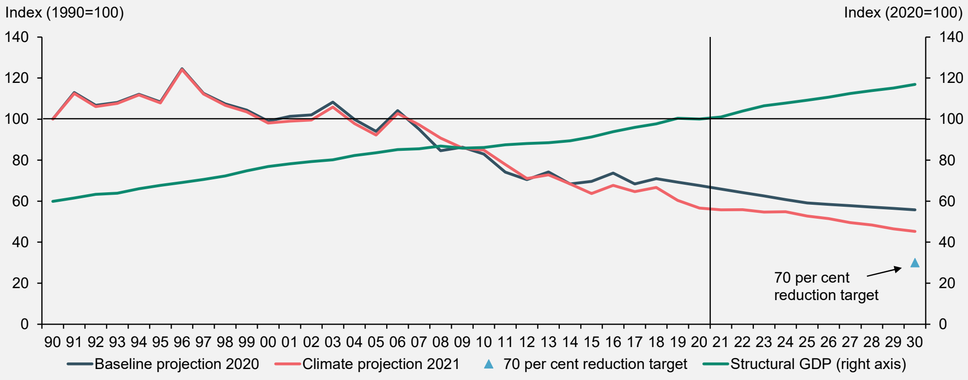
Box 1.2
Climate goals and greenhouse gas emissions

The Danish Climate Law implies a binding goal of reducing greenhouse gas emissions by 70 per cent by 2030 relative to the level in 1990. According to the most recent projection by the Danish Energy Agency (April 2021), Denmark's greenhouse gas emissions have been reduced by more than 40 per cent between 1990 and 2020, *cf. figure a*. During the same period, GDP has increased by approximately 40 per cent. The Danish Energy Agency currently estimates that Denmark will have reduced emissions by approximately 50 per cent in 2030 compared to the level in 1990 with the measures already implemented.

Based on the new climate projection, a reduction of approximately 12 million tonnes CO_2e remains in order to reach the desired reduction of 70 per cent by 2030. In comparison, the outstanding reduction was previously estimated at 20 million tonnes CO_2e in the Danish Energy Agency's *Baseline Projection* published in June 2020. Among other things, the new climate projection includes the emission effects of the *Climate agreement for energy and industry* (June 2002), *Climate plan for a green garbage sector and a circular economy* (June 2020), agreement on *Green transition of road transport* (December 2020), *Agreement on stimulus and green recovery* (December 2020) and *Agreement on green tax reform* (December 2020) as well as other technical data updates etc.

In total, agreements reached since the government took office are estimated to reduce greenhouse gas emissions in 2030 by approximately 7 million tonnes CO_2e.

Figure a
Greenhouse gas emissions and structural GDP



Note: The updated medium-term projection in *Denmark's Convergence Programme 2021* is based on the Danish Energy Agency's *Baseline Projection 2020* published in June 2020. Greenhouse gas emissions are measured according to IPCC's method, including LULUCF. In the Danish Energy Agency's *Baseline Projection* from June 2020, the greenhouse gas emissions in 2019-2030 are projected by interpolating between the estimated greenhouse gas emmissions in 2018, 2025 and 2030.
Source: Danish Energy Agency, Statistics Denmark, and own calculations.

Increasing employment and sound public finances

The expected improvement of the Danish economy is also reflected in a favourable outlook for the labour market. In 2022, employment is expected to exceed the level just before the crisis, *cf. figure 1.7*. Already adopted initiatives, such as the wage compensation scheme, have contributed to keeping workers in employment and supporting the labour market during the corona crisis. In combination with underlying sound structures and an efficient Danish labour market, policy initiatives have contributed to reducing the cost of the crisis and thus reducing job losses.

Towards 2025, a large growth in employment is expected – also including the effect of *Agreement of a new right to early retirement* from October 2020. In total, structural employment is expected to grow by approximately 12-13.000 persons annually on average between 2021 and 2025.

Actual unemployment has increased following the corona pandemic, and structural unemployment is estimated to increase as well in 2020-2021. This reflects less efficient job matching in the labour market caused by transition needs following the pandemic. The rise in structural unemployment is presumed to be temporary and thus unemployment is declining again towards 2025, *cf. figure 1.8*. The rise in actual unemployment is significantly smaller than during the financial crisis.

Figure 1.7
Increasing actual and structural employment towards 2025

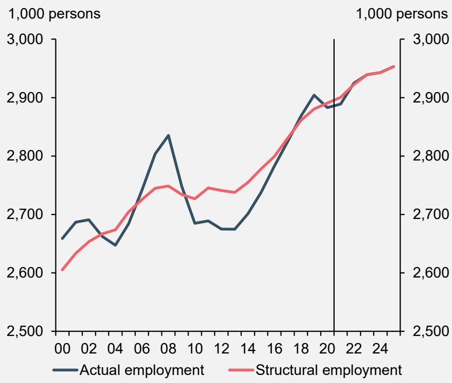
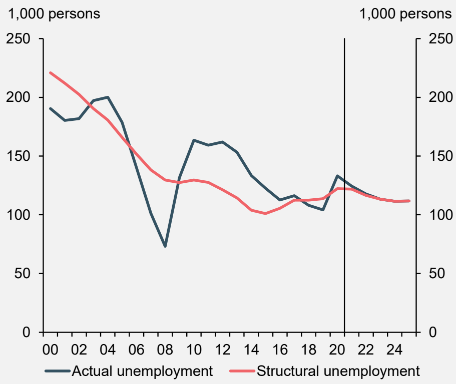


Figure 1.8
Actual and structural gross unemployment are affected by the pandemic



Note: The employment does not include workers on leave.
Source: Statistics Denmark and own calculations.

The outlook for public finances in Denmark remains sound and sustainable. As opposed to the period following the financial crisis, there is no need to implement new initiatives to consolidate and restore public finances. This reflects that the expansion of fiscal policy is temporary. The compensation schemes and other COVID-19-related one-off expenditures are temporary as is the fiscal easing in the coming years reflected in the new 2025-frame *DK2025 – A green, fair and responsible recovery of the Danish economy*, August 2020, including the allocated funds to handle COVID-19 which run until 2024. Thus, the objective of structural balance in 2025 is unchanged, *cf. figure 1.9*.

This strategy and framework provides room for manoeuvre to conduct expansionary fiscal policy in the coming years in order to support economic activity, while financing all permanent initiatives within a responsible fiscal framework. On this basis, it is not necessary to tighten fiscal policy beyond the planned path in order to reach the objective of structural balance in 2025.

In the updated medium-term projection in Convergence Programme 2021, the profile of the structural budget balance towards 2025 corresponds to the profile in *DK2025*, August 2020. The updated medium-term projection includes an underlying improvement of the structural budget balance by 0.1 per cent of GDP in 2023-2025 (DKK 2.4 bn. annually) compared to the most recent medium-term projection from August 2020. The improvement reflects an upward estimate of structural net interest revenue. The underlying improvement of the public finances in 2023-2025 is allocated to an expansion of the funds allocated to handling COVID-19 in 2023-2024, an increase in public investments in 2024-2025, and an increase in the fiscal space in 2025 within the objective of structural balance in 2025.

Figure 1.9
Structural budget balance – easing in 2021-2024 and aim of balance in 2025

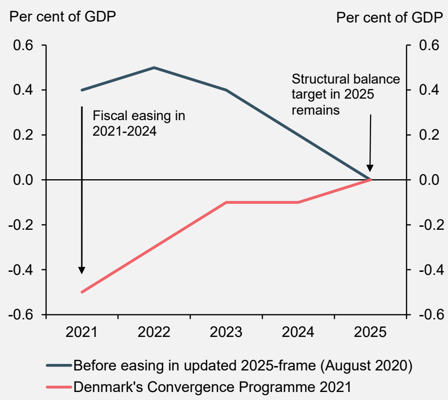
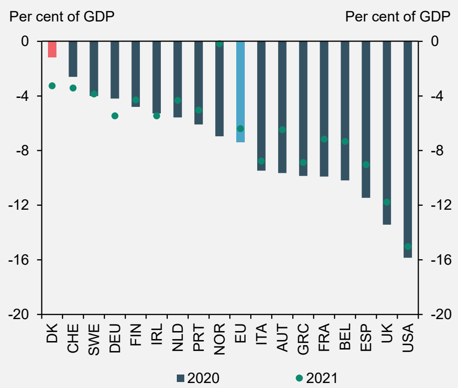


Figure 1.10
General government budget balance in Denmark, European countries, EU, and the US, 2020 and 2021



Note: In figure 1.9, the profile of the structural budget balance before the fiscal easing in the updated 2025-frame, August 2020 is based on *Economic Survey*, May 2020, and *Updated 2025-projection*, October 2019. In figure 1.10, the DK estimate is based on the current assessment while the foreign estimates are based on the latest IMF forecast. In Denmark, the actual budget balance in 2020 is affected by several one-off expenses related to the handling of COVID-19 as well as one-off revenues concerning personal taxes related to the payment of frozen holiday pay.
Source: Statistics Denmark, IMF World Economic Outlook, April 2021, *Economic Survey,* May 2020, *Updated 2025-projection,* October 2019 and own calculations.

According to the preliminary national accounts data from Statistics Denmark, the actual budget balance deficit in 2020 amounts to approximately 1 per cent of GDP. This is significantly lower than the estimated deficit of approximately 3½ per cent of GDP in *Economic Survey*, December 2020. The smaller deficit based on the preliminary national accounts primarily reflects larger revenues from the pension yield tax and lower expenditures regarding public subsidies, including expenditures related to compensation schemes, and lower public consumption expenditures than expected in *Economic Survey,* December 2020. Relative to other countries, the Danish budget balance deficit in 2020 is quite small, *cf. figure 1.10*. The latest forecast by IMF expects several countries to have significantly larger deficits on their actual budget balance in 2020. IMF forecasts a US deficit of approximately 16 per cent of GDP and a deficit of approximately 8 per cent of GDP in the EU as a whole.

During the corona crisis, Denmark's public EMU debt has increased, e.g. due to the extensive liquidity provision schemes aimed at Danish businesses. However, the Danish EMU debt remains well below the debt limit of 60 per cent of GDP as stated by the Stability and Growth Pact. Moreover, the Danish EMU debt remains low in both an international and historic perspective, *cf. figure 1.11 and 1.12*, and Denmark still has the highest international credit rating (AAA-rating).

Before the outbreak of the corona crisis, Denmark had a positive net wealth in 2019 – the equivalence of a negative net debt. The net debt is key to assessing long-term fiscal sustainability. A sound starting point is generally an important prerequisite in order for countries to be able to respond sufficiently and to handle economic crises without significant costs or the risk of increasing interest rates. Despite the corona crisis and adopted initiatives during the crisis, Denmark is still expected to have a positive net wealth by the end of 2025, *cf. figure 1.11*. This reflects, i.a., a net wealth increase in 2020 despite the increasing gross debt (EMU debt). The higher net wealth mainly reflects changes in the price of public assets and liabilities – in particular the price increase on publicly owned shares in Ørsted A/S.

Figure 1.11
Moderate development in the public net debt and EMU debt still considerably below the debt limit

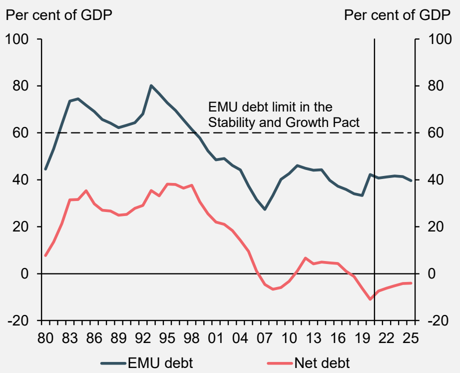
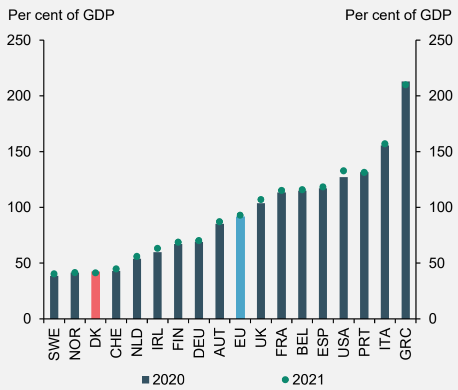


Figure 1.12
Gross debt in Denmark, European countries, EU, and the US, 2020 and 2021



Note: In figure 1.12, the estimate for DK is based on the assesment in the Convergence Programme while estimates for all other countries are based on the lastest IMF forecast.
Source: Statistics Denmark, IMF World Economic Outlook, April 2021, *Economic Survey,* May 2020, *Updated 2025-projection,* October 2019 and own calculations.

Fiscal policy is sustainable and the estimated fiscal sustainability indicator amounts to approximately 1 per cent of GDP. However, the outlook of increasing demographic pressure on public finances in the period beyond 2025 remains – this is the so-called hammock challenge. The budget balance deteriorates for a number of years as larger generations are replaced by smaller and employment ratio declines. The positive sustainability indicator relies on the long-term improvement of public finances in the technical long-term projection, e.g. due to the life expectancy indexation of the retirement ages.

1.2 Goals for economic policy

In the wake of the corona crisis, the government presented *DK2025 – A green, fair and responsible recovery of the Danish economy* in August 2020 and set and updated fiscal framework for the years towards 2025, *cf. box 1.3*.

With the updated fiscal framework and the many agreements reached since the outbreak of the corona crisis, the government has laid the tracks for a strong crisis response with an expansive fiscal policy in the coming years and investments in the future. At the same time, the medium-term objective of structural balance in 2025 persists ensuring that all permanent expenditures are fully financed. This strategy forms the basis for progress in economic activity and a green and fair strengthening of the Danish economy within a responsible fiscal framework.

Boks 1.3
Goals, indicators and priorizations in the years until 2025

Responsible fiscal framework and economic recovery:

- Expansive fiscal policy to stimulate activity in the coming years
- Objective of structural balance in 2025
- Compliance with the Danish Budget Law and international obligations
- Sustainable public finances in the long term
- Public debt must maintain a broad safety margin to the EMU debt limit of 60 per cent of GDP set by the EU
- Favourable conditions for the business community and cohesion between rural and urban areas

Fair and green priorities:

- Public welfare should keep up with the demographic development with more children and elderly. Moreover, quality and proximity of public welfare must be enhanced
- New right to early retirement for people with long working life
- Ensure a green transformation of Danish Society
- 2nd generation reforms – new reform course
- Growth in both public and private employment – in mutual balance
- Increased public investment creates room for new infrastructure and green investments

Source: *DK2025 – A green, fair and responsible recovery of the Danish economy*.

New reform course to prepare Denmark for the future

The government has made it clear that it intends to set a new reform course in order to strengthen the Danish economy and society. The call for a new reform course should be viewed in light of the fact that a number of long-term challenges – but also opportunities – are emerging.

Firstly, the green transition and the 70 per cent reduction target call for massive investments in order to create a more sustainable society. Secondly, ongoing fierce international competition entails new demands for the qualifications and education level on the Danish labour market. Thirdly, Denmark and the rest of the world are in the midst of a digital revolution, which implies that new steps are needed in order to further digitalize the Danish society.

A new reform course will focus on businesses and employment and aims at strengthening the Danish society model and the Danish economy. An element will be lifting employment permanently in a way that is socially fair. Denmark must have both a larger and more skilled labour force. More of the people that are currently outside the labour market, including female immigrants, must enter the labour market. A new reform course should be viewed in connection with the ongoing work concerning 2nd generation reforms aimed at supporting the Danish welfare model, contributing to reducing social inequality and tackling the complex challenges that earlier reforms have not been sufficiently able to resolve.

1.3 Updated assessment of the fiscal space

The fiscal space towards 2025 is a measure of how much room there is for new political tax and expenditure initiatives, including real growth in public consumption, or other political initiatives within the objective of structural budget balance in 2025.

The fiscal space for the individual years is allocated each year in connection with the planning of the fiscal policy – i.e. in the budget agreements with municipalities and regions as well as the central government draft budget proposal and the subsequent budget bill. Thus, the fiscal space in 2021 was allocated in connection with the budget proposal for 2021, etc.

The fiscal space towards 2025 was last updated in *DK2025*, August 2020 where it was estimated to approximately DKK 19½ bn. in 2025 relative to the expenditure level in 2021.

The handling of the corona crisis involves a number of temporary additional expenses, which in the Convergence Programme affect the expenditure level in 2021. Corrected for these temporary conditions, the updated fiscal space is approximately unchanged at DKK 19½ bn. towards 2025

This amounts to an average annual growth rate in public consumption of maximum 0.9 per cent. This is larger than the average growth in the demographic pressure in the same period of 0.5 per cent annually, corresponding to approximately DKK 11 bn. in 2025 relative to 2021.

In total, the government's priorities in the Budget Bill for 2020 and 2021 imply that public consumption can grow by DKK 34¾ bn. towards 2025 relative to the 2019-expendure level, where the government took office. This amounts to a growth of approximately 1.1 per cent annually on average.

Box 1.4 summarises the impact of new measures etc. and on the projected fiscal space towards 2025 compared to the latest projection in *DK2025* from August 2020. The projected fiscal space is measured relative to the expenditure level in 2021.

Boks 1.4
Updated estimation of the fiscal space compared to the estimation in August 2020

The fiscal space in the Convergence Programme 2021 is estimated to approximately DKK 19½ bn. in 2025 (measured relative to the 2021-expenditure level), when adjusted for the effect of temporary expenditures in 2021 related to COVID-19 (including increased central and local government operating expenses in 2021), *cf. table a.*

Without correcting for these temporary conditions, the growth in public consumption towards 2025 – from the temporarily high expenditure level in 2021 – amounts to DKK 14½ bn. The temporary conditions result in a temporarily high expenditure level in 2021, which in isolation reduces the possible expenditure growth in subsequent years relative to 2021. However, the extraordinary and temporary COVID-19 expenditures affecting the expenditure level in 2021, do not reduce the space for new expenditure measures after 2021.

Corrected for temporary conditions in 2021 related to COVID-19, the highest possible public consumption growth towards 2025 is approximately unchanged since August 2020. This reflects a number of opposing factors:

- **Agreement on new right to early retirement (October 2020):** The funding of the agreement includes a contribution from rethinking the employment effort of approximately DKK 1 bn. from 2024. In the projection, it is technically assumed that this funding is translated into lower local government operating expenses, which in isolation reduces the highest possible public consumption growth but not the room for manoeuvre for other purposes.
- **Budget Bill for 2021 and Agreement on economic stimulus and green recovery (December 2020):** Overall, the agreements prioritize more funds for initiatives affecting public consumption in 2021 than in 2025, which in isolation reduces the highest possible consumption growth towards 2025 relative to 2021.
- Further, based on the underlying improvement of the structural budget balance in the Convergence Programme, DKK 1 bn. is allocated to an increase in the fiscal space within the objective of structural budget balance in 2025.

Table a
Changes in fiscal space since August 2020

	2025
DKK bn. (2021-prices)	
***DK2025*, August 2020**	**19½**
+ Temporary conditions in 2021 related to COVID-19	-5
+ *Agreement on new right to early retirement* (October 2020)	-1
+ *2021 Budget Bill* and *Agreement on economic stimulus and green recovery* (December 2020)	-¾
+ Underlying improvement of the structural budget balance	1
+ Other factors, technical adjustments, etc.[1)]	¾
***Convergence Programme 2021* inclusive effect of temporary conditions in 2021**	**14½**
***Convergence Programme 2021* corrected for temporary conditions in 2021 related to COVID-19**	**19½**

Note: Fiscal space is calculated as the highest possible public consumption growth excl. depreciation within the objective of structural balance in 2025 and rounded to the nearest quarter DKK bn.
1) Other factors, technical adjustments, etc. cover, among other things, the effect of the technical amendments, estimates of other ceiling-covered expenses, including, among other things, foreign aid as well as additional expenses related to COVID-19 not included in the calculation of the structural balance.
Source: Statistics Denmark, *DK2025*, August 2020 and own calculations.

Appendix 1.1 New central information and assumptions in the projection

New information since the medium-term projection from August 2020 is summarized in *appendix box 1.1*. The detailed estimates and developments are described in chapter 2-6 of the Convergence Programme 2021.

Appendix box 1.1
Updates to the 2025 projections since August 2020

- **New short term forecast**: The Convergence Programme is based on an updated short-term forecast for key macroeconomic indicators and public finances in 2021-2022. Furthermore, the 2025 projection includes preliminary national accounts and public accounts for 2020, etc.

- **Structural levels from 2023:** In the projection, the business cycle measured by the output and employment gaps is estimated to be approximately neutral in 2022. In the medium-term projection, employment, GDP, etc. are assumed to correspond to their structural levels from 2023 and onwards.

- **New political agreements:** The medium-term projection includes the effects of new political agreements since the projection in August, including the Budget Bill for 2021 and additional agreements on a green restart, *Agreement on new right to early retirement, Agreement on the future of fossil extraction in the North Sea, Agreement on the multi annual budget of police and prosecution Service 2021-2023*, *Agreement on compensation to the mink breeders, and related businesses affected by the closure of mink farms*, and the Danish recovery plan regarding EU's *Recovery and Resilience Facility (RRF)*.

- **Priorities within the objective of structural balance in 2025:** The Convergence Programme implies an underlying improvement in the structural budget balance by 0.1 per cent of GDP in 2023-2025. Fiscal policy is planned within the same fiscal framework set in *DK2025*, August 2020. In the Convergence Programme, the underlying improvement in the structural budget balance is allocated to additional funds to handle COVID-19 and an increase in public investments and fiscal space. Furthermore, the Convergence Programme includes the agreed expansion of the funds to handle COVID-19 in 2021 by easing the structural budget balance by 0.1 per cent of GDP in 2021, which in isolation increases the funds by DKK 2.4 bn. The fiscal easing in 2021 should be viewed in light of the estimated improvement of the structural budget balance by 0.1 per cent of GDP in 2021 in *Economic Survey*, December 2020 compared to the estimate in August 2020 in connection with the presentation of the general government draft budget proposal for 2021.

- **Interest rate assumptions:** A gradual normalisation of the interest rates is assumed. The 10-year government bond is assumed to increase to 0.8 per cent in 2025 and further to 4 per cent in 2050, and remain unchanged thereafter.

- **Oil prices and revenues from activities in the North Sea:** The revenue from the activities in the North Sea is based on the Danish Energy Authority's long-term projection of oil and gas production (unchanged from August 2020) and *Agreement on the future of fossil extraction in the North Sea.* The oil price is based on the development in the price of futures and the International Energy Agency's (IEA) newest projection (Stated Policies Scenario in *World Energy Outlook* from October 2020).

