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REPORT FROM THE COMMISSION

Denmark

Report prepared in accordance with Article 126(3) of the Treaty

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1. INTRODUCTION

Article 126 of the Treaty on the Functioning of the European Union (TFEU) lays down the excessive deficit procedure (EDP). This procedure is further specified in Council Regulation (EC) No 1467/97 "*on speeding up and clarifying the implementation of the excessive deficit procedure*"[1], which is part of the Stability and Growth Pact (SGP).

According to Article 126(2) TFEU, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the ratio of the planned or actual government deficit to gross domestic product (GDP) exceeds the reference value of 3% (unless either the ratio has declined substantially and continuously and reached a level that comes close to the reference value; or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value); and (b) whether the ratio of government debt to GDP exceeds the reference value of 60% (unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace).

Article 126(3) TFEU stipulates that, if a Member State does not fulfil the requirements under one or both of the above criteria, the Commission has to prepare a report. This report also has to "*take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State*".

This report, which represents the first step in the EDP, analyses the question of Denmark's compliance with the deficit criterion of the Treaty, with due regard to the economic background and other relevant factors.

Data notified by the Danish statistical authorities on 13 October 2015[2] and subsequently validated by Eurostat[3] show that the general government budget balance in Denmark reached a surplus of 1.5% of GDP in 2014, while the general government gross debt stood at 45.1% of GDP. According to the notification by the Danish authorities, the budget balance is planned to reach a deficit of 3.3% of GDP in 2015, thus exceeding the 3%-of-GDP reference value in the Treaty, while the debt-to-GDP ratio is planned to decline to 39.8%, below the 60%-of-GDP reference value in the Treaty (see Table 1). The draft budget bill from the Danish government, published on 29 September 2015, estimates a deficit of 3.0% of GDP in

[1] OJ L 209, 2.8.1997, p. 6. The report also takes into account the "Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council of 3 September 2012, available at: http://ec.europa.eu/economy_finance/economic_governance/sgp/legal_texts/index_en.htm .

[2] According to Council Regulation (EC) No 479/2009, Member States have to report to the Commission, twice a year, their planned and actual government deficit and debt levels. The most recent notification of Denmark can be found at: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit/edp_notification_tables.

[3] Eurostat news release No 186/2015 of 21 October 2015.

2015. According to the draft budget, the deficit is expected to decline to 2.8% of GDP in 2016, while the debt-to-GDP ratio is expected at 38.9% in 2016.

This is confirmed by the Commission 2015 autumn forecast which projects the general government deficit at 3.3% of GDP in 2015 and 2.5% of GDP in 2016, and general government gross debt at 39.3% of GDP in 2016.

Table 1. General government deficit or/and gross debt (% of GDP)

		2012	2013	2014	2015		2016	2017
				COM	COM	October 2015 EDP notification	COM	COM
Deficit criterion	General government balance	-3.6	-1.3	1.5	-3.3	-3.3	-2.5	-1.7
Debt criterion	General government gross debt	45.6	45.0	45.1	40.2	39.8	39.3	38.3
	Change in structural balance	0.0	-0.2	0.6	-2.3	n.a.	-1.4	-1.0
	Required MLSA	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.

Source: Commission services, and Commission 2016 autumn forecast, Excessive Deficit Procedure (EDP) notification for Denmark, October 2015

The planned figure for the 2015 deficit in the EDP notification by the Danish authorities provides *prima facie* evidence on the existence of an excessive deficit in Denmark in the sense of the Treaty and the SGP, before however considering all factors as set out below.

The Commission has therefore prepared the following report to comprehensively assess the excess of the deficit over 3% of GDP, in order to examine whether the reference value in the Treaty is complied with after all relevant factors have been considered. Section 2 of the report examines the deficit criterion. Section 3 examines the debt developments. Section 4 deals with relevant factors. The report takes into account the Commission 2015 autumn forecast released on 5 November 2015.

2. DEFICIT CRITERION

In 2015, according to the data notified by the Danish statistical authorities to Eurostat, the general government deficit is planned to reach 3.3% of GDP, against a surplus of 1.5% of GDP in 2014. The latest offical forecast from the Danish government, in the draft budget bill, points to a deficit of 3.0% of GDP in 2015. While in excess of 3% of GDP, the planned deficit in 2015, according to the October 2015 EDP notification, is expected to remain close to the Treaty reference value.