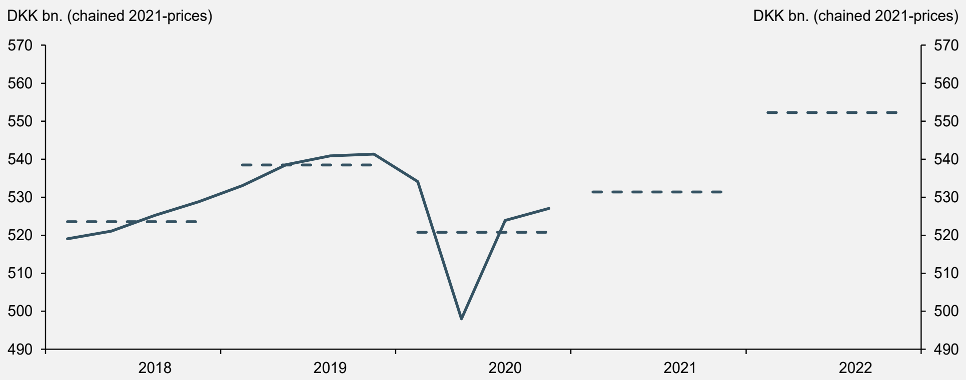
2. Economic projections

2.1 The Economic Outlook for 2021 and 2022

The corona pandemic has led to a deep contraction in Danish and international economies. Looking across countries there was an historic setback in economic activity during the first wave of the pandemic in the spring last year. With summer and fall came a substantial increase in activity in most countries, and recent surveys indicate that the increase in the fall was stronger than previously projected. Despite the recovery, the overall outcome for 2020 was a big drop in GDP in most countries. In Denmark, GDP dropped by 2.7 per cent in 2020, which is relatively moderate in an international comparison. This is also related to the fact that the spread of infection in Denmark and the health consequences thereof was relatively moderate compared to a number of other countries, *cf. chapter 1*.

The Danish economy was hit by the second wave of infections over the winter along with new restrictions and partial lockdown to contain the spread of corona virus. This has led to a weak start of the year and consequently economic activity is expected to decrease in the first quarter of 2021. Meanwhile, large parts of the Danish economy either has now or is on track to reopen after the winter lockdown. The reopening has led to an increasing activity, which, according to high frequency indicators, is evident in e.g. increasing private consumption and decreasing unemployment. The renewed progress in the economy means that GDP is expected to grow 2 per cent this year and up to 4 per cent in 2022 in the forecast in this Convergence Report. GDP growth of 4 percent in 2022 would be the fastest pace of growth in 15 years, and the rapid growth implies that economic activity returns to the pre-corona level in the second half year.

Figure 2.1
The path of GDP

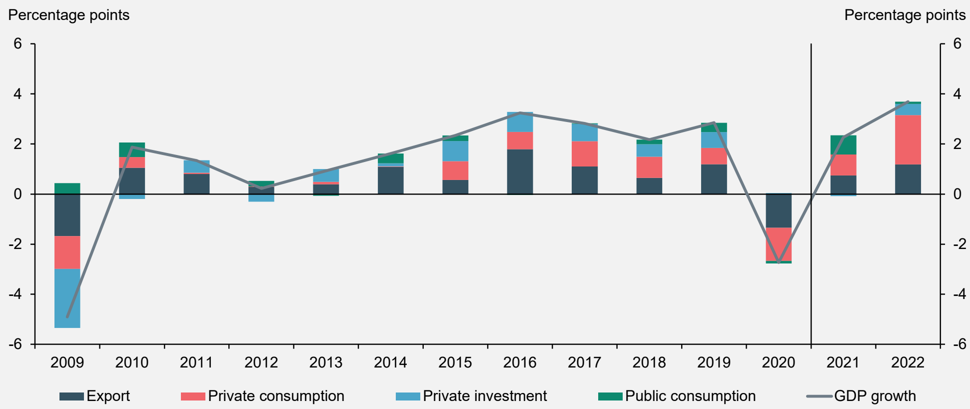


Note: The dashed lines show annual averages.
Source: Statistics Denmark and own calculations.

The expectation of relatively fast increase in activity is based on the experiences from last year, where activity quickly increased when infections dropped and restrictions were removed. In general, consumption in the 4th quarter of 2020 was back at pre-crisis levels, although consumption remained lower in some spending categories. The prospects for a similar development this year are further supported by the extra savings that households have accumulated in 2020 – also because a number of consumption options have been limited. Thus, household savings relative to incomes were at the highest level for many years for the year as a whole.

In addition to the household savings, a substantial contribution from the payments of the remaining frozen holiday allowances is expected until the end of May. Thus, private consumption is expected to make the biggest contribution to the recovery in activity in both 2021 and 2022, *cf. figure 2.2.*

Figure 2.2
Contributions to GDP-growth



Note: Contributions to GDP-growth have been adjusted for impor content.
Source: Statistics Denmark and own calculations.

Recent projections from international organisations also indicate relative fast growth in the global economy. Thus, international GDP weighted by shares of Danish exports is expected to grow by 3.5 per cent in 2021 and 3.2 per cent in 2022, respectively, following a drop of 3.8 per cent in 2020, *cf. section 2.2.*

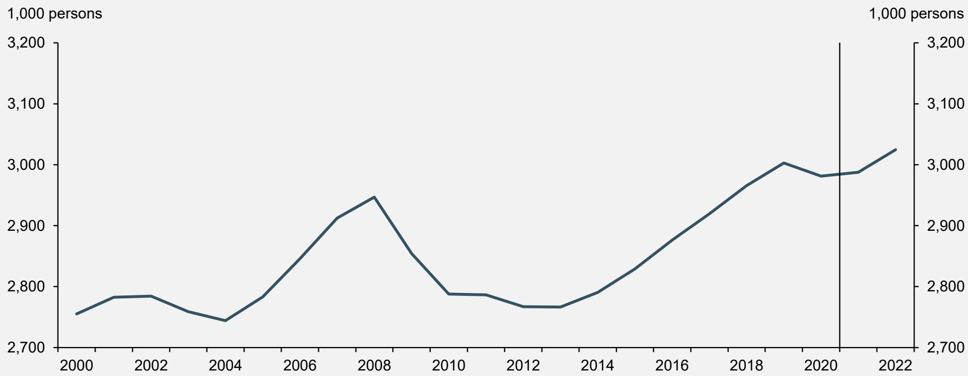
This provides for a rapid rise in exports, which is expected to make a significant contribution to GDP-growth in both 2021 and 2022. So far, good exports have been doing well during the crisis and is expected to be back at pre-crisis levels already in 2021. The categories of goods exports that are most sensitive to business cycle conditions will benefit from the improved outlook. On the other hand, services exports are projected to return to pre-crisis only in 2022, which reflects the fact that demand for travel related services is still expected to be affected by the pandemic in 2021. Sea transport is improving because of the international rise in trade of goods and industrial production is set to be back at pre-crisis levels in 2021.

Business investments are expected to develop positively in 2021 after a significant drop in 2020. The improved outlook, which has followed the rollout of vaccines and reduced economic uncertainty as well as rising capacity utilisation provides the basis for a solid increase in investments over the course of 2021. Business investment is also expected to benefit in 2021 and 2022 from the investment window agreed in connection with *Green Tax Reform 2020,* which increases depreciation on green investments.

The projected fast pace of gains in the Danish economy should be seen in light of the substantial fiscal policy action which has been implemented during the corona crisis, with both aid packages and stimulus initiatives that support companies and jobs, and increase activity. Fiscal policy has been expansive in the light of the corona crisis, and the implemented measures such as the pay-out of frozen holiday money, and other stimulus actions and aid packages etc. has supported both GDP and employment, *cf. further in chapter 3*.

With the gains in economic activity, the labour market is also set to improve. Employment dropped by 22,000 persons in 2020 following the corona pandemic and is expected to rise by 43,000 persons in 2021 and 2022. Thus, employment in 2022 is projected to be above the level from 2019, *cf. figure 2.3.*

Figure 2.3
Employment



Note: Fulltime employees, incl. persons on leave.
Source: Statistics Denmark and own calculations.

Measured by annual averages, employment is expected to increase by 6,000 people in 2021 and 37,000 people in 2022. The moderate increase in 2021 reflects that employment in the first quarter of 2021 was negatively affected by the spread of infection and the need to shut down parts of the economy. On the other hand, the prospect of a significant activity gains in the employment-intensive service industries as a result of a more permanent reopening over the spring and summer provides the basis for a relatively rapid increase in employment. Notably, two-thirds of the fall in employment last spring had already been regained at the beginning of winter.

At the same time, unemployment is expected to decrease to less than 120,000 people or approx. 3.8 pct. of the labour force in 2022. Unemployment will thus be close to the level, which can be expected under neutral business cycle conditions.

Box 2.1
The forecast basis
The economic forecast in this convergence programme is based on the revised national accounts data, which are available up to and including the fourth quarter of 2020, as well as a number of other indicators, the most frequent of which reach into March 2021. The national accounts data and other economic indicators are subject to greater uncertainty than usually due to the corona crisis.

The preliminary national accounts figures for 2020 show a decrease in GDP in 2020 of 2.7 per cent, which is significantly less than the estimated decrease of 3.8 per cent in the *Economic Survey*, December 2020.

Due to the second wave of the spread of infection, a more extensive closure of industries or activities has taken place over the winter than was assumed in the December survey. This implies a weaker start to 2021, which will have a negative impact on annual average GDP growth in 2021. On the other hand, the growth prospects for the international economy have been revised up, based on the latest forecast from the International Monetary Fund, *cf. Box 2.2*. Overall, the forecast implies slightly lower growth in 2021. Conversely, growth estimates for 2022 have been adjusted upwards.

The forecast assumes that vaccination programs and other measures will mean that the infection remains under control, and that new major lockdown measures will therefore not be necessary in Denmark or internationally.

2.2 Assumptions for the international economy and financial conditions

The COVID-19 pandemic has led to a high degree of uncertainty in relation to both the scale of the setback in economic growth and the path ahead for the subsequent economic recovery. In spite of new waves with serious spreading of the virus, the outlook for the global economy in 2021 and 2022 has improved during the past six months. The more positive outlook should be seen in view of trust that a more permanent reopening of the economies will be possible with vaccination of a large part of the populations. This will lead to reduced risk of new, serious setbacks caused by the pandemic. The projections for the global economy and financial conditions are shown in box 2.2.

There are, however, still major negative elements of uncertainty in relation to the course of the COVID-19 pandemic, including the risk of new mutations that could potentially temporarily delay the economic recovery. In addition, even if the number is still relatively low, there is a risk of a larger number of corporate bankruptcies than usual in the coming years due to financial losses and a potential disruption in demand in the wake of the pandemic.

Furthermore, it is still unclear whether the pandemic has led to more permanent shifts. Changes in consumption patterns, travelling and increased digitalisation etc. may have an effect on economic growth and employment as well as the composition in various sectors going forward. This could imply adjustment costs in the short term such as the closing down of businesses and increased job changes, possibly following periods of unemployment, but may also contribute to underpinning the productivity potential in the longer term.

There are other risks to the global economic outlook besides the COVID-19 pandemic. The signing of the Trade and Cooperation Agreement between the EU and United Kingdom removed the risk of a transition to trading under the WTO rules. This is a positive development compared to the assumption in *Economic Survey, December 2020*, even if it still implies a deterioration of the trade conditions between the EU and United Kingdom.

The more positive outlook for the global economy due to the COVID-19 vaccine rollout and increased fiscal stimuli especially in the US have resulted in increasing rates and stock markets. Additional sudden increases in rates due to higher inflation expectations may contribute to increased uncertainty in financial markets and consequent drops market pricing. This could have a spillover effect into housing markets, which in many countries have seen strong increases during the crisis. Increasing interest rates would however, also contribute to preventing the building up of larger imbalances later on. Hence, there are both upside and downside risks to the global economic outlook. Currently, the overall risks are deemed to be balanced.

Boks 2.2
Assumptions for the international economy and financial conditions

The assumptions for the global economy have been based on the latest forecasts from the IMF, *World Economic Outlook, April 2021*. The projections for the financial conditions have been updated with the latest market developments. The forecast of the IMF implies relatively fast growth of the global economy because vaccination programmes permit a more permanent reopening of the economies. Adding to that is the effect of new fiscal stimuli, particularly in the US. Thus, trade-weighted GDP growth of trading partners is expected to be 3.5 per cent and 3.2 per cent in 2021 and 2022, respectively, and subsequently follow a gradually declining trend as the normalisation phase after the pandemic fades, *cf. table a*.

The interest rate assumptions have been updated with the latest market development. The improved forecast for economic growth and increasing inflation has resulted in an increase in long-term rates since the end of 2020. Nevertheless, the 10-year Danish government bond rate is expected to remain at a relatively low level in the coming years due to the prospects of continued expansionary monetary policy in the coming years followed by a normalisation. Short-term rates are therefore expected to remain low in the next few years with a very gradual increasing up until 2025.

Table a
Forecast for oil price, USD and rates

	2020	2021	2022	2023	2024	2025
Real GBP-growth, trade partners	-3.8	3.5	3.1	2.0	2.0	2.1
Oil price (Brent), USD per barrel	41.8	62.3	62.7	636	64.8	66.2
USD, DKK per 100 USD	654.2	618.6	628.8	627.5	626.3	625.0
10-year Danish Government Bond interest rate, per cent.	-0.4	-0.1	0.1	0.3	0.6	0.8

Source: Statistics Denmark, Macrobond, Nordea Markets, IEA, IMF World Economic Outlook April 2021 and own calculations.

The oil price forecast is based on a method which includes both futures prices and medium-term projections from the International Energy Agency (IEA) in the *Stated Policies* scenario. In line with the forecast, oil prices have been increasing since early December from just below USD 50 per barrel to around USD 63 per barrel in early April. In the period up until 2025 the oil price is expected to increase slightly more than the general inflation to USD 66.2 per barrel in 2025. The method behind the forecast is described in detail in *Economic Survey, December 2020*.

The *Stated Policies*-scenario is considered to be the IEA's central scenario and reflects the principle of including the effect of already signed agreements as well as the effect of agreements and measures announced by the governments – i.e. existing policy and specific, planned initiatives. This is the principle used for the projections for the Danish economy.

IEA publishes alternative scenarios. One such is the *Sustainable Development*-scenario, in which a large degree of transition to green energy is assumed based on a number of targets set out in the United Nations' world goals, including the targets in the Paris Agreement. From these, the development leading to fulfilment of the targets are derived. The scenario implies lower demand for oil and hence a lower oil price than assumed in the *Stated Policies-scenario, cf. figure 2.4,* and correspondingly lower income from the Danish state's activities in the North Sea, *cf. figure 2.5*

Figure 2.4
Oil price projections with IEA's State Policies and Sustainable Development scenarios

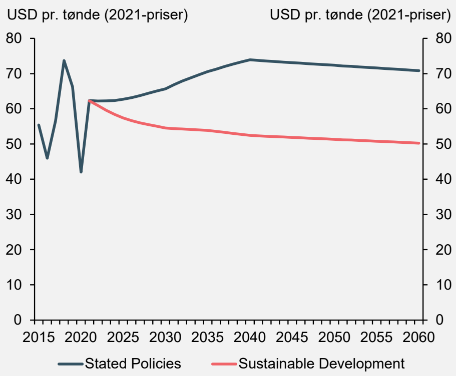
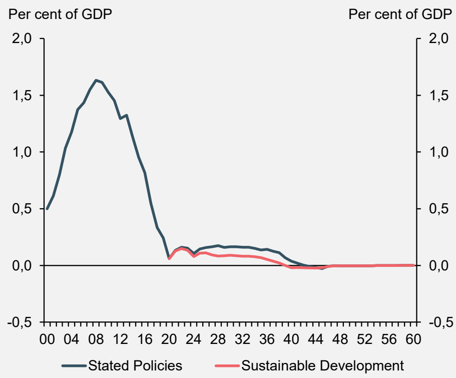


Figure 2.5
North Sea revenue with IEA's Stated Policies and Sustainable Development scenarios



Note: Figure 2.5 shows the structural development in revenues from activities in the profile in Denmark's Convergence Programme 2021 as well as the structural development calculated via a seven-year moving average for the Sustainable Development scenario.
Source: IEA and own calculations.

2.3 Medium-term outlook for growth and employment

The projection implies almost neutral business cycle conditions in 2022 with output and employment gaps close to zero. This should be seen in light of the expected rapid growth in 2021 and 2022.

For the years 2023-2025, the economy is assumed to develop in line with medium-term structural trends. Thus, annual GDP growth is expected to be around 1.6 per cent on average, *cf. figure 2.6*.

Figure 2.6
GDP-growth and output gap

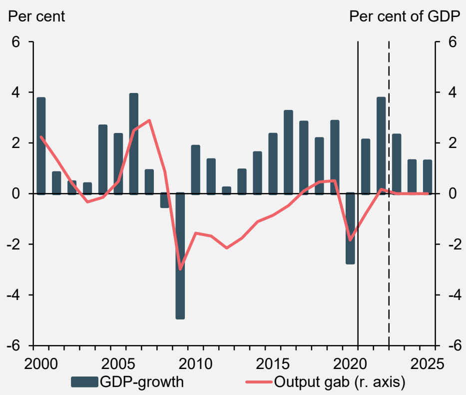
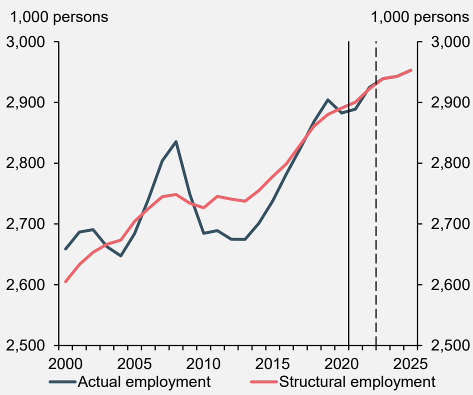


Figure 2.7
Actual and structural employment



Note: The output gap is the difference between the actual level of GDP and the estimated level of GDP in a situation where normal business cycle conditions prevail. Employment is excl. persons on leave of absence.
Source: Statistics Denmark and own calculations.

From 2020 until 2025, employment is expected to grow by approx.70,000 persons, *cf. figure 2.7*. This growth is due to a projected increase in structural employment of 62,000 people, and an increase of employment of around 8,000 people due to business cycle conditions.

Thus, the favourable employment trend should be seen in the context of good underlying structures, including implemented reforms, in particular the regulation of early retirement and old-age pension age.

Employment growth and rising real wages underpins private consumption growth towards 2025. At the same time, a moderate recovery of the private consumption ratio in the projection is assumed, *cf. figure 2.8*. Overall, private consumption is assumed to grow by approx. 2¾ percent per year from 2020 to 2025.

In line with the general economic progress, the companies' need to increase the capital stock grows. During the projection period, the investment ratio is expected to increase towards 2025, *cf. figure 2.9*. Higher investment levels also contributes to the increasing hourly productivity in the projection.

Figure 2.8
Private consumption ratio

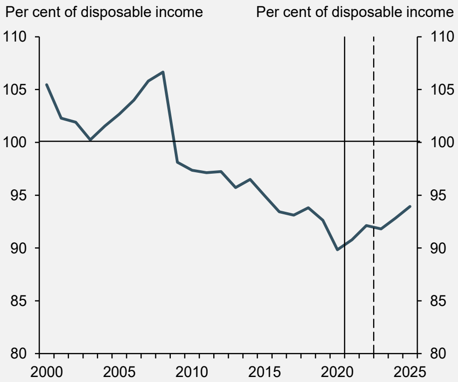


Figure 2.9
Gross investments as a share of GVA

Note: Gross investments are calculated as fixed gross investments incl. housing investments in the private sector, relative to gross value added in the private sector excl. raw material extraction.
Source: Statistics Denmark and own calculations.

Potential output is projected to increase by annual average of 1.7 per cent from 2020 to 2025. This is due to the increasing structural labour force and the increasing hourly productivity, *cf. table 2.1*.

Table 2.1
Contributions to growth in potential production of the entire economy

	1996-2007	2008-2009	2010-2019	2020-2022	2023-2025
Average annual growth, per cent					
1. Potential production (GVA)	**1.8**	**0.7**	**1.6**	**0.9**	**1.6**
Of which contributions from					
- Hourly productivity	1.1	1.5	1.4	0.5	1.3
- Structural unemployment	0.5	0.2	0.0	0.1	0.0
- Structural labour force	0.3	-0.4	0.5	0.5	0.3
- Structural working hours	0.0	-0.6	-0.3	-0.1	0.0
2. Cyclical contribution	0.2	-2.9	0.4	-0.1	-0.1
3. Actual GVA (1+2)	**2.1**	**-2.2**	**1.9**	**0.8**	**1.5**
4. Net taxes	0.1	-0.5	0.0	0.2	0.1
5. Actual GDP (3+4)	**2.2**	**-2.7**	**1.9**	**1.0**	**1.6**

Note: There is uncertainty regarding the estimate of potential growth in periods, including the contributions from individual components. Due to rounding the sum of individual components does not necessarily correspond to the total.
Source: Statistics Denmark and own calculations.

2.4 Housing prices

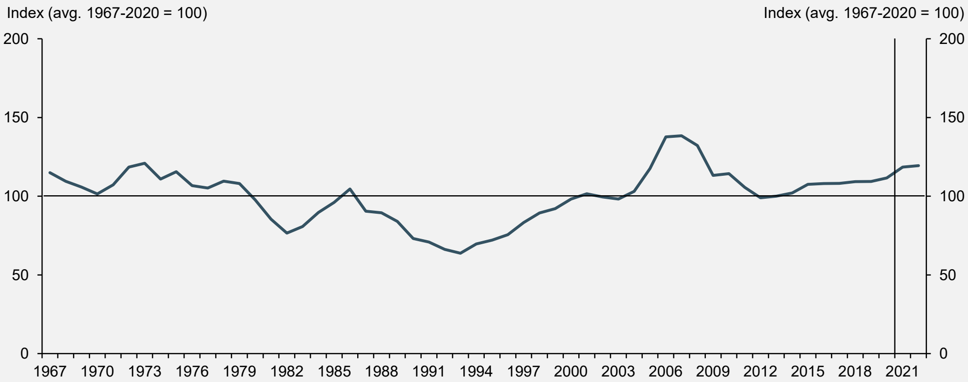
After a short-lived setback in the beginning of spring 2020 due to the uncertainty related to corona pandemic, there has been a strong increase in home sales in the remainder of 2020, which has reached its highest level in many years. This has led to a sharp dip in the number of homes for sale, and the growth in housing prices has been increasing. The latest data indicate that this development has continued at the beginning of 2021. The price increase has been strongest in and around Copenhagen.

The trend towards strong growth in the housing market despite the corona pandemic is not a particularly Danish phenomenon, as housing prices have also risen sharply in a number of other countries, including Sweden and Norway. However, the latest figures from Eurostat for the fourth quarter of 2020 show, however, that Denmark is at the high end in terms of year-on-year growth in house prices.

The progress in the housing market should also be seen in the light of the fact that the corona crisis with homework and restrictions has contributed to increased housing demand by increasing the value of good accommodation and more space. In addition, the liquidity position of households has been boosted as a result of restrictions on consumption options and the payment of holiday pay, which also increases potential housing demand.

Although the housing market is currently booming, the situation is different than in the years before the financial crisis, when price increases were stronger over a longer period and were supported by rising debt and home purchases based on expectations of future price increases. Prices have broadly developed in line with incomes in recent years, *cf. figure 2.10*.

Figure 2.10
Prices for single-family housing relative to household disposable income



Source: Statistics Denmark and own calculations.

Although the housing market is expected to show further improvement, it is generally expected that price increases will slow to a pace where house prices will grow roughly in line with incomes.

House prices are expected to grow at a fairly brisk pace of 10.4 per cent in 2021, with price growth slowing to 3.2 per cent in 2022. The prospect of continued growth in the housing market is supported by income gains, also supported by the disbursement of the remaining part of frozen holiday pay, which provides liquidity to new homebuyers combined with savings due to restrictions in consumption during the pandemic.

The expectation of a more moderate development in the second half of 2021 and in the following year should be seen against the background of several factors. The relatively high growth expected for 2021, as a whole, is related to the strong rise in prices at the end of 2020 and the beginning of 2021. However, real credit interest rates have risen since the turn of the year, which in isolation dampens price increases. In addition, household consumption patterns will probably largely return to the pre-pandemic pattern, as the economy once again operates without major restrictions. However, a more permanent shift in housing demand cannot be ruled out, which could support demand in the coming years.

Recent years' tightening of regulation (especially the payment requirement of 5 per cent, The Growth Guide for Copenhagen and the surrounding areas and Aarhus and the Executive Order on Good Practice for Housing Credit) are expected to contribute to more moderate price growth in the future. This is especially true in large cities, as these measures will gradually be binding on more households as prices rise if household wealth and income do not keep pace with house price developments.

In the longer term, the new rules for housing taxation, which are expected to be implemented in 2024, will help to stabilise fluctuations in house prices. Analyses by both Danmarks Nationalbank in 2017 and the Ministry of Taxation in 2018 indicate that it will lead to slightly lower prices for owner-occupied flats, while conversely it will have a slightly positive effect on the price development of single-family houses for the whole country.

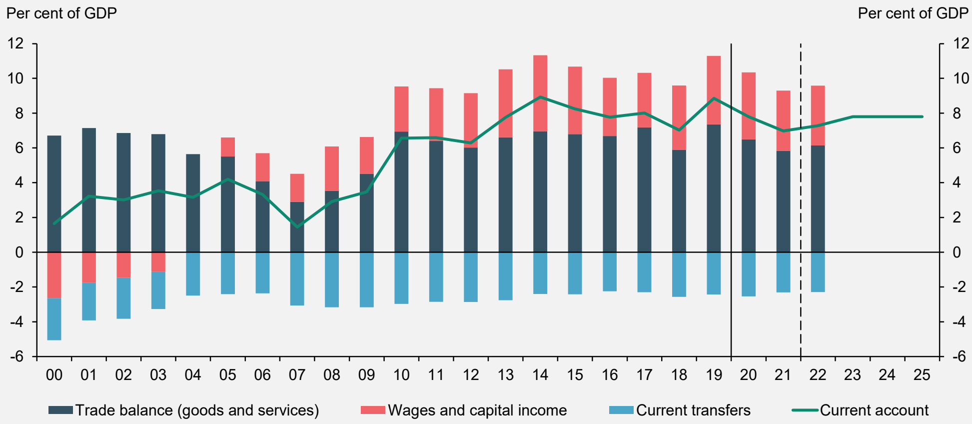
The Government has noted that the Systemic Risk Council, at its next meeting, expects to recommend launching new measures that can limit the risk build-up in the housing market. The government has no current plans for intervention in the housing market. Naturally, the government is following developments closely and has to consider on the Council's recommendation when it is available.

2.5 The current account

Since 2010, Denmark has had a surplus on the balance of payments of more than 6 per cent of GDP. The surplus has mainly been due to surpluses on trade in goods and services as well as surpluses on wage and property income relative to foreign countries. The current account surplus amounted to DKK 181.2 bn in 2020, corresponding to 7.8 per cent of GDP. The surplus on the balance of trade in services was significantly lower than in the previous year, due to the impact of the corona crisis on trade in services. The surplus on the balance of trade in goods is to a large extent attributed to products that do not cross the Danish border (merchanting and processing), as well as profits from the trade in medical products.

The surplus on the balance of payments is expected to amount to just over 7 per cent of GDP in 2021 and 2022 and then decrease to 5.5 per cent of GDP towards 2025, *cf. figure 2.11*. The large surpluses on the balance of payments in recent years reflect, among other things, a high propensity for savings among households. A return to a more normal propensity to consume is expected in the coming years, which will help reduce surpluses. At the same time, companies' financial savings are expected to decline as the need for investment increases.

Figure 2.11
Current account



Source: Statistics Denmark and own calculations.

The current account surplus contributes to the increase in Denmark's net foreign assets, which are expected to grow to more than 110 per cent of GDP in 2025, *cf. table 2.2.* The higher level of net foreign assets leads to higher income from assets. Conversely, the gradually rising interest rates in the forecast period are expected to reduce the relative return on Danish net foreign assets due to the composition of the assets' assets and liabilities.

Table 2.2
Savings, investments, current account and net assets against other countries

Per cent of GDP	Average 1995-2019	2020	2021	2022	2023	2024	2025
Investment ratio, private sector	18.3	19.5	19.5	19.4	19.6	20	20.2
Savings ratio, private sector	22	27.4	28.4	26.5	26.6	26.6	25.5
Private financial savings	4	9	10.3	8.2	7.5	7	5.5
General government budget balance	0.4	-1.1	-3.3	-0.9	-0.7	-0.6	0
Current account	4.4	7.8	7	7.3	6.8	6.3	5.5
Net assets, ultimo	10	63.7	85.6	102.9	106	109.3	111.7

Source: Statistics Denmark and own calculations.

Appendix 2.1 Key figures for the Danish economy 2019-2025

Appendixtable 2.1
Key figures for the Danish economy 2019-2025

	2019	2020	2021	2022	2023	2024	2025
Output gab and real growth rates, per cent							
GVA	2.9	-3.0	1.9	3.7	1.8	1.3	1.4
GDP	2.8	-2.7	2.1	3.8	2.3	1.3	1.3
Output gab (per cent of GDP)	0.5	-1.8	-0.8	0.2	0.0	0.0	0.0
Demand, real growth, per cent							
Private consumption	1.4	-1.9	2.4	4.4	2.4	2.3	2.2
Public consumption[1)]	1.2	-0.1	3.2	0.1	1.2	0.9	1.1
Gross fixed capital formation	2.8	2.1	1.3	4.0	4.2	2.4	2.1
Export	5.0	-7.7	4.2	6.7	2.6	2.2	1.7
Import	2.4	-4.8	4.8	5.8	3.2	3.4	2.8
Price development, per cent							
Consumer prices	0.7	0.4	1.1	1.5	2.0	2.0	2.2
Current account etc., per cent of GDP							
Current account	8.9	7.8	7.0	7.3	6.8	6.3	5.5
Private financial savings	5.2	9.0	10.3	8.2	7.5	7.0	5.5
Labour market and productivity							
Growth in labour force (per cent)	1.1	0.3	-0.1	1.0	0.3	0.1	0.3
Growth in employment (per cent)	1.2	-0.7	0.2	1.2	0.5	0.1	0.3
Registered gross unemployment (1.000 pers.)	104	133	124	118	113	111	112
Structural gross employment (1,000 pers.)	114	122	122	117	113	111	112
Hourly productivity, entire economy	1.7	0.3	1.0	0.8	1.4	1.1	1.1
Hourly productivity, private urban industry	2.1	0.8	2.0	1.2	1.3	1.2	1.2
Growth in GVA per employed	1.7	-2.3	1.6	2.5	1.3	1.2	1.1
Growth in labour force (per cent)	1.1	0.3	-0.1	1.0	0.3	0.1	0.3
Growth in employment (per cent)	1.2	-0.7	0.2	1.2	0.5	0.1	0.3

Note: The projection in 2023-2025 is based on a technically adjusted economic forecast.
1) The growth in public consumption is based on the output method in 2019 og 2020. Based on the input method and including deductions the growh ammounts to 0.2 per cetn in 2019 and 0.6 per cent in 2020. The estimated growth in public consumption by the input method and the output method respectively is technically assumed to be the same from 2021 and onwards.
Source: Statistics Denmark and own calculations.

3. Budget balance and public debt towards 2025

3.1 The actual budget balance

In Statistics Denmark's preliminary national accounts for 2020, the actual budget balance is calculated to -1.1 per cent of GDP. This is a significant improvement of approximately 2.4 per cent of GDP compared to the estimates in *Economic Survey*, December 2020. The lower deficit reflect, among other things, markedly higher revenue from the pension yield tax and lower expenditures than expected related to compensation schemes in connection with COVID-19, *cf. box 3.1 below.*

The actual budget balance is estimated to a deficit of 3.3 per cent of GDP in 2021 due to, among other things, significant one-off expenses. The deficit is estimated to be reduced to 0.9 per cent of GDP in 2022, after which the actual budget balance deficit is estimated to be gradually reduced towards a balanced budget in 2025, *cf. table 3.1.*

Table 3.1
Overview of the actual budget balance

	2020	2021	2022	2023	2024	2025
Per cent of GDP						
Actual budget balance	-1.1	-3.3	-0.9	-0.7	-0.6	0.0

Source: Statistics Denmark and own calculations.

The deficit on the actual budget balance in 2021 is estimated to be above the deficit threshold of 3 per cent of GDP set out in The Stability and Growth Pact. However, this is not expected to result in an excessive deficit procedure (EDP) against Denmark, since the EU Commission has reported that "the general escape clause" is in force in both 2020 and 2021.

The deficit in 2021 is estimated to be gradually reduced towards 2025. This has to be viewed in light of the extraordinary one-off expenses related to COVID-19, which are not expected to persist in the subsequent years. Furthermore, the expected general increase in economic activity contribute to an increase in tax income and a decline in expenses related to income transfers compared to 2021. In addition, the reduced deficit towards 2025 reflect a gradual improvement of the underlying structural budget balance.

The estimates of the actual budget balance in current years are subject to considerable uncertainty, which is generally larger during periods of significant changes in the economy.

Box 3.1
Preliminary national accounting figures for the budget balance in 2020

In March 2021, Statistics Denmark published preliminary national accounting figures for the actual budget balance in 2020. In 2020, the actual budget balance deficit approximates DKK 27 bn. corresponding to 1.1 per cent of GDP. This is the first deficit since 2016. However, the deficit is modest in light of the economic situation, and in comparison to a large number of other countries.

In light of the corona pandemic and the partial lockdown of society during the year, the relatively limited deficit must be seen in the context of the economic circumstances in Denmark being relatively favourable in comparison to many other countries. Additionally, the development on the financial markets has led to significantly higher revenue from the pension yield tax than anticipated during 2020. Finally, the extraordinary personal income tax revenue in relation to the payment of frozen holiday pay contribute to an improvement of the actual budget balance in 2020.

The public deficit in 2020 is significantly lower than estimated in the Ministry of Finance's assessments during 2020. Thus, the preliminary deficit is approx. DKK 54 bn. smaller than estimated in *Economic Survey*, December 2020, *cf. table a.* This can especially be attributed to higher revenue from pension yield tax, corporate tax, VAT and lower expenditures related to subsidies and public consumption than expected in December. Oppositely, expenditures related to public capital transfers and public investment exceeded the expectations from December.

The significant deviation and large adjustment of the estimated actual budget balance during 2020 should be viewed in light of the extraordinary economic situation due to COVID-19, which has resulted in substantially larger uncertainty compared to a normal situation.

Table a
The actual budget balance in 2020

	2020
DKK bn.	
Preliminary accounting figures	-26.7
Estimate in *Economic Survey*, December 2020	-80.6
Difference	**54.0**
Hereof pension yield tax	*28.5*
Hereof corporate tax (excl. revenue related to North Sea activities)	*6.8*
Hereof VAT	*5.0*
Hereof subsidies	*17.6*
Hereof public consumption	*10.5*
Hereof capital transfers to corporations	*-7.7*
Hereof public investment	*-3.5*
Hereof other factors	*-3.3*

Source: Statistics Denmark, *Economic Survey*, December 2020 and own calculations.

Budget balances by sector

The public sector consists of the central government, local governments (regions and municipalities), and social security funds. In Denmark, it is basically only the central government, which need not to balance the budget. The central government deficit is estimated to 3.3 per cent of GDP in 2021, *cf. table 3.2*. The deficit is estimated to gradually decline towards 2025 where a balanced budget is expected.

The budget balance of municipalities and regions is technically considered to be balanced throughout the projection period, i.e. from 2021 onwards. On a cash basis, local government sector (i.e. municipalities and regions) finances should be in balance, but based on national account principles there may in some years be small surpluses or deficits. The budgets of the social security funds are also assumed to be balanced throughout the projection period.

Table 3.2
Budget balance by subsectors

	2020	2021	2022	2023	2024	2025
Per cent of GDP						
Central government	-1.3	-3.3	-0.9	-0.7	-0.6	0.0
Local government	0.1	0.0	0.0	0.0	0.0	0.0
Social funds	0.0	0.0	0.0	0.0	0.0	0.0

Source: Statistics Denmark and own calculations.

Budget balance estimates compared to December assessment

The estimates of the actual budget balance in 2021 and 2022 have been updated compared to the assessment in *Economic Survey*, December 2020. In 2021, the estimated deficit is approximately 2 per cent of GDP higher – corresponding to approximately DDK 47 bn. – compared to the December assessment. Oppositely, in 2022, the budget deficit is estimated 0.7 per cent of GDP lower – corresponding to approximately DDK 16 bn., *cf. table 3.3*

The estimated weakening of the actual budget balance in 2021, in comparison to *Economic Survey*, December 2020 stems from an upwards adjustment of expenditures related to subsidies and capital transfers to corporations and a lower estimated revenue from the pension yield tax. Contrarily, the budget balance estimate is improved by increased expectations for VAT revenue, and revenue from corporate taxation.

The predominant reason for the increased expenditure related to subsidies is the expenditure to compensation schemes for businesses, including salary compensation, fixed costs compensation and compensation for self-employed. The compensation schemes have been in place for the entirety of 2021 up until now, and are extended until the end of June as a part of a broad agreed upon plan by the Government and other parties for the easing of restrictions related to COVID-19 from March 2021.

The large increase in the expenditures related to capital transfers to corporations in 2021 is predominantly the result of an agreement from January 2021 related to the closing of mink farms, which include compensation to the mink breeders, and related businesses affected by the closure of mink farms. The estimated expenditures for compensation related to the closing of mink farms are technically placed in 2021 in the projection.

The decrease in the estimated revenue from pension yield reflects an assumption of gradually rising interest rates throughout the year – relative to the low interest level at the turn of the year – and thus a lower expected return on bonds and interest rate derivatives than estimated in December.

The increase in the estimated revenue from VAT is the result of higher than expected VAT revenue in 2020 compared to the estimate in *Economic Survey*, December 2020. This reflect a better than anticipated macroeconomic development during 2020, and the effect is expected to persist into 2021 and 2022.

In comparison to *Economic Survey*, December 2020, the improvement of the actual budget balance in 2022 is primarily driven by higher than estimated tax revenue from pension yield tax and VAT.

Table 3.3
Changes in the estimated actual budget balance in 2021-2022

	2021	2022
DKK bn.		
Economic Survey, December 2020	**-31.1**	**-38.1**
+ changed estimate for VAT revenue	5.1	5.7
+ changed estimate for corporate tax (excl. revenue related to North Sea activities)	3.8	2.2
+ changed estimate for pension yield tax	-11.5	9.1
+ changed estimate for public spending	-1.1	-0.2
+ changed estimate for income transfers	-1.2	-0.8
+ changed estimate for subsidies	-21.6	0.0
+ changed estimate for capital transfers to corporations	-18.5	-1.4
+ changed estimate for net interest	-0.4	1.3
+ changed estimate for other expenditure and income	-1.2	0.1
Denmark's Convergence Programme 2021	**-77.7**	**-22.0**
Per cent of GDP		
Economic Survey, December 2020	-1.3	-1.5
Denmark's Convergence Programme 2021	-3.3	-0.9

Note: Positive figures indicate an improvement of the actual budget balance – either in the form of higher public revenue or lower public spending. Negtive figures similarly indicate a deterioration in the budget balance in the form of lower revenue or higher expenditure.
Source: Own calculations.

3.2 Structural budget balance

The structural budget balance is a calculated measure of the underlying position of public finances at the given fiscal policy and is the main instrument in the planning of fiscal policy. The structural budget balance is in contrast to the actual budget balance, corrected for business cycles and a number of temporary conditions and is therefore a more robust measure of the real financial position.

The medium term projections in Denmark's Convergence Programme 2021 is based on an updated economic assessment, new political agreements, new information, etc. The structural budget balance is currently estimated at 0.3 per cent of GDP in 2020, -0.5 per cent of GDP in 2021 and -0.3 per cent of GDP in 2022, *cf. table 3.4*. This is an upwards adjustment of the structural budget in 2020 of 0.5 per cent of GDP and a downwards adjustment in 2021 of 0.1 per cent of GDP while the estimate for 2022 corresponds to the estimate in *Economic Survey*, December 2020.

In 2020, the upwards adjustments of the structural budget balance can primarily be attributed to significantly lower than expected public consumption, according to Statistics Denmark's preliminary national accounts figures, compared to the estimate in the December assessment. In 2021, the downwards adjustments should be viewed in light of the easing of the fiscal policy in 2021 by an additional DKK 2.4 bn. (0.1 per cent of GDP) since the assessment in December. Thus, fiscal policy in 2021 is planned in accordance with the lower limit of the structural deficit set by the Danish budget law of -0.5 per cent of GDP. This is in accordance with the planned fiscal policy in the general government draft budget proposal for 2021 presented in August 2020, *cf. DK2025 - A green, fair and responsible recovery of the Danish economy.*

Table 3.4
Estimated structural budget balance

	2020	2021	2022	2023	2024	2025
Per cent of GDP						
DK2025 - A green, fair and responsible recovery of the Danish economy	-0.4	-0.5	-0.3	-0.1	-0.1	0.0
Economic Survey, December 2020	-0.2	-0.4	-0.3	-	-	-
Convergence Program 2021, April 2021	0.3	-0.5	-0.3	-0.1	-0.1	0.0

Source: *DK2025 - A green, fair and responsible recovery of the Danish economy*, August 2020, *Economic Survey*, December 2020 and own calculations.

In the updated projection in the Danish Convergence Programme 2021, there is prospect of an underlying improvement in the structural budget balance of 0.1 per cent of GDP in 2023-2025 (corresponding to DKK 2.4 bn. annually) compared with the most recent medium-term projection from August 2020. The improvement can be attributed to higher than expected structural net interest revenue.

Thus, within the objective of structural budget balance in 2025 there is room for additional fiscal dispositions in 2025. The same is true for 2023-2024, however restricted to expenditures not limited by the already fixed expenditure ceilings in 2023-2024. The underlying improvement of the public finances in 2023-2025 is allocated to an expansion of the funds to handle COVID-19 in 2023-2024, to an increase in public investments in 2024-2025 and an increase in the fiscal space in 2025, *cf. section 3.4 and 3.5*. On that basis, the structural budget balance is estimated to -0.1 per cent of GDP in 2023-2024 and 0.0 per cent of GDP I 2025, and thus in line with the estimates in *DK2025 - A green, fair and responsible recovery of the Danish economy*.

From actual to structural budget balance

The structural budget balance is calculated by correcting the actual balance for cyclical effects and the impact of other temporary factors, including the often very large fluctuations in the pension yield tax and North Sea revenues. Thus, the structural budget balance in a given year is an estimate of the size of the general government surplus or deficit under normal conditions, i.e. in a situation where economic activity is neither particularly high nor low and where the public finances are not affected by temporary factors.

As an example, the structural deficit of -0.5 per cent of GDP in 2021 is based on the estimated actual deficit of -3.3 per cent of GDP, *cf. table 3.5 (row 1)*. As the current economic situation (as measured by a weighted output and employment gap) is estimated as being worse than under normal circumstances, the actual balance is adjusted for the negative cyclical impact on public finances. The cyclical impact on the budget balance is estimated to approximately -0.4 per cent of GDP (row 2).

In addition, the actual balance is corrected for a number of fluctuations in specific budget items (row 3-9). In 2021, revenue from pension yield tax, among other things, is estimated to be lower than under normal circumstances. Likewise, special budget items are higher than the calculated structural level (due to extraordinary COVID-19 expenditures of one-off nature). Such conditions are corrected for in the calculation of the structural budget balance, and altogether the correction in row 3-9 corresponds to -1.7 per cent of GDP in 2021.

Furthermore, a correction is made for other factors (row 10). This is because in some years there may be special one-off conditions (in addition to one-offs in the special budget items) of non-recurring nature, which affect the actual balance without affecting the underlying position of the public finances. In 2021, this reflect one-off expenditures of approximately DKK 27¾ bn. (aside from those accounted for in the special budget items, etc.) primarily related to the containment and mitigation of COVID-19, and oppositely, extraordinary personal income tax revenue from the payment of frozen holiday pay of approximately DKK 13¼ bn. These conditions are considered to have a temporary nature and thus do not affect the structural budget balance, c*f. appendix 3.2.*

The one-off revenues and expenditures are neutral for the structural budget balance, including also the COVID-19 expenditures related to the compensation schemes, etc. If, illustratively, COVID-19 one-off conditions are not corrected for, the structural budget balance is estimated with uncertainty to -1.8 per cent of GDP in 2021.

Table 3.5
From actual to structual budget balance

	2020	2021	2022	2023	2024	2025[7)]
Per cent of GDP						
1. Actual balance	**-1.1**	**-3.3**	**-0.9**	**-0.7**	**-0.6**	**0.0**
Contribution to the actual budget balance:						
2. Cyclical adjustment	-0.7	-0.4	0.1	-	-	-
3. Corporate taxes[1)]	0.1	0.1	0.2	0.0	0.0	-
4. Vehicle registration duty	0.0	0.0	0.0	0.0	0.0	-
5. Equity income tax	0.0	0.0	0.0	0.0	0.0	-
6. Pension yield tax	0.9	-0.8	-0.3	-0.5	-0.5	-
7. North Sea revenues[2)]	0.0	-0.1	-0.1	-0.1	0.0	-
8. Net interest payments[1)]	0.1	0.0	0.1	0.0	0.0	-
9. Special budget items[3)]	-1.2	-1.0	-0.6	0.0	0.0	-
10. Other factors[4)]	-0.6	-0.7	0.0	0.0	-0.1	-
- hereof COVID-19 related measures	-1.6	-1.2	0.0	0.0	0.0	-
- hereof tax revenue from the payment of frozen holiday pay	0.9	0.6	0.0	0.0	0.0	-
11. Structural balance (1-2-3-4-5-6-7-8-9-10)[5)]	**0.3**	**-0.5**	**-0.3**	**-0.1**	**-0.1**	**0.0**
Illustrative structural budget balance incl. COVID-19 one-off conditions[6]	*-1.4*	*-1.8*	*-0.4*	*-0.3*	*-0.2*	*0.0*

1) Excl. revenue relating to North Sea activities.
2) The structural level is based on the structual revenue, that were calculated when setting the expenditure ceilings (2020-projection (August 2016) for 2020, 2025-projection (August 2017) for 2021, 2025-projection (August 2018) for 2022, 2025-projection (October 2019) for 2023 and *DK2025* (August 2020) for 2024), adjustet for the effect on fiscal sustainability due to revised future North Sea revenues compared to the projections when setting the expenditure ceilings. The permanent effect of updated revenues corresponds to approx. -0.08 per cent of GDP in 2020, approx. -0.05 per sent of GDP in 2021-2023 and -0.01 per cent of GDP in 2024.
3) Corrections are made for a number of expenditures directly related to the containment and mitigation of COVID-19 corresponding to approx. DKK 16.5 bn. in 2020 and DKK 17.4 bn. in 2021. A correction is made for the refund of property taxes as a consequence of the *Agreement on propery taxation* (May 2017). It is technically assumed that the refund of property taxes to home owners amounts to approx. DKK 1.3 bn. in 2021 and DKK 12.6 bn. ind 2022. Furthermore, 2022 is corrected for the payment of early retirement contributions as a consequence of the *Agreement on new right to early retirement* (october 2020) coresponding to approx. DKK 2.1 bn.
4) Corrections are made for number of expenditures (net) directly related to the containment and mitigation of COVID-19 corresponding to approx. DKK 37.1 bn. in 2020 and DKK 27.7 bn. in 2021. Additionaly, corrections are made for the one-off tax revenue from the payment of frozen holiday pay corresponding to approx. DKK 20.4 bn. in 2020 and DKK 13.2 bn. in 2021. 2020 are corrected for new information regarding public tax revenue (incl. new information related to the payment of frozen holiday pay), which is not reflected in Statistics Denmark's reported actual budget balance. Further, in 2020-2024 a correction is made for the fighter jet investment, which is planned in 2021-2026, but affect the structural budget balance through a 7-year moving average. Additionally, other factors include differences between commitment level and payments regarding foreign aid and conversions from per cent of actual GDP to structual GDP.
5) The structural budget balance is recorded in per cent of structual GDP.
6) Calculated incl. COVID-19 one-off conditions and related revenue from corporate tax and equity tax.
7) The economy is assumed structual and the actual and structual budget balance is thus equal.
Source: Statistiks Denmark and own calculations.

3.3 Fiscal impact on economic activity

Since the outbreak of the corona crisis, an expansive fiscal policy has been implemented with both compensation schemes and stimulus measures, which contribute to support employment and economic activity. Overall, fiscal and structural policy is estimated to increase GDP by approximately 2 per cent in 2020, 3¼ per cent in 2021, and 2 per cent in 2022. Similarly, employment is estimated to be significantly supported. Without the contribution from the expansive fiscal policy, all other things equal, there would have been a prospect of significant negative output and employment gaps in 2020-2022, *cf. figure 3.1 and 3.2.*

Figure 3.1
Output gap

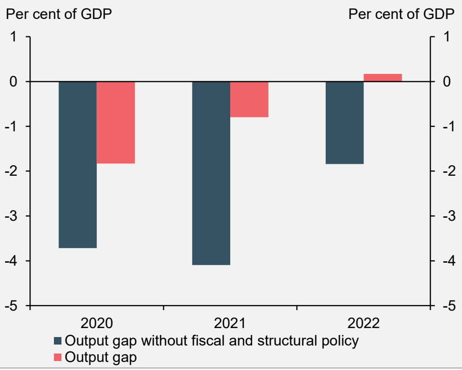
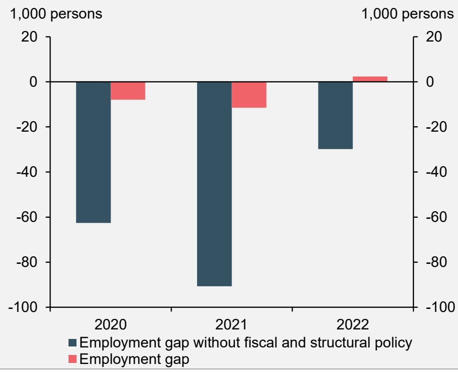


Figure 3.2
Employment gap



Note: The effect on the cyclical gaps describes the effect of fiscal and structural policy on the output and employment gap in a single year (incl. derivative private investments and temporary compensation schemes, etc.). The activity effect is calculated as the total effect of fiscal and structural policy in relation to 2019.
Source: Statistics Denmark and own calculations.

The overall effect of fiscal and structural policy on the capacity exploitation in 2020-2022 is predominantly driven by the demand effect of the pursued fiscal policy, which in isolation is estimated to support employment by approximately 55,000 persons in 2020, 85,000 persons in 2021, and 40,000 persons in 2022*, cf. table 3.6*. This also includes that repatriated persons receiving wage compensation are counted as employed.

In 2020, the majority of the contribution to the activity effects can be attributed to the compensation schemes related to COVID-19, etc., while the contribution from the more traditional fiscal policy is estimated to account for an increasing share of the effects in 2021 and 2022. The effect covers the payment of frozen holiday pay and other stimulus measures, etc.

The average effect of fiscal and structural policy on capacity exploitation over the period 2020-2022 as a whole is estimated to be in approximately the same order of magnitude as in the most recent economic assessment in *Economic Survey*, December 2020. However, the estimated activity effects in the individual years have been adjusted. Thus, the effects are downward adjusted in 2020 and upward adjusted in 2021. The downward adjustment of the effect in 2020 must be seen in connection with the fact that the expenditures of the compensation schemes related to COVID-19 etc. were lower than assumed in December, and that Statistics Denmark's preliminary national accounts point to a lower public consumption level in 2020 than expected. In 2021, the upward adjustment of the effects is driven by increased expenditures for the compensation schemes related to COVID-19, etc., which have been extended as a result of the winter's wave of infections and lockdowns, etc.

Table 3.6
Fiscal and structural policy effect on the capacity exploitation (multi-year effects)

	2020	2021	2022
Per cent af BNP			
1. Effect on output gap excl. temporary COVID-19 measures [1)]	0.6	1.9	1.6
2. Effect of temporary compensation schemes etc. related to COVID-19	1.3	1.4	0.4
3. Effect on output gap incl. temporary COVID-19 measures (1+2)	**1.9**	**3.3**	**2.0**
- Hereof demand effect	***2.0***	***3.5***	***2.3***
1,000 persons			
1. Effect on employment gap excl. COVID-19 [1)]	4	21	20
2. Effect of temporary compensation schemes etc. regarding COVID-19	51	59	12
3. Effect on output gap incl. temporary COVID-19 measures (1+2)	**55**	**79**	**32**
- Hereof demand effect	***57***	***83***	***40***

Note: The fiscal and structural policy effect on the cyclical gaps describe the contribution of fiscal and structural policies on the output and employment gap in the individual years.
1) Calculated excl. the effect of COVID-19 measures, which are treated as one-off conditions in the calculation of the structural balance, including compensation schemes, etc. Contains the activity effect of the payment of frozen holiday pay in 2020 and 2021, investments under the auspices of The National Building Foundation in continuation of the housing agreement from 2020 and derivative private investments as a result of the *Climate agreement 2020*, *Agreement on economic stimulus and green recovery, Agreement on green transition of road transport,* and *Agreement on green tax reform*, including the impact of the investment window in 2021 and 2022.
Source: Statistics Denmark and own calculations.

In the following years up to 2025, fiscal policy has also been planned expansively, but the easing is gradually decreasing in line with the assumed economic growth and the phasing out of the temporary compensation schemes. The fiscal policy will thus be tightened gradually from 2022 onwards, measured year-on-year in relation to the more lenient starting point, *cf. table 3.7*.

Table 3.7
Fiscal and structural policy effect on the capacity pressure (annual effects)

	2020	2021	2022	2023	2024	2025
Per cent of GDP						
Fiscal and structural policy effect on the capacity exploitation excl. temporary COVID-19 measures	0.6	1.2	-0.4	-0.6	-0.4	0.2
Effect of temporary compensation schemes etc.	1.3	0.0	-0.9	-0.3	-0.1	-0.1
Fiscal effect incl. COVID-19 measures	**1.9**	**1.3**	**-1.3**	**-0.8**	**-0.6**	**0.1**

Note: The annual fiscal effect is a measure of the effect of the fiscal and structural policy's contribution to changes in the output gap in individual years.
Source: Statistics Denmark and own calculations.

3.4 Fiscal space

Denmark's Convergence Programme 2021 contains an updated estimate of the fiscal space towards 2025. The fiscal space is a measure of the highest possible public consumption growth – given other policy decisions – within the objective of structural balance in 2025.

The fiscal space in the individual years is allocated each year in connection with the planning of the fiscal policy – i.e. in the budget agreements with municipalities and regions as well as the central government draft budget proposal and the subsequent budget bill. Thus, the fiscal space in 2021 has been allocated in connection with the budget proposal for 2021, etc.

Table 3.8
Updated fiscal space

	2022	2023	2024	2025
Compared to the 2021-level (DKK bn., 2021-prices)				
DK2025, August 2020	5	10	14¼	19½
Convergence Programme 2021	½	4¾	8¾	14½
Convergence Programme 2021 corrected for temporary conditions in 2021 related to COVID-19	*5½*	*9¾*	*13½*	*19½*

Note: The fiscal space is calculated with uncertainty which is increasing over time.
Source: *DK2025*, August 2020 and own calculations.

In the most recent medium-term projection in *DK2025 - A green, fair and responsible recovery of the Danish economy*, August 2020, the fiscal space was estimated to approximately DKK 19½ bn. in 2025 compared to the expenditure level in 2021, i.e. in relation to the budgeted level in the budget year. The Convergence Programme 2021 takes into account political agreements since the August assessment as well as other new information, etc. Against this background, the fiscal space is estimated to approximately DKK 19½ bn. in 2025 (measured in relation to the expenditure level in 2021), when adjusted for the effect of temporary conditions in 2021 related to COVID-19. This is unchanged compared to the latest assessment in *DK2025*, August 2020.

If no adjustment is made for these temporary measures, the fiscal space is DKK 14½ bn. towards 2025, *cf. table 3.8*. This reflects that the handling of the corona crisis involves a number of temporary additional expenses, which in the Convergence Programme affect the expenditure level in 2021. The updated fiscal space must be viewed in relation to a number of opposing factors described in *box 3.2*.

Box 3.2
Changes in the fiscal space since August 2020

Since the updated medium-term projection in August 2020 new information affect the fiscal space, *cf. table a*.

- *Temporary conditions in 2021 related to COVID-19*: Temporary conditions in 2021 related to COVID-19 give rise to a temporarily high expenditure level in 2021, which in isolation reduces the possible expenditure growth in subsequent years in relation to 2021. However, the extraordinary and temporary COVID-19 expenditures affecting the expenditure level in 2021, does not reduce the space for new expenditure measures after 2021.
- *Agreement on new right to early retirement (October 2020):* The funding of the agreement includes a contribution from rethinking the employment effort of approximately DKK 1 bn. from 2024. In the projection, it is technically assumed that the savings are translated into lower operating expenses in the municipalities, which in isolation reduces the highest possible public consumption growth but not the room for manoeuvre for other purposes.
- *Budget Bill for 2021 and Agreement on economic stimulus and green recovery (December 2020):* Overall, the agreements prioritize more funds for initiatives affecting public consumption in 2021 than in 2025, which in isolation reduces the highest possible consumption growth towards 2025. In addition, there are deviations in the precise assumptions about the year-on-year impact of the presumed funds from the RRF.
- *Underlying improvement of the structural budget balance:* New information, including higher estimated structural net interest revenue, implies an underlying improvement in the structural budget balance by 0.1 per cent of GDP in 2025. Within the objective of structural balance in 2025, this will in isolation increase the room for manoeuvre by approximately DKK 2½ bn. Hereof approximately DKK 1½ bn. are allocated to public investments and approximately DKK 1 bn. for an increase in the fiscal space.
- *Other factors, technical adjustments, etc.:* Other conditions, etc. cover, among other things, the effect of the technical amendments, estimates for other ceiling-covered expenses, including, among other things, foreign aid, as well as additional expenses related to COVID-19 not included in the calculation of the structural balance.

Table a
Changes in fiscal space since August 2020

DKK bn. (2021-prices)	2025
***DK2025*, August 2020**	**19½**
+ Temporary conditions in 2021 related to COVID-19[1)]	-5
+ *Agreement on new right to early retirement* (October 2020)	-1
+ *2021 Budget Bill* and *Agreement on economic stimulus and green recovery* (December 2020)	-¾
+ Underlying improvement of the structural budget balance	1
+ Other factors, technical adjustments, etc.[2)]	¾
Convergence Programme 2021	**14½**
***Convergence Programme 2021* corrected for temporary conditions in 2021 related to COVID-19**	**19½**

Note: Fiscal space is calculated as the highest possible public consumption growth excl. depreciation within the objective of structural balance in 2025 and rounded to the nearest quarter DKK bn.

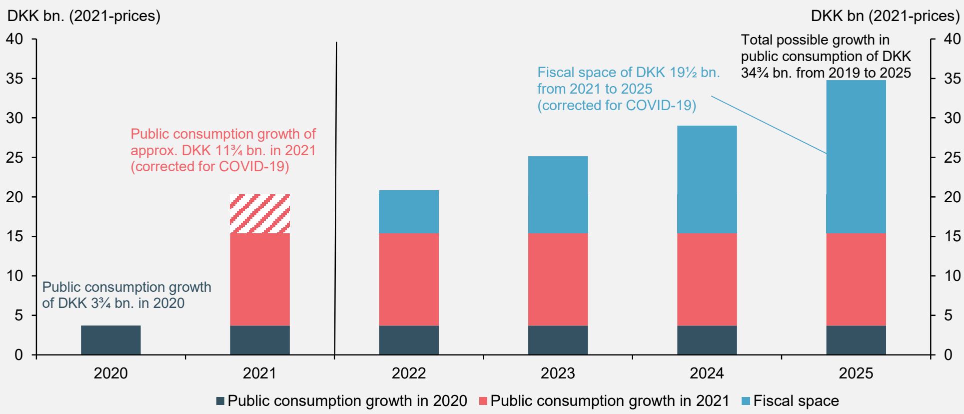
1) Other factors, technical adjustments, etc. covers, among other things, the effect of the technical amendments, estimates of other ceiling-covered expenses, including, among other things, foreign aid as well as additional expenses related to COVID-19 not included in the calculation of the structural balance.

Source: Statistics Denmark, *DK2025*, August 2020 and own calculations.

Based on the updated estimate of the fiscal space in 2022-2025, there is room for a growth rate in public consumption of approximately 0.9 per cent annually when adjusting for temporary conditions related to COVID-19, *cf. also section 3.5*. This is greater than the average annual growth in the demographic pressure in the same period of approximately 0.5 pct. The total growth in the demographic pressure in 2025 measured in relation to 2021 is estimated at approximately DKK 11 bn.

Public consumption has grown by approximately DKK 3¾ bn. in 2020, while the government's priorities in the Budget Bill for 2021 etc. implies that public consumption can grow by approximately DKK 16¾ bn. in 2021 and DKK 11¾ bn. corrected for temporary conditions related to COVID-19. Overall, there is room for a total growth in public consumption of approximately DKK 34¾ bn. towards 2025 measured in relation to 2019, when the government took office or a growth rate of approximately 1.1 per cent annually on average, cf. *figure 3.3.*

Figure 3.3
Public consumption growth and fiscal space, 2020-2025



Note: Public consumption is calculated using the input method (excl. depriciations). The shaded area indicates the effect of temporary conditions related to COVID-19 in 2021 measured in relation to the total public consumption level in 2020.
Source: Statistics Denmark and own calculations.

However, the overall fiscal space towards 2025 is limited and will thus have to be prioritized with care, including in relation to the demographic development and the ambitious goal of reducing greenhouse gas emissions by 70 per cent in 2030. Among other things, this must be viewed in connection with the fact that a part of the fiscal space is reserved for the decided boost of the armed forces in the *Defense Agreement* (January 2018) and a reserve for ensuring favourable conditions for Danish businesses in continuation of the *North Sea Agreement* (March 2017).

Excluding these reserved funds, the fiscal space for other priorities is approximately DKK 2 bn. lower in 2025 measured in relation to 2021, *cf. appendix 3.3*. In the absence of new financing, the fiscal space must, among other things, cover the annual budget bills as well as the budgets of municipalities and regions and unavoidable additional expenses, etc.

3.5 Public consumption, public investments and funds to handle COVID-19

Public consumption and demographic pressure

Given the objective of structural balance in 2025 – and when no correction for temporary COVID-19 conditions in 2021 is made – there is room for an average consumption growth of 0.7 per cent per year in 2022-2025, *cf. figure 3.4*. When corrected for temporary conditions related to COVID-19, there is room for a public consumption growth in 2022-2025 of approximately 0.9 per cent annually. This must be viewed in the context of an average growth in the demographic pressure of 0.5 per cent annually in the same period.

Figure 3.4
Public consumption growth and demographic pressure in 2022-2025

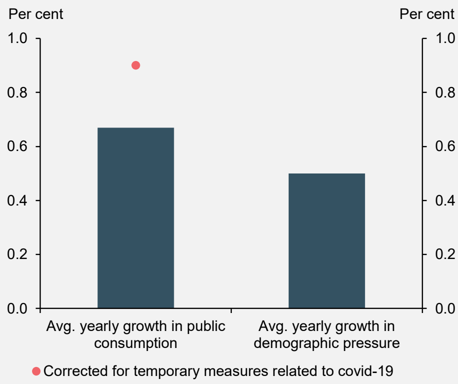


Table 3.9
Estimates for public consumption

Real growth, per cent	**2021**	**2022**
December assessment, 2020	1.4	-0.3
Convergence Programme 2021	3.2	0.1
- Change, percentage points	*1.8*	*0.4*
Corrected for temporary condtions related to COVID-19	3.6	0.9
DKK bn., current prices		
December assessment, 2020	597.8	605.8
Convergence Programme 2021	598.9	605.9
- Change, DKK bn.	*1.1*	*0.1*

Note: Figure 3.4 shows the average yearly growth in public consumption and the demographic pressure, respectively, in 2022-2025. The dot indicates the average yearly growth in public consumption in 2022-2025, when corrected for temporary conditions related to COVID-19.
Source: Statistics Denmark and own calculations.

Public consumption is estimated to grow in real terms by 3.2 per cent in 2021, which is an upward adjustment of 1.8 percentage points in relation to the estimate in *Economic Survey*, December 2020, *cf. table 3.9 and figure 3.5*.

The upward adjustment of public consumption growth can primarily be attributed to the fact that Statistics Denmark's preliminary national accounts figures show a lower level of public consumption in 2020 than assumed in the December assessment. In addition, nominal public consumption in 2021 has been upward adjusted by DKK 1.1 bn. compared to the December assessment, which can primarily be attributed to decided additional expenses related to COVID-19. The correction of real public consumption in connection with repatriated employees is pulling in the opposite direction.[1] If adjustments are made for temporary conditions related to COVID-19 in 2020 and 2021, the growth is estimated at approximately 3.6 per cent in 2021.

In 2022, the estimated nominal public consumption is approximately unchanged compared to the December assessment, while real public consumption growth is estimated at 0.1 per cent. When correcting for temporary conditions related to COVID-19 in 2021, the estimate for public consumption growth is approximately 0.9 per cent in 2022.

For 2023 and onwards, the computational public consumption growth corresponds to the highest possible public consumption growth given the medium-term objective of structural balance in 2025 (the fiscal space). In the projection, public consumption expenditures (excl. depreciation) can grow by an average of approximately 0.9 per cent per year in 2023-2025.

Figure 3.5
Public consumption growth, 2000-2025

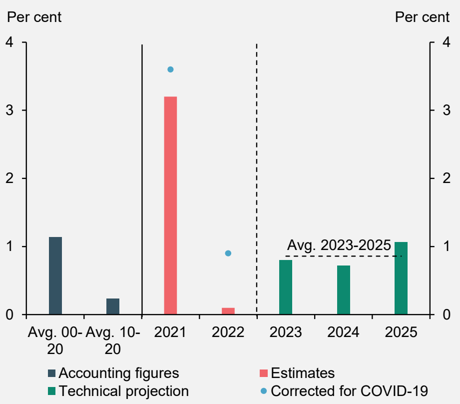
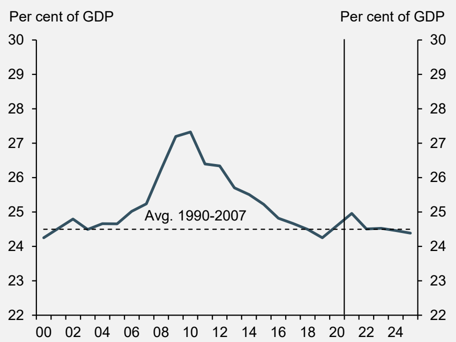


Figure 3.6
Public consumption level, 2000-2025



Note: Public consumption growth is caluclated using the input method (excl. depriciations).
Source: Statistics Denmark and own calculations.

On the basis of the assumed real growth in public consumption, the public consumption expenditure level is estimated to constitute a slightly declining share of GDP towards 2025, *cf. figure 3.6*. This should primarily be viewed in light of the particularly high expenditure level in 2021 due to temporary additional expenditures related to COVID-19. In 2021-2025, the public consumption share of GDP remains above a historical average from before the financial crisis (1990-2007).

[1] The correction follows Eurostat's guidelines for the treatment of repatriated employees in connection with COVID-19 in the national accounts. It is technically assumed that real public consumption in 2021 will be downgraded by approximately 0.4 per cent in relation to the estimate in December as a result of wage costs incurred in the public sector for working hours that have not been realized. The total recognized corrections in 2020-21 in isolation contribute to a real growth in public consumption of approximately ½ per cent in 2021. Reference is also made to box 8.5 in *Economic Survey*, August 2020, where a detailed explanation of the background for the correction is included.

Public investments

Public investments, as a share of GDP, has been at a historically high level in recent years and is also expected to remain so in the coming years, *cf. figure 3.7*.

The estimates for public investments in 2021 and 2022 are unchanged compared to *Economic Survey*, December 2020. The level in 2023 has been adjusted upwards in relation to the projection in *DK2025 - A green, fair and responsible recovery of the Danish economy*, August 2020 as a result of *Agreement on economic stimulus and green recovery* from December 2020. In addition, there is prioritized approximately DKK 1¼ bn. in 2024 and approximately DKK 1½ bn. in 2025 to higher public investments as part of the implementation of an underlying improvement of the structural public balance in Denmark's Convergence Programme 2021.

Overall, total public investments in the period 2021-2025 is estimated to be between 3.5 and 3.8 per cent of GDP. After the financial crisis, the level of public investments has been above the average in the period 1990-2007. Total public investments increase from approximately DKK 87 bn. in 2021 to DKK 97 bn. in 2023, after which public investments decrease to just over DKK 90 bn. in 2025 (2021-prices).

Figure 3.7
Public investments, per cent of GDP

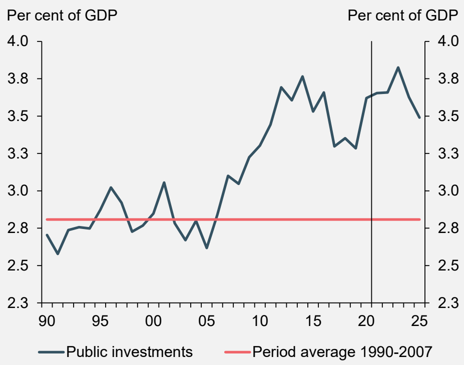
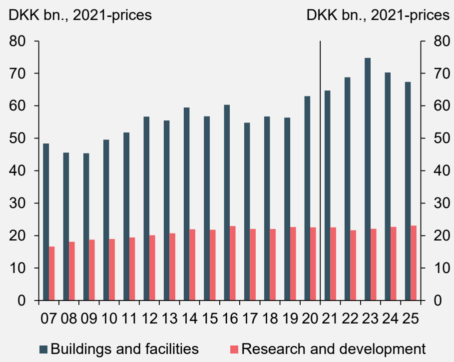


Figure 3.8
Public investments, DKK bn. (2021-prices)



Source: Statistics Denmark and own calculations.

The majority of public investments consists of investments in buildings and facilities, while a smaller part consists of research and development, *cf. figure 3.8*. The growth in investments in buildings and facilities contributes to the significant overall increase in public investments towards 2023.

Funds allocated to handle COVID-19

In *DK2025 - A green, fair and responsible recovery of the Danish economy*, August 2020, temporary funds were allocated to handle challenges in the light of COVID-19 etc. The reserve was set aside to deal with the current expenditure needs arising from the corona pandemic. At the same time, the funds has provided an opportunity to launch new initiatives that can further contribute to the recovery of economic activity, including new investments in the future.

Thus, a significant part of the funds has been allocated under the auspices of a number of political agreements at the beginning of December 2020, including in particular *Agreement on economic stimulus and green recovery*, *Agreement on green transition of road transport* and *Agreement on green tax reform*. In addition to the temporary national funds, the expected repatriation of funds from the EU Recovery and Resilience Facility (RRF) was also included in the funding of a number of initiatives in the agreements.

Since the agreements, additional funds have been allocated from the temporary national reserve – especially in 2021, but also in subsequent years, including, among other things, as part of *Agreement on supplements to the agreement on the reopening of the general compensation schemes, Agreement on further improvements of the compensation schemes for smaller businesses, etc.*

Based on the agreements, the temporary reserve has been adjusted downwards in the updated projection in the Convergence Programme compared to the medium-term projection in August 2020. However, oppositely, the temporary reserve in 2021 has been expanded by DKK 2.4 bn. by easing the structural budget balance by 0.1 per cent of GDP. Furthermore, the funds is adjusted upwards by DKK 2.4 bn. in 2023 and DKK 1.2 bn. in 2024 as part of the implementation of an underlying improvement in the structural budget balance in relation to the Convergence Programme.

Thus, in the Convergence Programme the remaining funds amounts to DKK 3.7 bn. in 2021 decreasing to DKK 1.6 bn. in 2024, *cf. table 3.10*.

Table 3.10
Adjustments of the temporary funds to handle COVID-19 since *DK2025*, August 2020

	2021	2022	2023	2024	2025
DKK bn., 2021-prices					
Funds to handle COVID-19 etc. in *DK2025*, August 2020	7.7	6.2	2.4	1.0	0.0
+ Allocation (net) of the funds since August	-6.4	-2.9	-1.4	-0.6	0.0
+ Easing of the structural balance in 2021	2.4	-	-	-	-
+ Implementation of the underlying improvement of the structural balance in 2023 and 2024	-	-	2.4	1.2	-
Funds to handle COVID-19 etc. in Convergence Programme 2021	**3.7**	**3.3**	**3.4**	**1.6**	**0.0**

Source: *DK2025*, August 2020 and own calculations.

3.6 Expenditures and revenues as a share of GDP

The public expenditure's share of GDP reached historically high levels in the end of the 2000s, where, for a number of years, there was relatively high growth in public expenditures, and where GDP fell in the wake of the global financial crisis. When temporary measures are taken into account, such as fluctuations in the business cycle, expenditures as a share of GDP have been decreasing from 2012 to 2019, *cf. figure 3.9*. In 2020, primary expenditures increased as a share of GDP and is expected to increase further in 2021, which can be attributed to the fiscal stimulus measures (excl. one-off expenditures) that have been initiated to counteract the impact of COVID-19. Towards 2025, primary expenditures as a share of GDP will return to the level in the years before the corona crisis as fiscal policy normalizes.

The tax burden adjusted for business cycles and temporary conditions is estimated to constitute an approximately constant share of GDP in 2019-2025, *cf. figure 3.10*.

Figure 3.9
Primary expenditures as a share of GDP towards 2025

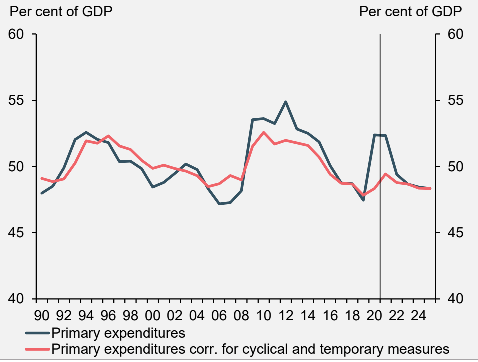
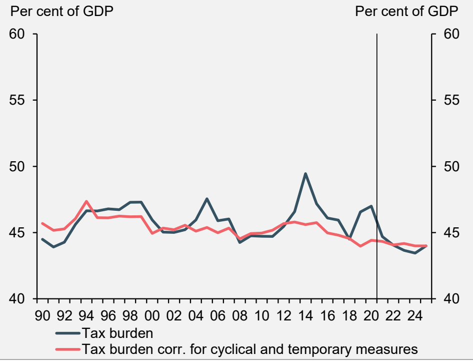


Figure 3.10
Tax burden towards 2025



Note: The tax burden is calculated excl. North Sea revenue. The primary expenditures include the public expenditures excl. interest expenses. The red curves reflect approximate calculations of tax burden and primary expenditures as a share of GDP, where adjustments are made for, among other things, the impact on business cycles, one-off revenue from restructuring of capital pensions and payment of frozen holiday pay as well as one-off expenses from the payment of early retirement contributions and compensations schemes related to COVID-19 etc., as well as temporary fluctuations in, among other things, revenue from the pension yield tax corresponding to the method used in the calculation of the structural balance. The calculation of primary expenditures and the tax burden adjusted for business cycles and temporary conditions is calculated on the basis of a structural GDP, which is subject to uncertainty.
Source: Statistics Denmark and own calculations.

Public expenditures

Total public expenditures contribute to approximately 53 per cent of GDP in 2020. The expenditure ratio is estimated to be maintained at this high level in 2021, which must predominantly be viewed in the light of the extraordinary temporary expenditures associated with compensation schemes for businesses etc. in the light of COVID-19. Thus, the total expenses are estimated to be approximately constant as a share of GDP from 2020 to 2021. Hereafter, the share is estimated to decrease to 49 per cent of GDP towards 2025, *cf. table 3.11*.

Table 3.11
Composition of public expenditure

	2020	2021	2022	2023	2024	2025
Per cent of GDP						
Total public expenditures (expenditure ratio)[1]	52.9	53.0	49.9	49.4	49.1	49.0
Primary expenditures	52.4	52.3	49.4	48.7	48.4	48.3
- public consumption	24.8	25.1	24.3	24.2	24.2	24.4
- public investments	3.6	3.7	3.7	3.8	3.6	3.5
- income transfers	16.6	16.4	15.9	15.7	15.8	15.8
- subsidies	3.0	2.9	1.6	1.5	1.4	1.4
- other primary expenditures	4.4	4.3	4.0	3.4	3.3	3.2
Interest expenditures	0.5	0.7	0.5	0.7	0.6	0.6

1) The calculation of total public expenditures (and revenue) differs from Statistics Denmark's calculation. The expenditure ratio is calculated on the basis of a measure of total expenditure, where all sub-elements of public consumption – including e.g. imputed expenditure in the form of depreciation and revenue in the form of sales of goods and services – are attributed to the expenditure side.
Source: Statistics Denmark and own calculations.

Public consumption expenditures amounted to almost 25 per cent of GDP in 2020 and is estimated to amount to just over 25 per cent of GDP in 2021. Hereafter, the share is estimated to be reduced to approximately 24¼ per cent of GDP in 2022 and maintained at this level until 2025. The higher level in 2020 and 2021 must be viewed, among other things, in light of temporary expenditures on government functions related to COVID-19, e.g. purchase of protective equipment, vaccines, etc.

Public investments is estimated to contribute between 3½ and 3¾ per cent of GDP in the period towards 2025. The profile must primarily be viewed in light of the underlying profile in the politically decided frame for public investments in buildings and facilities towards 2025.

The *income transfers* is estimated to be reduced from approximately 16½ per cent of GDP in 2020 to approximately 15¾ per cent of GDP in 2025. The development must, among other things, be viewed in the light of the expenditures related to unemployment-related transfers being estimated to be reduced from 2020 to 2022. From 2022 to 2025, the share of expenditures related to income transfers is more or less constant.

The *subsidies* contribute to approximately 3 per cent of GDP in 2020, which is significantly above normal levels. This reflects the extraordinary expenditures related to compensation schemes for businesses etc. in the light of COVID-19. For the same reason, the high level is estimated to be maintained in 2021, after which it is expected to be reduced to approximately 1½ per cent of GDP towards 2025.

The *public interest expenses* amount to approximately ½ per cent of GDP in 2020. Towards 2025, the expenditures are estimated to be at a slightly higher level as a share of GDP.

Public revenues

Total public revenues are estimated to be reduced from just over 51½ per cent of GDP in 2020 to approximately 49 per cent of GDP in 2025, *cf. table 3.12*. Among other things, the development must be viewed in connection with the fact that in 2020 the numbers reflect actual revenues, where some sources of revenue were particularly high, while the estimate in 2025 is based on structural assumptions.

Among other things, the development is affected by the fact that revenue from the *pension yield tax* – which depends on the development in the financial markets and thus fluctuate significantly from year to year – was relatively high in 2020, corresponding to 2.1 per cent of GDP. In 2025, the revenue from the pension yield tax is assumed to contribute 1.2 per cent of GDP corresponding to the estimated structural level. Besides stocks etc., the pension funds have a relatively large share of their assets invested in bonds, the value of which, all other things equal, fall if interest rates rise. Fluctuations in interest rates can be said to "move" tax revenue between the years. This can have a relatively large effect on the measured tax burden and the actual budget balance in individual years. However, fiscal policy is planned according to the structural level of revenue, and fluctuations in actual annual revenues from pension yield tax do not have any significant real economic significance.

The development also reflects that *personal yield tax* amounted to approximately 21.7 per cent of GDP in 2020 and is expected to decline to approximately 20.4 per cent of GDP in 2025. This must be viewed in the light of, among other things, extraordinarily high revenue from personal taxes in 2020 and 2021 because of the payment of frozen holiday pay.

Other indirect taxes primarily include excise duties in the form of, among other things, energy and environmental taxes, taxes on tobacco and spirits and gambling. In addition, indirect taxes include the vehicle registration duty, the municipal property taxes (i.e. land tax etc.), motor vehicle weight duty for businesses', payroll tax and stamp duties. The tax revenue from other indirect taxes are estimated to decrease from approximately 6.3 per cent GDP in 2020 to 5.7 per cent of GDP in 2025.

Corporate taxes in 2020 are preliminary approximated to 2.6 per cent of GDP and is expected to remain at the same level throughout the period towards 2025. According to Statistics Denmark *VAT revenues* in 2020 amounted to approximately 9.6 per cent of GDP in 2020 and is expected to remain at an approximately unchanged level until 2025. Finally, *public interest revenue* is also estimated to be stable until 2025 and amount to almost 1 per cent of GDP.

Table 3.12
Decomposition of public revenue

	2020	2021	2022	2023	2024	2025[8]
Per cent of GDP						
Personal income tax[1]	21.7	21.2	20.6	20.4	20.4	20.4
Labour market contributions	4.5	4.5	4.4	4.3	4.3	4.4
Pension yield tax	2.1	0.4	0.9	0.7	0.7	1.2
Corporate tax	2.6	2.6	2.6	2.6	2.6	2.6
- corporation tax revenue from hydro-carbon producers	0.0	0.0	0.1	0.1	0.1	0.1
- other corporation tax	2.6	2.6	2.6	2.6	2.6	2.6
Value added tax (VAT)	9.6	9.7	9.6	9.6	9.7	9.7
Other indirect taxes	6.3	6.2	6.0	6.0	5.8	5.7
Other taxes[2]	0.1	0.1	0.0	0.0	0.0	0.0
Tax burden	**47.0**	**44.8**	**44.1**	**43.7**	**43.5**	**44.1**
Interest income[3]	0.9	1.0	0.9	1.0	0.9	0.8
Other revenues[4]	4.0	4.2	4.1	4.1	4.2	4.3
Duties etc. to EU[5]	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Total public revenue[6]	**51.7**	**49.8**	**49.0**	**48.7**	**48.5**	**49.0**
Memo item: North Sea revenues[7]	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*

1) Personal income taxes etc. include basic income tax, property value tax, motor vehicle weight duty from households, gift and heritage tax and other personal taxes.
2) Other various taxes include media license (primarily for Danish Radio) and mandatory pension contributions for civil servants in publicly owned companies etc.
3) Incl. dividends and profits from Danmarks Nationalbank.
4) Other revenues include, among other things, profits from public enterprises, operating and capital transfers from other domestic sectors and the EU, as well as imputed (calculated) revenues from both the gross operating surplus and the contributions to civil servant pensions. Furthermore, it also includes central government revenues from state participation in the oil and gas production in the North Sea and the hydrocarbon tax.
5) According to national accounting principles, these revenues are categorized as taxes and are therefore included in the tax burden, but since the revenues are going to the EU, they are not included in the revenue burden.
6) The calculation of total public revenue differs from Statistics Denmark, that, among other things, attributes the sale of public goods and services to the revenue side and not, as here, to the expenditure side as part of the total consumption expenditure. Total revenues are calculated incl. imputed gross operating surplus being matched by the imputed depreciation costs included in the calculation of public consumption.
7) Total North Sea revenues consists of hydrocarbon tax, corporation tax on hydrocarbon manufacturing and dividend from the Danish North Sea Fund. The North Sea revenues are included in corporate taxes, interest revenues and other revenues.
8) Beyond 2022, projected levels are based on technical principles.

Source: Statistics Denmark and own calculations.

3.7 Public debt

The gross general government debt (calculated by the EMU debt definition) has increased moderately during the corona crisis as a result of, among other things, the economic downturn, the compensation schemes during the lockdown and other initiatives that support the recovery of the Danish economy. However, Denmark has a low level of public debt. Thus, the Danish EMU debt is still significantly below the limit set out in the Stability and Growth Pact of 60 per cent of GDP, and debt remains low in an international and historical context, *cf. chapter 1*. At the same time, Denmark still has the highest international credit rating (AAA-rating).

In 2020, the Danish EMU debt amounted to approximately 42 per cent of GDP against approximately 33 per cent of GDP at the end of 2019, i.e. before the corona crisis. The fiscal policy objective of structural balance in 2025 helps to stabilize the development of the EMU debt, which is thus expected to decline slightly towards 2025, where the EMU debt is estimated to amount to almost 40 per cent of GDP, *cf. table 3.13*.

Table 3.13
Overview of public debt, end of year

	2020	2021	2022	2023	2024	2025
Per cent of GDP						
Gross debt (EMU definition)	42.2	40.7	41.3	41.6	41.3	39.7
Net public debt	-11.0	-7.4	-6.2	-5.1	-4.2	-4.1
Memo item: Actual budget balance	*-1.1*	*-3.3*	*-0.9*	*-0.7*	*-0.6*	*0.0*

Source: Statistics Denmark and own calculations.

Public net debt – i.e. liabilities minus assets – is negative. Thus, Denmark has a public net worth, which by the end of 2020 had grown to approximately 11 per cent of GDP. Public net debt is the key concept of debt when assessing the long-term sustainability of fiscal policy.

Before the corona crisis, Denmark had a public net worth of 6 per cent of GDP in 2019, and this has thus grown significantly during 2020. The increase in net worth in 2020 primarily reflects price adjustments in public assets and liabilities. Especially price increases on the central government's shareholdings in the energy company Ørsted A/S. Public net worth is estimated to be reduced towards 2025, but Denmark is estimated to continue to have a public net worth at the end of 2025 of approximately 4 per cent of GDP.

The estimated year-on-year development in net debt is subject to uncertainty, as the development in net debt in addition to the position on the budget balance also depends on price adjustments on government assets and liabilities. Price adjustments on public liabilities will tend to level off over the years. For public assets, positive revaluations are generally expected on average over the years.

Appendix 3.1 Calculation of structural balance in 2020-2022

Appendix table 3.1.1
Actual and structural specific budget items in the calculation of the structural balance

	2020	2021	2022
Per cent of GDP			
1. Actual budget balance	-1.1	-3.3	-0.9
Cyclical adjustment			
i) Output gap	-1.8	-0.8	0.2
ii) Employment gap	-0.3	-0.4	0.1
a) Weighted cyclical gap = i)*0,4+ii)*0,6	-0.9	-0.6	0.1
b) Budget factor	0.75	0.74	0.74
c) 1-(output gap/100)	1.02	1.01	1.00
2. Cyclical contribution = a)*b)*c)	**-0.7**	**-0.4**	**0.1**
Corporate tax			
Actual revenue	2.6	2.6	2.6
Structural revenue	2.5	2.4	2.4
3. Correction for corporate tax	**0.1**	**0.1**	**0.2**
Vehicle registration duty			
Actual revenue	0.8	0.8	0.7
Structural revenue	0.8	0.8	0.8
4. Correction for vehicle registration duty	**0.0**	**0.0**	**0.0**
Equity income tax			
Actual revenue	1.0	1.1	1.1
Structural revenue	1.1	1.1	1.1
5. Correction for equity income tax	**0.0**	**0.0**	**0.0**

Appendix table 3.1.1 (continued)
Actual and structural specific budget items in the calculation of the structural balance

	2020	2021	2022
Per cent of GDP			
Pension yield tax			
Actual revenue	2.1	0.4	0.9
Structural revenue	1.2	1.2	1.2
6. Correction for pension yield tax	**0.9**	**-0.8**	**-0.3**
North Sea revenue			
Actual revenue	0.0	0.0	0.1
Structural revenue	0.1	0.1	0.2
7. Correction for North Sea revenue	**0.0**	**-0.1**	**-0.1**
Net interest payments			
Actual revenue	0.4	0.4	0.4
Structural revenue	0.3	0.3	0.3
8. Correction for net interest payments	**0.1**	**0.0**	**0.1**
Special budget items			
Actual revenue before corrections for one-offs etc.	-1.8	-1.6	-1.2
Actual revenue corrected for one-offs etc. for calculation of structural revenue, cf. appendix table 3.2.1	*-1.1*	*-0.8*	*-0.6*
Structural revenue	-0.6	-0.6	-0.6
9. Correction for special budget items	**-1.2**	**-1.0**	**-0.6**
10. Other corrections (cf. appendix table 3.2.1)	**-0.6**	**-0.7**	**0.0**
- Hereof COVID-19 one-off conditions	*-1.6*	*-1.2*	*0.0*
- Hereof one-off tax revenues from payment of frozen holiday pay	*0.9*	*0.6*	*0.0*
11. 1-2-3-4-5-6-7-8-9-10 Structural budget balance	**0.3**	**-0.5**	**-0.3**

Appendix 3.2 One-offs in 2020-2022

Appendix table 3.2.1
Corrections to the structural budget balance

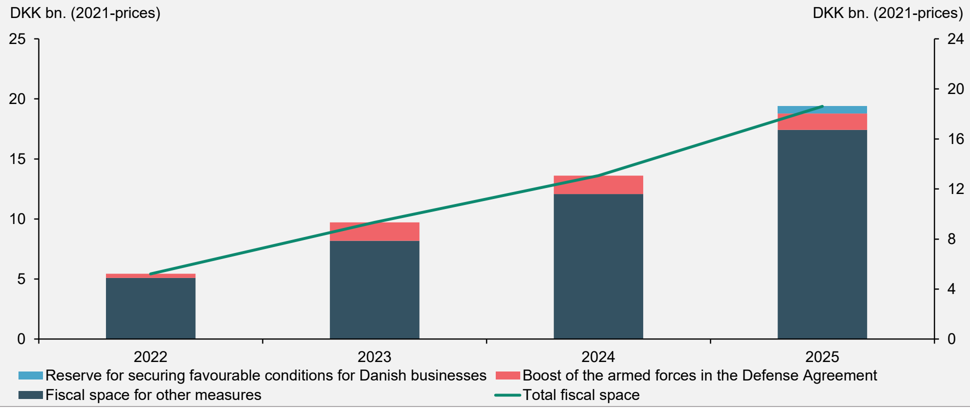
	2020	2021	2022
Per cent of GDP			
One-off conditions related to COVID-19	-0.7	-0.7	0.0
Extraordinary refund of property taxes	0.0	-0.1	-0.5
Payment of early retirement contributions	0.0	0.0	-0.1
One-offs corrected for in the special budget items in total	**-0.7**	**-0.8**	**-0.6**
Other corrections			
One-off conditions related to COVID-19	-1.6	-1.2	0.0
- Hereof as transfers to households	*-0.1*	*0.0*	*0.0*
- Hereof as subsidies	*-1.2*	*-1.1*	*0.0*
- Hereof as public consumption	*-0.5*	*-0.3*	*0.0*
- Hereof as backflow via tax revenues[1)]	*0.3*	*0.3*	*0.0*
- Hereof as contributions to EU	*-0.1*	*0.0*	*0.0*
One-off revenue from payment of frozen holiday pay	0.9	0.6	0.0
Foreign aid – difference between political commitment level and payments in relation to the actual balance	0.0	0.0	0.0
Corrections for information on the revenue side	0.1	0.0	0.0
Corrections for investments in fighter jets[2)]	0.0	0.0	0.0
Conversion to per cent of structural GDP	0.0	0.0	0.0
Other corrections in total	**-0.6**	**-0.7**	**0.0**

1) Calculated excl. one-offs related to backflow via corporate tax and equity income tax.
2) Investments in fighter jets is treated as net purchases of buildings and other existing investment goods in the calculation of the structural budget balance and is included via a 7 years moving average.

Appendix 3.3 Reservation in the fiscal space

The fiscal policy space for 2022-2025 (corrected for temporary conditions in 2021 related to COVID-19), including funds reserved for the decided boost of the armed forces in the *Defence Agreement* (January 2018) and a reserve for ensuring favourable conditions for Danish businesses in continuation of the *North Sea Agreement* (March 2017) is shown in *appendix figure 3.3.1*. Excluding these reserved funds, the fiscal space for other priorities is approximately DKK 17½ bn. in 2025 measured in relation to 2021.

Appendix figure 3.3.1
Fiscal space towards 2025



Note: The fiscal space is corrected for temporary conditions in 2021 related to COVID-19. The *Defence Agreement* covers the period 2018-2023. The part of the additional expenditures allocated to the armed forces, which is technically categorized as public consumption, is financed within the fiscal space and the boost of the armed forces as a result of the *Defence Agreement* is technically maintained at the 2023 level in 2024-2025.
Source: Statistics Denmark and own calculations.

4. Sensitivity Analysis and comparison to latest projection

4.1 Sensitivity Analysis

Prior to the corona crisis in 2020, the Danish economy was in a moderate boom that proceeded without the build-up of any significant imbalances. The labour market was booming and there were no signs of unsustainable debt building up. The negative consequences of the corona crisis on the Danish economy have been counteracted by extensive aid packages, such as the wage compensation scheme, compensation for fixed costs and deferred deadlines for VAT-payments, which have also enabled firms to be ready to resume activity. This contributed to a modest downturn in Denmark in an international perspective, for instance measured by GDP and employment. The ongoing reopening of the Danish economy is expected to lead to a rapid increase in activity, as in the case last spring.

In the following several scenarios are presented, which illustrate the sensitivity of the Danish economy to altered assumptions following the requirements set out in the Code of Conduct for the EU countries' Stability and Convergence Programmes. The sensitivity is illustrated by comparing the projection of the Convergence Programme with a scenario in which the European Commission's assumptions about the international economy and financial conditions for 2021 and 2022 are taken into account. Furthermore, two additional alternative scenarios for short-term growth are compared, one of which is more negative and one is more positive.

Finally, the projection of selected key figures up until 2025 in the Denmark's Convergence Programme 2021 is compared with the medium-term projection in *DK2025 - A green, fair and responsible recovery of the Danish economy*, August 2020. Normally the comparison would be with the previous edition of the Convergence Programme, but Denmark's Convergence Programme 2020 did not include a medium-term projection due to the special circumstances of spring 2020.

Scenario with the European Commission's external assumptions

The assumptions in the Convergence Programme 2021 concerning the international economy and financial conditions are largely in line with the European Commission's assumptions in their spring forecast, *cf. table 4.1*. In the Convergence Programme 2021, export market growth and oil prices are assumed slightly lower in 2021 compared to the assumptions set out by the European Commission, while assuming slightly higher oil prices and slightly lower export market growth in 2022. The assumptions in the Convergence Programme 2021 are based on information available on the 6th of April.

The alternative scenario based on the European Commission's external assumptions implies more positive estimates for growth, employment, unemployment, budget balance and public debt. Growth in GDP is estimated to be 0.5 percentage points stronger in both 2021 and 2022, while employment increases by almost 19,000 persons in 2022 using the European Commission's external assumptions. Similarly, the budget balance as a share of GDP improves by 0.2 and 0.4 percentage point in 2021 and 2022, respectively, while the public gross debt (EMU definition) as a share of GDP is reduced by 0.4 and 1.0 per cent in the two years.

Table 4.1
External assumptions in the Convergence Programme 2021 and the European Commission's spring forecast

	2020	2021		2022	
	CP21	CP21	EU	CP21	CP21
Growth in export markets, per cent[1]	-6.5	5.0	5.6	-6.5	5.0
Crude oil price, USD per barrel	41.8	62.3	64.7	41.8	62.3
Short-term interest rate, percentage point[2]	-0.6	-0.5	-0.5	-0.6	-0.5
Long-term interest rate, percentage point[2]	-0.5	-0.3	-0.3	-0.5	-0.3

Note: The external assumptions are based on the European Commission's 2021 spring forecast, with the exception of export market growth, which is based on a weighting of the European Commision's latest official estimates for EU countries along with GDP and export market growth for the rest of the world based on the Commission's prelim-inary external assumptions from the spring forecast. The weighting is done on the basis of Danish export weights.
1) Growth in export markets concern industrial goods and is shown as real growth in per cent.
2) Numbers refer to European interest rates. The levels of the corresponding Danish rates have been modified in order to ensure that the spread to the Euro area remains unchanged relative to the assumptions in CP21.
Source: The European Commission and own calculations

Alternative scenarios

The Danish economy is fundamentally healthy with well-functioning structures. Even during the corona crisis, the economy has shown signs of good dynamics, for instance in the labour market. Solid growth is expected, as the extent of the corona pandemic diminishes following increased vaccination, and the removal of containment measures leads to close to normal economic activity.

There is a possibility of an even larger increase in domestic demand than estimated in the forecast. Households have been reluctant with consumption during the corona crisis – partly due to limited consumption possibilities. This has led to households having a large savings surplus and the propensity to consume is still historically low in the baseline projection. The risk of a more negative projection is largely assessed to stem from the development in infections, which in the scenario is assumed to affect consumption of services and tourism negatively in the same way as in 2020.

- *Positive scenario:* Households increase consumption by an additional 0.5 percentage point in 2021 and 2022. In this scenario, growth in GDP increases by about 0.3 percentage points in both 2021 and 2022, and employment increases by almost 10,000 persons in 2022. The budget balance is improved by about 0.2 per cent of GDP in 2021 and 0.3 per cent of GDP in 2022.

- *Negative scenario:* As a consequence of an increase in infections and uncertainty, household consumption of services and tourism import and export is assumed to remain on the same low 2020-level in 2021. The negative effects in this alternative scenario implies a reduction in GDP growth by 0.3 percentage point in 2021, while the growth in 2022 is only slightly reduced. Employment is reduced by 5,000 persons in 2022 compared to the baseline projection, while the budget balance is worsened by 0.1 and 0.2 per cent in of GDP in 2021 and 2022 respectively.

The Danish economy is in a good initial position, and a more negative growth projection will not strain the government budget considerably. In both the baseline projection and the alternative scenarios, the deficit on the budget balance in 2021 is only slightly above the limit of 3 per cent of GDP due to a number of non-recurring expenses, *cf. chapter 3*. In 2022, in both alternative scenarios, Denmark will comply with the normal requirements for government deficit and the public gross debt (EMU definition) in the Stability and Growth Pact with a considerable margin, *cf. table 4.2.* Other scenarios than those presented here can of course not be ruled out.

Table 4.1
Alternative scenarios

	2021	2022
Convergence Programme 2021, April 2021		
GDP growth, per cent	2.1	3.8
Employment, 1,000 persons	2,988	3,025
Unemployment, per cent of labour force	4.1	3.9
Budget balance, per cent of GDP	-3.3	-0.9
Public gross debt (EMU definition), per cent of GDP	40.7	41.3
More positive scenario		
GDP growth, per cent	2.4	4.0
Employment, 1,000 persons	2,992	3,035
Unemployment, per cent of labour force	4.0	3.6
Budget balance, per cent of GDP	-3.1	-0.5
Public gross debt (EMU definition), per cent of GDP	40.4	40.5
More negative scenario		
GDP growth, per cent	1.9	3.7
Employment, 1,000 persons	2,984	3,020
Unemployment, per cent of labour force	4.2	4.0
Budget balance, per cent of GDP	-3.4	-1.0
Public gross debt (EMU definition), per cent of GDP	40.9	41.7

Note: The table shows the effect on registered gross unemployment.
Source: Statistics Denmark and own calculations.

4.2 Comparison with DK2025 - A green, fair and responsible recovery of the Danish economy, August 2020

Projections of the average GDP growth in 2020-2025 are largely the same in *Denmark's Convergence Programme 2021* as in *DK2025*, August 2020, *cf. table 4.3*. As a result of a smaller decline in GDP in 2020 and expectations of rapid recovery after the wave of infections in winter, the economy is estimated to have returned to a roughly normal economic outlook in 2022 (compared to 2024 in *DK2025*, August 2020). From 2022 and onwards, an employment and output gap close to zero is assumed.

Table 4.3
Changes compared to DK2025 - A green, fair and responsible recovery of the Danish economy

	2020	2021	2022	2023	2024	2025
Real GDP growth, per cent						
Convergence Programme 2021, April 2021	-2.7	2.1	3.8	2.3	1.3	1.3
DK2025, August 2020	-4.5	4.2	2.9	2.3	2.1	1.3
Change	1.7	-2.1	0.8	-0.0	-0.8	-0.1
Output gab, per cent of GDP						
Convergence Programme 2021, April 2021	-1.8	-0.8	0.2	0.0	0.0	0.0
DK2025, August 2020	-3.1	-1.1	-0.6	-0.3	0.0	0.0
Change	1.2	0.3	0.8	0.3	0.0	0.0
Budget balance, per cent of GP						
Convergence Programme 2021, April 2021	-1.1	-3.3	-0.9	-0.7	-0.6	-0.0
DK2025, August 2020	-3.9	-2.4	-2.1	-1.4	-0.9	-0.0
Change	2.8	-0.9	1.3	0.7	0.2	-0.0
Public gross debt (EMU definition), per cent of GDP						
Convergence Programme 2021, April 2021	42.2	40.7	41.3	41.6	41.3	39.7
DK2025, August 2020	46.3	41.9	44.5	45.4	45.7	44.6
Change	-4.1	-1.2	-3.3	-3.9	-4.4	-5.0

Source: DK2025 - A green, fair and responsible recovery of the Danish economy and own calculations.

Expectations to the budget balance are generally adjusted upwards in *Denmark's Convergence Programme 2021* compared to *DK2025*, August 2020, however with a larger estimated public deficit in 2021. The improvement in the budget balance in 2020 compared with the projection from *DK2025*, August 2020, can largely be attributed to the recognised expenditures for industry compensation schemes etc. being significantly lower in 2020 than expected in August. In addition, the recognised income from pension return tax and corporate tax are larger than expected in August.

In all years up to 2025, the public gross debt (EMU definition) in *Denmark's Convergence Programme 2021* is estimated to be stable under 45 per cent of GDP, i.e. with a considerable margin to the 60 per cent of GDP limit given by EU's Stability and Growth Pact. This is an improvement compared to the projection in *DK2025*, August 2020, where public gross debt in 2022-2025 was estimated to be in the region of 45 per cent of GDP.

5. The period beyond 2025 and long-term fiscal sustainability

5.1 Development beyond 2025

In the coming years, fiscal policy is planned in accordance with the objective of structural budget balance in 2025 and to ensure fiscal sustainability. Beyond 2025, the projection is based on technical principles and assumptions, *cf. section 5.3*. The aim being to assess the long-term outlook of public finances given the presupposed fiscal policy in the medium-term planning horizon.

Based on the updated 2025-projection as well as reforms that have already been adopted, including the current indexation rules of the old age pension and early retirement etc., the prospect of a positive sustainability indicator remains. This implies that, given the technical projection assumptions and additional already adopted policies, the policies planned towards 2025 can be maintained in the long-term without giving rise to unsustainable increases in debt.

However, the positive sustainability indicator should be viewed against the backdrop of a deterioration of the structural budget balance in the period beyond 2025 and until it is restored after the middle of the century. This is the so-called hammock challenge, *cf. figure 5.1*, reflecting a long period of demographic pressure, which attenuates over time concurrently with the planned indexation of retirement ages in accordance with the development of life expectancy, *c.f. below*.

Figure 5.1
Structural budget balance

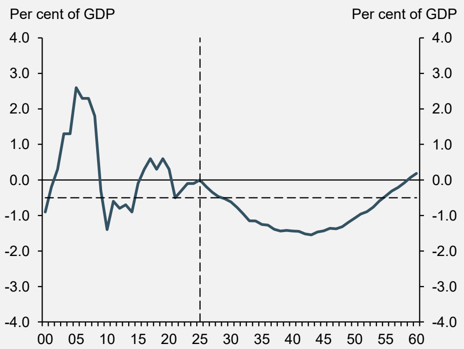
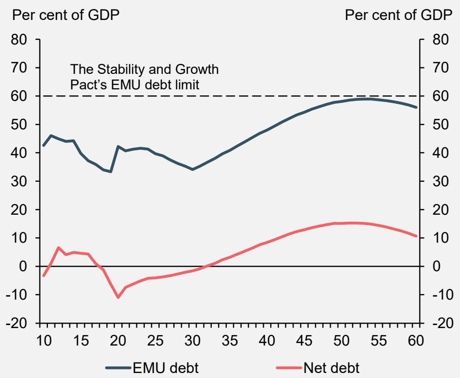


Figure 5.2
EMU-debt and net debt



Source: Statistics Denmark and own calculations.

Beyond 2025, the projection entails a moderate public net debt that remains below 15-20 per cent of GDP. Public net debt measures the difference between public financial assets and liabilities and thus reflects the net position of the public sector. The net debt is the key measure with regard to assessing long-term fiscal sustainability. In the long-term projection, the increase in the public net debt reflects the expected deficits during the hammock challenge years.

In terms of the EU's Stability and Growth pact, the so-called EMU debt is regarded the key debt measure. In the period beyond 2025 and until 2050, EMU debt is projected to increase to just below 60 per cent of GDP and then decrease again, *cf. figure 5.2*. Contrary to the public net debt, the EMU debt is purely a gross debt concept. That is, in addition to changes in the budget balance of public finances, the EMU debt is for instance also subject to parallel changes in public assets and liabilities.

The increase in the EMU debt in the period until 2050-2060 thus partly reflects the agreement on housing taxes (2017) as well as the agreement on financing of public housing (2017), which entail an increase in both public assets and liabilities. – i.e. a so-called balance sheet expansion. The public gross debt thus increases without putting a strain on the public balance. Additionally, the administration of the payment of the frozen holiday pay has an impact on the gross debt. LD pensions, who administers the frozen holiday pay, have the opportunity of borrowing directly from the state in order to undertake the premature payment. LD pensions will then later be repaying the funds, as they begin to receive contributions from the employers.

Figure 5.3
Full-time equivalent employment as a share of the total population

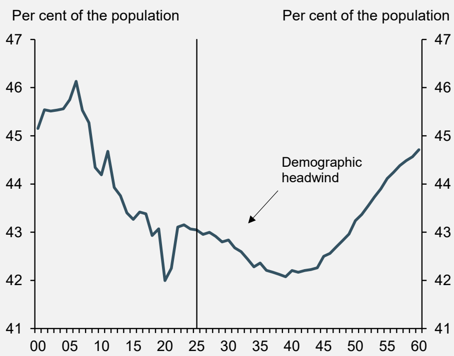
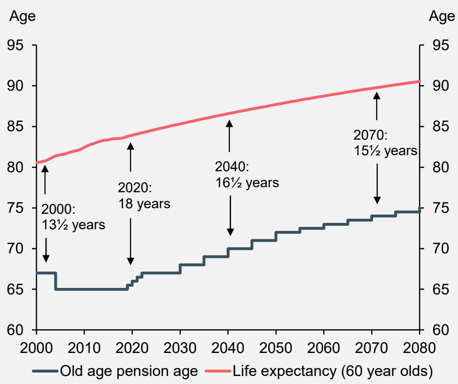


Figure 5.4
Development in life expentancy and the retirement age



Source: Statistics Denmark and own calculations.

The hammock challenge mainly reflects a decreasing share of the population in employment in the period beyond 2025 and until 2040, *cf. figure 5.3*. Meanwhile, the demographic development implies upward pressure on expenses related to elderly care and health. The projected decline in the employment ratio is primarily due to two factors. Firstly, the generations entering the labour force between 2025 and 2040 will be smaller than the generations entering retirement. Secondly, the generations entering retirement in the coming years will have longer retirement periods on average compared to both past and future generations, *cf. figure 5.4*.

This reflects a relatively high increase in lifetime-expectancy since 1995 – and higher than expected when the welfare agreement was made in 2006. In addition, the indexation of the retirement age is limited such that it can at most be increased by one year every fifth year. In accordance with the presupposed regulation of the retirement age, the share of the population in employment will be increasing again after 2040, while the demographic pressure on costs associated with elderly care and health will be decreasing. The indexation of the retirement age is crucial to the long run restoration of the employment ratio and to strengthening the financial basis for public spending, *cf. section 5.2*.

Figure 5.5
North Sea revenues will gradually be depleted in the long term

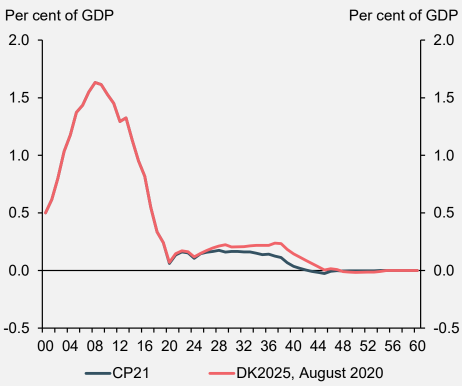
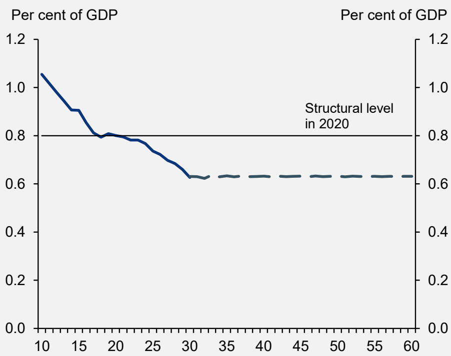


Figure 5.6
Revenues from vehicle registration duty will all else equal be decreasing, as the prevalence of low-emission cars increases



Note: Figure 5.5 illustrates the structural development of North Sea revenues.
Source: Statistics Denmark, *DK2025*, August 2020, and own calculations.

The development of North Sea revenues also affects the long-term projection, *cf. figure 5.5*. Given the current conditions of production etc., North Sea revenues are expected to remain approximately stable from 2025 to 2035-2040 before depleting, and then remaining close to zero beyond 2045. Compared to the latest projection from August 2020, North Sea revenues have been reduced – especially for the period 2035-2045. The main difference between the current and previous projection is the *Agreement on the future of fossil extraction in the North Sea* (2020), which is accounted for in the current projection. The agreement implies a cancellation of the ongoing 8th licensing round as well as a final phase-out date of fossil extraction in the North Sea by 2050. The effect of the agreement on fiscal sustainability is fully financed.

Similarly, climate transition and behavioral as well as technological change have the potential to affect future public revenue under the assumption of unchanged politics. With respect to revenues related to vehicle registration duty, the projection of the structural development in revenues for the years until 2030 has been updated in order to account for the restructuring of the vehicle registration duty following the agreement on *Green transition of the road transport* (2020), among other things. In the current projection, the structural revenues gradually decline from approximately 0.8 per cent of GDP in 2021 to approximately 0.6 per cent of GDP in 2030.

In the period beyond 2030, structural revenues from vehicle registration duty are technically presumed to remain constant relative to GDP. A shift from conventional towards zero emission vehicles in addition to what is already included in the projection will under the assumption of unchanged rules imply a larger revenue decline than presumed.

5.2 Importance of the life expectancy indexation of the retirement age

The long run sustainability of fiscal policy primarily reflects that retirement reforms – i.e. the welfare agreement (2006) and the early retirement reform (2011) – have established a mechanism which ensures a link between higher life expectancy and more active years on the labour market as well as a better balance between the share of the population within and outside the labour market. Without this mechanism, people outside the labour market receiving public pensions would constitute an increasing share of the population as life expectancy increases.

Therefore, the effect of the planned gradual increases of the retirement age is crucial to the projection. The life expectancy indexation principles are determined by law and are therefore considered part of the adopted politics in projections by the Ministry of Finance. However, the Danish parliament is required to pass a bill every fifth year in order to confirm the specific adjustments to the retirement age. This ensures a notice period of 15 years for adjustments of the retirement age.

In 2020, the Parliament confirmed the increase in the age limit of early retirement age to 66 in 2032 and the old age pension age to 69 in 2035 in accordance with the legislated life expectancy indexation. Given the existing indexation rules, the next adjustment will raise the old age pension age to 70 in 2040.

If the retirement age is not indexed according to legislation, the generations who retire in the coming years will have a significant increase in the number of years where they are eligible for public pensions compared to earlier generations, *cf. figure 5.8*. Specifically, if the old age pension age is held constant at 69 years, the expected retirement period will be of 21½ years in 2080. In comparison, the expected retirement period is approximately 17 years in 2035.

Figure 5.9 and 5.10 illustrate the long-term development of the budget balance and debt in a scenario where the old-age pension age (as well as the early retirement age etc.) is held constant at the already legislated level of 69 years in 2035.

Figure 5.7
The evolution of the old age pension eligibility age with and without indexation of the retirement age, 2020-2080

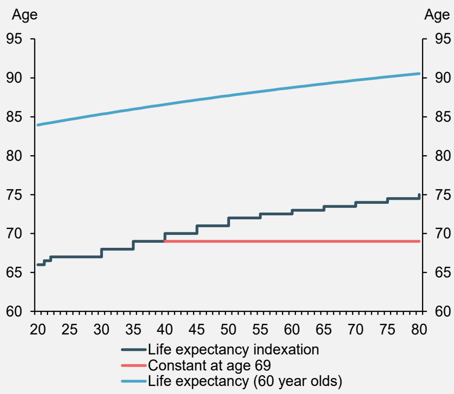
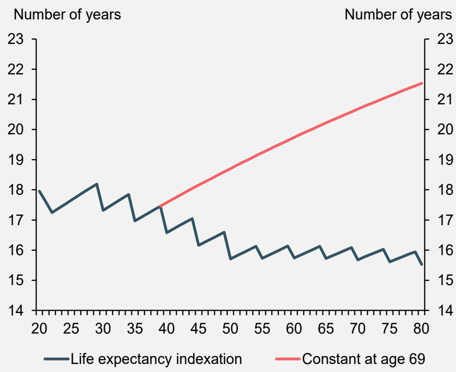


Figure 5.8
Expected length of retirement with and without indexation of the retirement age, 2020-2080



Source: Statistics Denmark and own calculations.

In such a hypothetical scenario, public finances would deteriorate significantly, implying persistent an unsustainable increases in public debt. A retirement age held constant at 69 would require a tightening of fiscal policy equivalent to an annual effect on the public budget balance of approximately DKK 26 bn. – or 1.1 per cent of GDP – in order to ensure fiscal sustainability.

Figure 5.9
The structural budget balance with and without indexation of the retirement age, 2020-2080

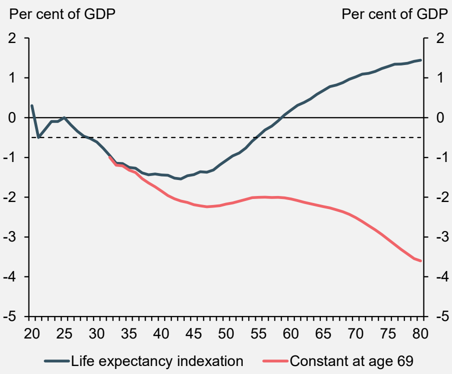
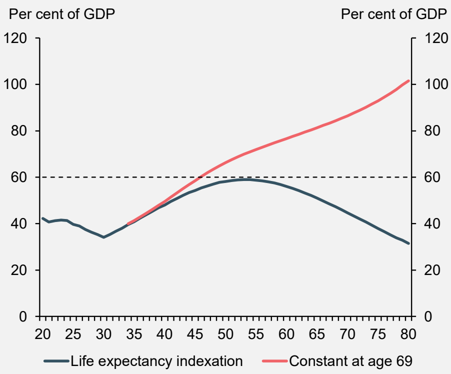


Figure 5.10
The EMU debt with and without indexation of the retirement age, 2020-2080



Note: The dotted lines in figure 5.9 and 5.10 represent the limit of ½ per cent of GDP for the annual structural budget deficit according to the Danish Budget Law and the debt limit as stated by the Stability and Growth Pact, respectively.
Source: Statistics Denmark and own calculations.

As displayed in figure 5.9 and 5.10, the scenario without indexation of the retirement age illustrates the importance of the link between higher life expectancy and more active years on the labour market, to the long-term soundness of public finances. The government appointed a commission concerning retirement in August 2020 following from the Danish agreement *Aftale om ret til seniorpension for nedslidte*.

The commission's terms of reference state (translated from Danish) amongst others that:

"A key element in the Danish pension system is the principle of regulating the retirement age according to life expectancy (life expectancy indexation). This is crucial for fiscal sustainability, since the regulation contributes to increased labour supply and tax revenues while reducing public pension expenditures. In order to ensure continued broad support for an increasing retirement age, and in light of recent research into the relationship between life expectancy and healthy years of life, it might be relevant to investigate the long-term effects of life expectancy indexation."

The projection in Convergence Programme 2021 takes into account the effect of the *Agreement on a new right to early retirement* (October 2020). The agreement introduces a new right to early retirement aimed at workers who have been part of the labour market for many years. Thus, workers who have been part of the labour market for 42-44 years (assessed 6 years prior to being eligible for old age pension) enjoy the right to 1-3 years of early retirement, respectively. The age of assessment and the seniority requirements remain constant until 2025. The age of assessment and the seniority requirements will then be increased by one year, which will apply until 2030. After 2030, the indexation of both assessment age and seniority requirements will follow the retirement age. The parties behind the agreement have committed to "*revisiting the model by 2030 at the latest in order to assess whether labour market developments have changed the presumptions underlying the pension scheme and whether the scheme covers individuals as intended*."

5.3 The starting point for the long-term projection – key principles and assumptions

The starting point for the long-term projection is a medium-term trajectory characterized by structural budget balance in 2025. Beyond 2025, the projection is based on technical principles and assumptions, including Statistics Denmark's and DREAM's demographic projection and The Danish Energy Authority's projection of production and gradual depletion of the Danish oil and gas resources in the North Sea.

The aim is to assess the long-term outlook of public finances including whether the economic policy is maintainable beyond the planning horizon without leading to a persistent and unsustainable increase in the public debt. The medium-term trajectory is characterized by structural budget balance in 2025 and the sustainability indicator is – given the assumptions regarding the development of life expectancy and the retirement age etc. – positive and equivalent to approximately 1 per cent of GDP.

Fiscal sustainability is accessed under the assumption of an unchanged tax burden beyond 2025 as well as technical projection assumptions concerning public spending, e.g. that the development of expenditures per person (at a given age) follows the wage development.

The technical assumptions used in long-term projections by the Ministry of Finance as well as in the assessment of fiscal sustainability are described in further detail in box 5.1.

Box 5.1
Principles for the projection after 2025
The projection principles after 2025 generally reflect an extrapolation of the structures of the economy as they appear in 2025 with the addition of agreed initiatives with a longer time horizon.

- Nominal public consumption expenditures are projected based on an assumption that expenditures per user grow in line with wages, while the number of users of public services evolves in line with the calculated impact of changing demographics, including a correction for healthy aging. Public sector wages grow in line with private wages, and public wage expenditures make up a constant share of public consumption expenditures.
- Social benefit rates are projected in accordance with the current regulation towards 2030, including the effect from *Agreement on new regulation of the state pension and the introduction of compulsory savings for the public transfer recipients* (November 2018) where compulsory savings is gradually build up in accordance with the agreement. Beyond 2030, the social benefit rates are presumed to rise in line with wage growth in the private sector, thus assuming that the degree of compensation during unemployment etc. is constant overall.
- From the outset, labour participation rates and the propensities at which various social benefits are received are assumed constant across age, gender and origin. However, the ratios are adjusted to account for the expected effects of changes in education composition as well as the duration of immigrants' stay in Denmark and adopted reforms. This includes the effects of reforms that increase labour supply over time by increasing the retirement age according to the indexation rules of the *Welfare Agreement (2006)* and the *Early Retirement reform (2011)*.
- Gross public investment is projected in order to ensure that the growth in the public capital stock (gross and efficiency corrected) equals the increase in a weighted development in gross value added (GVA) in the public and private sector (weight of 70 per cent for public GVA and 30 per cent for private GVA). The private sector share reflects the public investment directed towards infrastructure etc. and thereby supports private sector production.
- Public subsidies and net foreign transfers are constant relative to GDP.
- Besides the effects of adopted tax policy, the tax burden is projected to remain unchanged after 2025, i.e. tax rates in per cent remain constant, while excise duties etc. set in nominal terms are technically assumed to increase in line with price developments.
- Property taxes are projected in accordance with the rules of the *Agreement on Security regarding property taxation* (May 2017). The projection accounts for the postponement of the property valuation, the agreement *Compensation for property owners and continued security regarding property taxation* (May 2020) etc.
- The revenues from the North Sea activities are based on The Danish Energy Authority's long-term projection of oil and gas production and the effects of *Agreement on the future of fossil extraction in the North Sea* (2020). Long-term oil price assumptions are described in chapter 2 and are based on market expectations as well as IEA's newest projection (Stated Policies Scenario in World Energy Outlook, October 2020).
- Towards 2030, the projection includes a development in energy consumption, etc., in line with the base projection (2020) of The Danish Energy Authority including *The Energy Agreement (2020)*. Beyond 2030, the technical setting of the projection presumes a gradual reduction of the energy intensity in both consumption and production, which reflects the ongoing improvements in energy efficiency
- A gradual normalization of interest rates is assumed. Thus, the 10-year interest rate on government bonds is assumed to increase to 0.8 per cent in 2025 and further to 4 per cent in 2050, and remain unchanged thereafter.

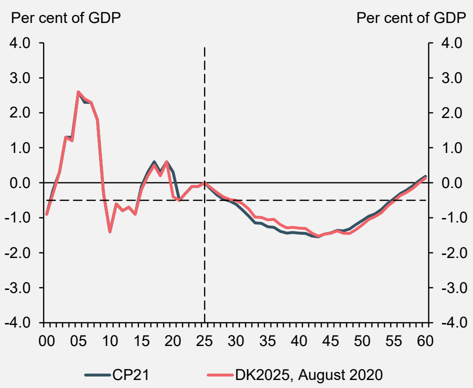
Appendix 5.1 Development in the structural budget balance and public debt compared to the latest projection

The key medium-term objective for fiscal policy is structural budget balance in 2025 and fiscal sustainability.

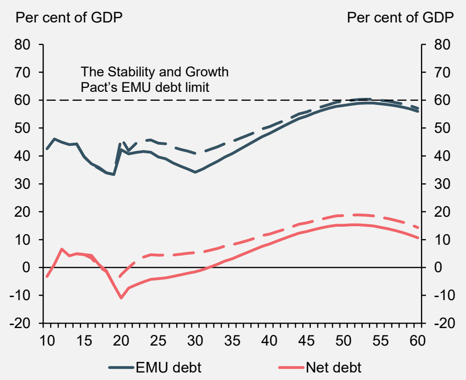
In *DK2025 – a green, fair and responsible recovery of the Danish economy* (August 2020), the structural budget was estimated to be balanced in 2025 while the sustainability indicator (HBI) amounted to 1 per cent of GDP. In Convergence Programme 2021, the projection includes an underlying improvement of the structural budget balance in 2025, which particularly reflects lower projected interest expenses compared to the August assessment. The underlying improvement is allocated in accordance with the medium-term objective of structural budget balance, *cf. chapter 3*.

The fiscal sustainability indicator in the Convergence Programme is positive amounting to approximately 1 per cent of GDP. As in the August assessment, the positive sustainability indicator reflects he expected long-term recovery of public finances beyond the middle of the century. Compared to the August projection, a slightly deeper hammock challenge is projected in the Convergence Programme, *cf. appendix figure 5.1*. This partly reflects the updated development of revenues related to activities in the North Sea, e.g. following the *Agreement on the future of fossil extraction in the North Sea* (2020).

Appendix figure 5.1
Structural budget balance



Appendix figure 5.2
EMU debt



Note: The dotted lines in appendix appendixfigure 5.2 represent the EMU-debt and the net debt as projected in *DK2025,* August 2020.
Source: Statistics Denmark*, DK2025*, August 2020, and own calculations.

At the end of 2020, public net debt amounted to approximately -11 per cent of GDP, i.e. a public net wealth of approximately 11 per cent of GDP. Thus, public net wealth is greater than expected in the August assessment by approximately 8 per cent of GDP. The change, which can be attributed to an improved budget balance in 2020 as well as changes in the price of public assets and liabilities, is also reflected in a lower level of debt the following years, *cf. appendix figure 5.2*. In 2025, the projected net wealth amounts to approximately 4 per cent of GDP.

In the CP21 projection, the EMU debt amounts to approximately 40 per cent of GDP in 2025, which is approximately 5 per cent of GDP lower than in the August assessment. The EMU debt is influenced by balance sheet changes – i.e. parallel changes in public assets and liabilities – such as the payment of the last two weeks of frozen holiday pay in the spring of 2021. All else equal, this implies an increase of the EMU debt in 2021, which gradually decreases over time.

6. Public finances and institutional framework

6.1 Institutional framework

Economic policy is planned within the framework given by the Danish Budget Law, the government's medium term economic plan and the Stability and Growth Pact. The framework specifies concrete objectives for public finances in the form of long-term sustainability and structural budget balance in 2025.

The objectives are supported by multiannual expenditure ceilings, which are set for a continuous four-year forward-looking period for central government, municipalities and regions respectively. The expenditure ceilings are based on a medium-term projection, which implements a precautionary principle, whereby only the impact of reforms and initiatives agreed upon by a majority in the Danish Parliament are incorporated.

The expenditure ceilings are subject to continuous evaluation and monitoring to ensure compliance. Economic sanctions support compliance with the adopted expenditure ceilings, and compliance with approved budgets has strengthened since the introduction of the Budget Law.

With the Budget Law from 2012, a structural budget deficit limit has been adopted. Thus, the structural budget balance, as the key measure in planning and monitoring fiscal policy, has been fixed by law. The balance requirement of the Fiscal Compact is operationalized by the Budget Law. The annual structural deficit must not exceed ½ percent of GDP at the time of the budget proposal for a given fiscal year, corresponding to Denmark's national medium-term fiscal target (MTO). Furthermore, the Budget Law introduced binding and multiannual expenditure ceilings for central government, municipalities and regions, respectively, starting from 2014. Key elements of the Danish Budget Law are described in box 6.1

The overall framework allows for the possibility to deviate from the regular framework surrounding fiscal and expenditure policy in extraordinary situations. Thus, there has been a significant degree of flexibility within the institutional framework for handling the COVID-19 pandemic, *cf. section 6.2.*

Box 6.1
Key elements of the Danish Budget Law

- Within the framework of a sustainable fiscal policy, a budget balance requirement is introduced. The annual structural budget balance must not exceed a deficit of ½ percent of GDP at the time of the budget proposal for a given fiscal year, unless extraordinary circumstances are present. Moreover, an automatic correction mechanism is activated in case of significant estimated deviation from the budget balance requirement.

- Expenditure ceilings support compliance with the overall fiscal policy targets. The ceilings set legally binding limits for expenditures in central government, municipalities and regions, respectively. The expenditure ceilings are to be adopted by the Danish Parliament (Folketinget) and cover a continuous forward looking period of 4 years. Improved budget management and economic sanctions support compliance with the expenditure ceilings.

- The Danish Economic Council continually (annually) assesses long-term fiscal sustainability and the medium-term development in the budget balance, and further that the expenditure ceilings are complied with and aligned with the medium-term fiscal objectives.

The key focal points for Danish economic policy – fixed exchange rate policy and stability oriented fiscal policy – are as follows:

Since 1982, Denmark has pursued a *fixed exchange rate policy*, initially against the German/Deutsche Mark (DEM), and since 1999 against the euro (EUR). Due to the fixed exchange rate policy, the Danish monetary policy is solely aimed at maintaining a stable level of the krone vis-à-vis the euro. A responsible and stability-oriented economic policy contributes to a credible fixed exchange rate policy, which supports continued low interest rates.

Fiscal policy is planned in order to ensure that annual structural deficits do not exceed ½ percent of GDP and furthermore that the target of a structural budget balance is achieved in 2025, cf. *DK2025 – A green, fair and responsible recovery of Danish economy* (August 2020). In the current years, the fiscal policy is planned expansively within the framework of the Danish Budget Law to support the recovery of economic activity during the COVID-19 pandemic.

Fiscal policy is planned in order to achieve a long-term sustainable development in public finances (i.e. the so-called sustainability indicator HBI must always be at least zero). As stated in the Budget Law, fiscal policy is subject to a precautionary principle, which implies that planned development of public spending can rely only on reforms and initiatives backed by a majority in the Danish Parliament.

The expenditure policy supports compliance with the fiscal policy objectives through expenditure ceilings for central government, municipalities and regions that normally cover approximately ¾ of total public expenditures. The expenditure ceilings support that public expenditure evolves in accordance with medium-term fiscal objectives and priorities.

The government's *tax policy* is based on the notion that the taxes should not increase for ordinary Danes. Furthermore, the tax policy is based on a number of political agreements. Since the projection in *DK2025* from August 2020, a political *Agreement on a green tax reform* was agreed upon, which entails an increase in duties on businesses' consumption of fossil fuels towards 2025. Furthermore, a number of temporary tax reliefs are granted in the coming years to give businesses a better opportunity to adapt to greener production as well as greater incentives to invest in research and development. In addition, an *Agreement on a new right to early retirement* was agreed upon, which includes an introduction of a specific tax on the financial sector's profits and an ongoing taxation of companies' property profits etc. Furthermore, the *Agreement on stimuli and green recovery* includes a temporary easing of the BoligJob scheme and a temporary possibility of tax-free employer-paid gift cards.

6.2 Flexibility in the institutional framework in the light of COVID-19

The extraordinary situation – with the outbreak of COVID-19 and the shut down of the country in the spring of 2020 – led to an extraordinary and urgent need to implement new measures in expenditure and fiscal policy in order to deal with both the health crisis and the economic setback caused by the pandemic, not only in Denmark, but in large parts of the world.

As a result, significant health initiatives, financial compensation schemes for businesses and temporary easing of fiscal policy were implemented in Denmark to support activity in the Danish economy in the wake of the corona crisis. The situation thus required maneuvering room in expenditure policy, which went significantly beyond the expenditure limits that in normal cyclical fluctuations have been determined in accordance with the Danish Budget Law and the medium-term planning.

However, the overall framework in the Budget Law takes into account that situations may arise where it is necessary to be able to deviate from the general framework for expenditure and fiscal policy.

In relation to the corona crisis, the following elements of the Budget Law have been central with regard to the possibility of having increased flexibility in the planning of expenditure and fiscal policy:

- *Possibility of deviating from the Budget Law's lower bound for the structural budget deficit during exceptional circumstances (§ 2 stk.5-6 in the Budget Law)*

- *Possibility to define the specific rules for the composition of expenditure ceilings (§ 12 of the Budget Law)*

Exceptional circumstances can generally be interpreted as cases of an isolated and relatively rare nature, i.a. severe economic downturn in the EU countries or exceptional conditions such as the corona pandemic. Flexibility in the light of exceptional circumstances is important, among other things, in ensuring that fiscal policy can reduce the negative – and in the worst case long-term – consequences that severe economic downturns or exceptional events can have for both citizens and businesses.

In the context of the corona crisis, the flexibility in relation to the Danish Budget Law has thus been reflected in the fact that there has been an opportunity to implement discretionary fiscal easing beyond the Budget Law limit in light of a significant setback with negative GDP growth in 2020. In addition, there is flexibility due to the fact that a number of expenses directly related to the containment and mitigation of COVID-19 under the Budget Law method is assessed to be of a non-recurring nature (one-offs), and thus neutral in the calculation of the structural budget balance. In the following, the flexibility within the framework of the Budget Law during the corona crisis is explained in more detail.

Activation of the EU general escape clause and possibility to deviate from the deficit limit of the Budget Law

In 2020, the outbreak of COVID-19 led to an extraordinary situation which, in addition to the health crisis, gave rise to a serious economic setback in both Denmark and the EU.

With reference to the outbreak of COVID-19, the European Commission activated the so-called “general escape clause” in March 2020, citing that the EU was hit by a severe economic setback. The general escape clause refers to the flexibility in the EU's common fiscal rules in the Stability and Growth Pact, which generally means that serious economic setbacks in the EU or the euro area can be taken into account in assessing EU countries' fiscal policies. EU’s Finance Ministers shared the Commission's assessment and supported using the flexibility in the Stability and Growth Pact.

In line with this, it was the Danish Government's assessment that the COVID-19 crisis in 2020 constituted an extraordinary circumstance under the Budget Law, thus giving flexibility to deviate from the Budget Law's deficit limit in 2020.

In light of the setback and the need for handling COVID-19, a temporary easing of the discretionary fiscal policy in the coming years was planned with *DK2025 - A green, fair and responsible recovery of Danish economy* (August 2020), which goes beyond the stabilization potential from the automatic fiscal stabilizers, which are significant in Denmark.

Expenditure and fiscal policy were thus eased all the way to the Budget Law's deficit limit for the structural budget balance of -0.5 percent of GDP in 2021. The expansion of fiscal policy – together with new initiatives financed by the EU Recovery and Resilience Facility – contributes to a significant fiscal policy effort assessed to be aligned with the economic situation in Denmark. For the years following 2021, a more lenient fiscal policy is also planned compared to before the corona crisis, but with a gradually decreasing structural deficit and with the maintained objective of structural budget balance in 2025.

In September 2020, the European Commission announced that the general escape clause will also be activated in 2021. In practice, this means that the EU's fiscal policy rules will de facto be suspended in 2021. In relation to the Danish Budget Law, it is the Danish government's starting point, that the framework for fiscal policy in 2021 in Denmark must be assessed based on the specific prospects for the Danish economy. With the current estimates, there is no prospect of an expected annual decline in GDP in 2021 or an output and employment gap that is extraordinarily large. In that light, fiscal policy for Denmark in 2021 is planned within the normal framework of the Budget Law. Among other things, this must be seen in connection with the fact that the Danish economy is currently doing better than the euro area as a whole, and that an expansive fiscal policy has been planned with a structural budget deficit of -0.5 percent of GDP in 2021.

In the context of the COVID-19 crisis, it has thus been possible to plan a significant and expansive fiscal policy – which includes both large business aid packages and stimulus measures – in order to support the economy in the best possible way. In addition, COVID-19 measures of non-recurring nature (one-off measures) do not affect the structural budget balance according to the Danish calculation under the Budget Law.

Exemption of extraordinary COVID-19 expenses from the expenditure ceilings

In the context of the COVID-19 crisis, a large number of expenditure measures have been implemented in response to the direct health crisis and the derived consequences for the economy etc.

A large part of the additional expenses relates to extraordinary government efforts (e.g. the purchase of protective equipment, infection detection and testing, vaccine purchases, etc.) as well as compensation schemes etc. to businesses, which is in normally covered by the expenditure ceilings and thus under normal circumstances will have to be incurred within the existing expenditure ceilings for state, municipalities and regions.

In order to support the flexibility needed to deal with the COVID-19 crisis, executive orders have been issued for both 2020 and 2021, which exempt COVID-19 related additional expenses from the expenditure ceilings in the state, municipalities and regions. The executive orders have been issued in accordance with § 12 of the Budget Law, which authorizes the Minister of Finance to lay down detailed rules on the composition of the state, municipal and regional expenditure ceilings.

In both 2020 and 2021, a number of COVID-19 related additional expenses will thus be treated separately outside the expenditure ceilings. COVID-19 expenditures that are exempt from the expenditure ceilings are thus not included as part of the current state expenditure control in accordance with § 13-17 of the Budget Law. The state expenditure controls continue to be carried out for expenditure that is part of the (ordinary) organization of expenditure policy within the framework of the expenditure ceilings.

Annex tables according to EU's Code of Conduct

Table 1a

Macroeconomic prospects

	2020	2020	2021	2022	2023	2024	2025
	Bn. DKK	Rate of change, per cent					
Real GDP	2,095[1)]	-2.7	2.1	3.8	2.3	1.3	1.3
Nominal GDP	2,324	-0.5	2.7	4.6	3.7	3.0	3.0
Components of real GDP							
Private consumption	963	-1.9	2.4	4.4	2.4	2.3	2.2
Public consumption[1)]	527	-0.1	3.2	0.1	1.2	0.9	1.1
Gross fixed capital formation	471	2.1	1.3	4.0	4.2	2.4	2.1
Changes in inventories[2)]		-0.2	-0.0	-0.0	0.0	-0.0	-0.0
Exports of goods and services	1,176	-7.7	4.2	6.7	2.6	2.2	1.7
Imports of goods and services	1,060	-4.8	4.8	5.8	3.2	3.4	2.8
Contributions to real GDP growth		Percentage points					
Final domestic demand		-0.5	2.2	2.9	2.4	1.8	1.8
Changes in inventories		-0.2	-0.0	-0.0	0.0	-0.0	-0.0
External balance of goods and services		-2.1	-0.0	0.8	-0.1	-0.5	-0.5

1) Public consumption in table 1a is calculated incl. depreciation. Public consumption growth in 2020 is calculated using the output method. Calculated using the input method incl. depreciation, public consumption growth is 0.6 per cent in 2020. The estimated public consumption growth from 2021 and onwards is technically assumed to be the same using the input and output method, respectively.

2) Contribution to GDP growth in percentage points.

Source: Statistics Denmark and own calculations.

Table 1b
Price developments

	2020	2020	2021	2022	2023	2024	2025
	Index	Rate of change, per cent					
GDP-deflator	110.9	2.3	0.6	0.8	1.3	1.7	1.7
Private consumption deflator	110.0	0.3	1.1	1.5	1.7	1.8	2.0
Consumer price index	110.8	0.4	1.1	1.5	2.0	2.0	2.2
HICP-index	109.5	0.3	1.1	1.5	2.0	1.9	2.1
Net price index	110.8	0.3	1.6	2.0	1.7	2.1	2.2
Public consumption deflator	109.3	3.5	0.8	1.1	2.1	2.3	2.5
Investment deflator	111.9	0.8	1.3	0.3	1.1	1.3	1.5
Export price deflator	107.4	0.5	1.4	1.0	0.8	1.2	1.3
Import price deflator	105.0	-1.9	2.5	1.6	1.3	1.4	1.8

Note: For all price indices, 2010=100.
Source: Statistics Denmark and own calculations.

Table 1c
Labour market developments

	2020	2020	2021	2022	2023	2024	2025
		Rate of change, per cent					
Employment (1,000 persons)	2,981	-0.7	0.2	1.2	0.5	0.1	0.3
Employment, hours worked (mill. hours)	4,014	-3.2	0.9	2.9	0.4	0.2	0.3
		Per cent					
Unemployment rate, harmonized EU-definition[1)]		5.8	5.4	5.1	4.9	4.8	4.8
		Rate of change, per cent					
Labour productivity, persons (1,000 DKK)[2)]	605	-2.3	1.6	2.5	1.3	1.2	1.1
Labour productivity, hours worked (DKK)[2)]	449	0.3	1.0	0.8	1.4	1.1	1.1
Compensation of employees (bn. DKK)[3)]	1,199	0.8	2.7	3.7	3.2	3.0	3.3
Compensation per employee[4)]	443	1.6	2.4	2.5	2.6	2.9	2.9

1) The number corresponds to the EU-harmonized unemployment in per cent of the labour force. The data is based on Statistics Denmark's Labour Force Survey (AKU).
2) Productivity is calculated using GVA.
3) Based on current prices, i.e. growth rates are in nominal terms.
4) Calculated as compensation per employed wage earner.
Source: Statistics Denmark and own calculations.

Table 1d
Sectoral balances

	2020	2021	2022	2023	2024	2025
			Per cent of GDP			
Net lending vis-á-vis the rest of the world	7.8	7,0	7.3	6.8	6.3	5.5
Of which:						
- Balance of goods and services	6.5	5.8	6.1	5.6	4.9	4.1
- Balance of primary income and transfers	1.3	1.2	1.2	1.2	1.5	1.4
- Capital account	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0
Net lending of the private sector	9.0	10.3	8.2	7.5	7.0	5.5
Net lending of the general government	-1.1	-3.3	-0.9	-0.7	-0.6	-0.0
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0

Source: Statistics Denmark and own calculations.

Table 2a
General government budgetary prospects

	2020	2020	2021	2022	2023	2024	2025
	Bn. DKK	Per cent of GDP					
Net lending by sub-sector							
General government	-26.7	-1.1	-3.3	-0.9	-0.7	-0.6	0.0
Central government	-29.3	-1.3	-3.3	-0.9	-0.7	-0.6	0.0
Local government	2.4	0.1	0.0	0.0	0.0	0.0	0.0
Social security funds	0.2	0.0	0.0	0.0	0.0	0.0	0.0
General government							
Total revenue	1,202	51.7	49.8	49.0	48.7	48.5	49.0
Total expenditures	1,229	52.9	53.0	49.9	49.4	49.1	49.0
Net lending	-26.7	-1.1	-3.3	-0.9	-0.7	-0.6	0.0
Interest expenditure	11.9	0.5	0.7	0.5	0.7	0.6	0.6
Primary balance[1)]	-14.8	-0.6	-2.6	-0.4	0.0	0.0	0.6
One-off[2)]	-18.8	-0.8	-2.4	-0.7	-0.6	-0.6	0.0
Selected components of revenue							
Total taxes[3)]	1,090	46.9	44.6	44.0	43.6	43.4	43.9
Taxes on production and imports	367	15.8	15.8	15.5	15.5	15.3	15.3
Current taxes on income and wealth etc.	714	30.7	28.5	28.3	27.8	27.8	28.4
Capital taxes	6.7	0.3	0.2	0.2	0.2	0.2	0.2
Social contributions[4)]	1.4	0.1	0.0	0.0	0.0	0.0	0.0
Property income[5)]	21.3	0.9	1.0	1.0	1.0	0.9	0.8
Other (residual)[6)]	91.3	3.9	4.1	4.1	4.1	4.1	4.2
Total revenue	1,203	51.7	49.8	49.0	48.7	48.5	49.0
p.m.: Tax burden[7)]	1,093	47.0	44.8	44.1	43.7	43.5	44.1

Table 2a (continued)
General government budgetary prospects

	2020	2020	2021	2022	2023	2024	2025
	Bn. DKK	Per cent of GDP					
Selected components of expenditure							
Compensation of employees and intermediate consumption	566	24.4	24.6	23.8	23.6	23.7	23.8
- Compensation of employees	357	15.4	15.2	14.9	14.8	14.8	14.9
- Intermediate consumption	209	9.0	9.4	8.9	8.9	8.9	8.9
Social payments	418	18.0	17.8	17.2	17.0	17.1	17.2
- Social transfers in kind[6)]	32.3	1.4	1.4	1.4	1.3	1.3	1.3
- Other than in kind	392	16.9	16.6	16.1	16.0	16.0	16.0
Interest expenditure	11.9	0.5	0.7	0.5	0.7	0.6	0.6
Subsidies	68.7	3.0	2.9	1.6	1.5	1.4	1.4
Gross fixed capital formation	80.1	3.4	3.6	3.6	3.7	3.5	3.4
Capital transfers	29.4	1.3	1.2	1.1	0.5	0.5	0.4
Other (residual)[6)]	49.2	2.1	2.0	1.9	2.0	2.0	2.0
Total expenditure	1,229	52.9	53.0	49.9	49.4	49.1	49.0
p.m.: Public consumption	576	24.8	25.1	24.3	24.2	24.2	24.4

1) Defined as the EDP-definition of net lending plus the EDP-definition of interest expenditures.
2) One-offs are based on the calculation of the structural balance and includes, among others, temporary fluctuations in the revenues from the pension yield tax, The North Sea, net interest rates, corporate taxes, other special items, and decided one-off measures.
3) Defined as the sum of taxes on production and imports, current taxes on income, wealth etc. and capital taxes. Does not include compulsary social contributions, which are traditionally included in the tax burden.
4) Does not include voluntary and imputed social contributions, since these are not included in the tax burden.
5) Includes interest income and dividends and land rent etc.
6) Statistics Denmark does not publish figures for all the subgroups (P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91), D.6311, D.63121, D.63131, D.29+D.4 (other than D.41)+D.5+D.7+D.9+P.52+P.53+K.2+D.8), and no estimates are available for these components in the projections.
7) Defined as the sum of taxes on production and imports (incl. those collected by the EU), current taxes on income, wealth etc. and capital taxes and mandatory social contributions.

Source: Statistics Denmark and own calculations.

Table 2b
No-policy change projections

	2020	2020	2021	2022	2023	2024	2025
	Bn. DKK	Per cent of GDP					
Total revenue at unchanged policies	1,203	51.7	49.6	48.9	48.5	48.5	49.0
Total expenditure at unchanged policies	1,229	52.9	52.8	51.2	51.1	51.3	51.6

Source: Statistics Denmark and own calculations.

Table 2c
Amounts to be excluded from the expenditure benchmark

	2020	2020	2021	2022	2023	2024	2025
	Bn. DKK	Per cent of GDP					
Expenditure on EU programmes fully matched by EU funds revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- *Of which:* Investments fully counter-balanced by revenue from EU funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cyclical unemployment benefit expenditure	25.0	1.1	0.9	0.9	0.8	0.7	0.7
Effect of discretionary revenue measures	-5.3	-0.2	0.2	0.0	0.0	-0.3	0.0
Revenue increases mandated by law	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: The cyclical unemployment benefit expenditure consists of the cost of unemployment benefits and social assistance for unemployment (both excluded the cost of people in activations programmes).
Source: Statistics Denmark and own calculations.

Table 3
General government expenditure by function

	COFOG	2019	2024
		Per cent of GDP	
General public services	1	6.0	-
Defence	2	1.1	-
Public order and safety	3	1.0	-
Economic affairs	4	3.1	-
Environmental protection	5	0.4	-
Housing and community amenities	6	0.2	-
Health	7	8.2	-
Recreation, culture and religion	8	1.6	-
Education	9	6.3	-
Social protection	10	21.4	-
Total expenditure[1)]	TE	48.2	49.1

Note: Short-term and longer-term projections do not include general government expenditures by function. The focus of both short-term and longer-term projections is public expenditures by type of transaction.

1) The estimate for the total expenditure-to-GDP ratio in Statistics Denmark's calculations deviates from the estimate in table 2a due to definitional differences in the approach of calculation (table 2a includes depreciation in public consumption, which is not the case in Statistics Denmark's approach).

Source: Statistics Denmark and own calculations.

Table 4
General government debt developments

	2020	2021	2022	2023	2024	2025
			Per cent of GDP			
Gross debt	42.2	40.7	41.3	41.6	41.3	39.7
Change in gross debt ratio[1)]	8.9	-1.5	0.5	0.3	-0.3	-1.7
Change in gross debt[2)]	8.7	-0.4	2.3	1.8	1.0	-0.5
Contributions to change in gross debt						
Primary balance[3)]	-0.6	-2.6	-0.4	0.0	0.0	0.6
Interest expenditure[4)]	0.5	0.7	0.5	0.7	0.6	0.6
Stock-flow adjustment[5)]	8.9	1.5	2.1	1.1	0.3	-1.8
p.m. Implicit interest rate on debt[6)]	1.5	1.6	1.4	1.7	1.6	1.6
Other relevant variables						
Central government account in Danmarks Nationalbank	5.8	2.4	0.2	1.0	2.0	4.0
Public net debt[7)]	-11.0	-7.4	-6.2	-5.1	-4.2	-4.1
Net debt in central and local governments[7)]	-10.9	-7.4	-6.2	-5.1	-4.2	-4.0

1) Change in gross debt ratio is defined as Gt/BNPt – Gt-1/BNPt-1, where G is public debt measured in nominal terms (DKK).
2) Change in gross debt is defined as Gt/BNPt – Gt-1/BNPt, where G is public debt measured in nominal terms (DKK).
3) As defined in table 2a.
4) As defined in table 2a.
5) At present, information is not available to split stock-flow adjustment into subgroups.
6) Proxied by interest expenditures divided by the debt level of the previous year.
7) In the estimate of the public net debt and the net debt in central and local governments, the central government's deposit in Danmarks Nationalbank together with the central government's additional assets are subtracted.

Source: Statistics Denmark and own calculations.

Table 5
Cyclical developments

	2020	2021	2022	2023	2024	2025
			Per cent			
Real GDP growth	-2.7	2.1	3.8	2.3	1.3	1.3
			Per cent of GDP			
Net lending of general government	-1.1	-3.3	-0.9	-0.7	-0.6	0.0
Interest expenditure[1)]	0.5	0.7	0.5	0.7	0.6	0.6
One-off	-0.8	-2.4	-0.7	-0.6	-0.6	0.0
- Of which revenue	2.1	0.1	-0.3	-0.6	-0.5	0.0
- Of which expenditure	-2.9	-2.5	-0.5	0.0	0.0	0.0
			Per cent			
Potential GDP growth[2)]	0.6	1.4	2.2	1.8	1.3	1.4
			Percentage points			
Of which, contributions from:						
- Labour	0.2	0.2	0.5	0.4	0.1	0.2
- Capital	0.7	0.7	0.7	0.8	0.8	0.8
- Total factor productivity	-0.3	0.6	1.0	0.7	0.4	0.4
			Per cent of GDP			
Output gap	-1.8	-0.8	0.2	0.0	0.0	0.0
Cyclical component[3)]	-0.7	-0.4	0.1	0.0	0.0	0.0
Structural budget balance[4)]	0.3	-0.5	-0.3	-0.1	-0.1	0.0
Primary structural balance[4)]	0.0	-0.8	-0.5	-0.4	-0.3	-0.1

1) As defined in table 2a.
2) Including a contribution from indirect taxes (in real terms).
3) The calculation of the cyclical component is based on the output and employment gap.
4) The structural budget balance is not calculated on EDP-basis. The calculations of structural budget balance are based on public finances according to national account principles. The primary structural budget balance is based on an actual primary balance defined via net interest expenditures and not gross interest expenditures.

Source: Statistics Denmark and own calculations.

Table 6
Divergence from previous update

	2020	2021	2022	2023	2024	2025
			Change, per cent			
Real GDP growth						
Previous update	-4.5	4.2	2.9	2.3	2.1	1.3
Current update	-2.7	2.1	3.8	2.3	1.3	1.3
Difference	1.7	-2.1	0.8	0.0	-0.8	-0.1
			Per cent of GDP			
Output gap (per cent of GVA)						
Previous update	-3.1	-1.1	-0.6	-0.3	0.0	0.0
Current update	-1.8	-0.8	0.2	0.0	0.0	0.0
Difference	1.2	0.3	0.8	0.3	0.0	0.0
General government net lending						
Previous update	-3.9	-2.4	-2.1	-1.4	-0.9	0.0
Current update	-1.1	-3.3	-0.9	-0.7	-0.6	0.0
Difference	2.8	-0.9	1.3	0.7	0.2	0.0
General government gross debt						
Previous update	46.3	41.9	44.5	45.4	45.7	44.6
Current update	42.2	40.7	41.3	41.6	41.3	39.7
Difference	-4.1	-1.2	-3.3	-3.9	-4.4	-5.0

Source: Own calculations.

Table 7
Long-term sustainability of public finances

	2007	2010	2020	2030	2040	2050	2060
				Per cent of GDP			
Total expenditure	**48.9**	**55.5**	**52.9**	**49.7**	**51.7**	**51.5**	**49.6**
Of which:							
Age-related expenditures	26.5	30.0	28.5	28.0	28.7	27.8	26.4
Pension expenditure	9.1	10.0	9.7	9.5	9.2	8.3	7.3
- Old-age and early pensions	7.1	7.8	7.8	7.4	7.0	6.1	5.0
- Early retirement	2.0	2.2	1.9	2.0	2.1	2.1	2.2
- New early pension	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Occupational pensions	-	-	-	-	-	-	-
Health care[1)]	5.6	6.3	6.1	6.1	6.4	6.3	6.1
Long-term care[1)]	2.7	3.0	2.7	3.2	3.7	4.0	4.2
Education expenditure	4.8	5.5	5.3	4.8	5.0	5.0	4.8
Other age-related expenditures	4.4	5.2	4.7	4.6	4.5	4.3	4.1
Interest expenditure	1.6	1.9	0.5	0.8	1.6	2.5	2.4
Total revenue	**53.9**	**52.8**	**51.7**	**49.2**	**50.3**	**50.6**	**49.9**
Of which:							
- Property income[2)]	2.4	2.4	0.9	0.9	1.2	1.6	1.6
- Revenue from net pension pay-outs	-1.3	-0.9	-0.5	-0.2	0.2	0.3	0.2
Pension reserve fund assets	124.2	139.3	193.2	185.6	195.4	195.5	196.2
Of which:							
Assets other than government liabilities	0.1	0.0	0.1	0.0	-0.1	-0.3	-0.4

Table 7 (continued)
Long-term sustainability of public finances

	2007	2010	2020	2030	2040	2050	2060
				Per cent			
Assumptions							
Labour productivity growth	-1.7	4.3	-2.3	1.2	0.8	1.0	1.0
Real GDP growth[3)]	0.9	1.9	-2.7	1.5	1.4	1.7	1.4
Participation rate, males (aged 20-64)	82.9	80.1	81.7	81.5	82.1	82.3	82.6
Participation rate, females (aged 20-64)	73.9	72.6	74.5	74.9	75.5	76.1	76.2
Total participation rate (aged 20-64)	78.4	76.4	78.1	78.2	78.8	79.2	79.4
Unemployment rate (national definition)[4)]	3.5	5.8	4.4	3.6	3.6	3.6	3.6
Structural unemployment (national definition)[4)]	4.8	4.6	4.1	3.6	3.6	3.6	3.6
Population aged 65+ (1,000 persons)	843	917	1,165	1,383	1,548	1,549	1,596

1) The cost of nursing homes is included in long-term care.
2) Includes public revenues from interest income and dividends.
3) In some years after 2025, GDP growth is affected by the regulation of early- and old-age reitrement ages in line with longetivity.
4) Gross unemployment, per cent of the labour force.

Source: Statistics Denmark and own calculations.

Table 7a
Contingent liabilities

	2020	2021
	Per cent of GDP	
Public guarantees	**25.9**	**-**
Of which new national guarantees related to COVID-19 in total	3.6	-
- of which loan to small, medium-sized and large businesses	*2.0*	-
- of which The Travel Guarantee Fund	*0.1*	-
- of which guarantee for Scandinavian Airlines	*0.0*	-
- of which match financing related to Vaekstfonden	*0.2*	-
- of which guarantees for businesses' trade and export	*1.3*	-

Note: Does not include deposit guarantees. Public guarantees consist of state renunciation, guarantees concerning loans and other guarantees.

Source: Government accounts for 2020.

Table 8
Basic assumptions

	2020	2021	2022	2023	2024	2025
Short-term interest rate (annual average)	-0.2	-0.2	-0.2	-0.2	-0.1	0.1
Long-term interest rate (annual average)	-0.4	-0.1	0.1	0.3	0.6	0.8
Exchange rate EUR/USD (annual average)	113.9	120.2	118.3	118.4	118.5	119.0
Nominal effective exchange rate (1980=100)	102.9	104.5	104.2	104.2	104.2	104.2
World excluding EU, GDP growth[1)]	-3.1	6.2	4.5	3.6	3.5	3.4
EU, GDP growth	-6.1	3.5	3.2	2.3	1.9	1.6
Growth of relevant foreign markets[2)]	-6.5	5.0	4.3	3.7	3.3	3.1
World import volumes, excl. EU[1)]	-8.9	9.2	6.7	4.1	3.8	3.6
Oil price (Brent, USD/barrel)	41.8	62.3	62.7	63.6	64.8	66.2

1) Based on IMF's World Economic Outlook, April 2021.
2) Calculated as the weighted average of the import growth of Denmark's 36 most important trade partners. The weights reflect the countries' share of Danish industry exports in 2020.

Source: Statistics Denmark, European Economic Forecast. Autumn 2020, IMFs World Economic Outlook April 2021, OECD's Economic Outlook, October 2020, Macrobond, Nordea Markets and own calculations.

Table 9a
RRF impact on program

	2021	2022	2023	2024	2025
	Per cent of GDP				
Revenue from RRF grants					
1. RRF grants as included in the revenue projections	0.2	0.2	0.1	0.1	0.0
2. Cash disbursements of RRF grants from EU	0.2	0.2	0.1	0.1	0.0
Expenditure financed by RRF grants					
3. Total current expenditure	0.1	0.0	0.0	0.0	0.0
4. Total capital expenditure	0.0	0.0	0.0	0.0	0.0
- Gross fixed capital formation	0.0	0.0	0.0	0.0	0.0
- Capital transfers	0.0	0.0	0.0	0.0	0.0
Other costs financed by RRF grants					
5. Reduction in tax revenue	0.0	0.1	0.0	0.0	0.0
6. Other costs with impact on revenue	0.0	0.0	0.0	0.0	0.0
7. Financial transactions	0.0	0.0	0.0	0.0	0.0

Source: Own calculations.

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