The estimated excess over the 3%-of-GDP reference value in the Treaty can be considered exceptional. In particular, It results from an unusual event outside the control of the government in the sense of the SGP, notably being due to extraordinary losses related to technical errors in an automatic tax collection system, EFI (*Et Fælles Inddrivelsessystem*), which has resulted in an extraordinary depreciation of arrears in the period 2013-2015. On 7 September 2015, the Danish tax authorities decided to suspend the automatic collection of tax arrears, due to legal concerns raised by the government's legal advisor (*Kammeradvokaten*). The government's legal advisor points out that the technical errors in the EFI-system not only have let tax arrears expire, but have in some cases also led to collection of arrears, where they had in fact already expired. The losses related to these errors, which were not foreseen by the

Danish government, amount to an estimated 5 bn DKK in each of the three years (0.3% of GDP). As no official estimate of the losses was known at the time of publication of the draft fiscal bill on 29 September 2015, these losses have not been included in the latest forecast from the Danish government. The difference of 0.3% of GDP between the government's September estimate of the general government deficit in 2015 and the October 2015 EDP notification is therefore fully explained by this issue.

In sum, the planned general government deficit is close to the 3% of GDP and the expected excess over the reference value is exceptional and temporary in the sense of the Treaty and the SGP. In particular, the budgetary projections as provided by the Commission 2015 autumn forecast indicate that the deficit will fall below the reference value in the Treaty in 2016. The deficit is still expected to remain below the reference value in 2017. This analysis suggests that, after consideration of the above factors, the deficit criterion in the Treaty should be considered as currently complied with.

3. DEBT DEVELOPMENTS

The general government gross debt has generally been on a downward path over the last 20 years. However, the debt-to-GDP ratio increased significantly during the financial crisis, from a level of 27.3% in 2007 to 46.4% in 2011. Since 2011, the debt-to-GDP ratio has continued decreasing moderately, reaching 45.1% by the end of 2014 (-1.3%. of GDP compared to 2011). The main drivers for the decrease in this period were stock-flow adjustments and the positive primary budget balance in 2014 (see Table 2).

The general government gross debt is expected to decline sharply, by around 5% of GDP, in 2015. The decline should be viewed in light of the temporary suspension of issuance of Danish government bonds as from the end of January 2015 until the beginning of October 2015. This extraordinary fiscal policy measure was taken in order to alleviate the appreciation pressure on the Danish krone, which arose in the beginning of the year, following the Swiss national bank's decision in mid-January 2015 to abandon its currency cap vis-à-vis the euro. The central government's account at the Danish National Bank has been used to cover the financing requirement in 2015.

Table 2: Debt dynamics

	2012	2013	2014	2015		2016	2017
	COM	COM	COM	COM	October 2015 EDP notification	COM	COM
Government gross debt ratio	45.6	45.0	45.1	40.2	39.8	39.3	38.3
Change in debt ratio [b] (1 = 2+3+4)	-0.8	-0.5	0.1	-5.0	n.a.	-0.9	-1.0
Contributions:							
• Primary balance (2)	1.8	-0.5	-3.1	1.8	n.a.	1.2	0.5
• "Snowball" effect (3)	1.0	1.3	0.7	0.2	n.a.	-0.1	-0.1
of which:							
Interest expenditure	*1.8*	*1.7*	*1.5*	*1.5*	n.a.	*1.2*	*1.2*
Real GDP growth	*0.3*	*0.2*	*-0.5*	*-0.7*	n.a.	*-0.8*	*-0.7*
Inflation (GDP deflator)	*-1.1*	*-0.7*	*-0.3*	*-0.6*	n.a.	*-0.6*	*-0.6*
• Stock-flow adjustment (4)	-3.6	-1.3	2.4	-6.9	n.a.	-2.0	-1.4
of which:							
Cash/accruals difference							
Net accumulation of financial as.							
Valuation effect & residual							

Notes:

[a] In percent of GDP.

[b] The change in the gross debt ratio can be decomposed as follows:

$$\frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}} = \frac{PD_t}{Y_t} + \left(\frac{D_{t-1}}{Y_{t-1}} * \frac{i_t - y_t}{1 + y_t}\right) + \frac{SF_t}{Y_t}$$

where t is a time subscript; D, PD, Y and SF are the stock of government debt, the primary deficit, nominal GDP and the stock-flow adjustment respectively, and i and y represent the average cost of debt and nominal GDP growth. The term in parentheses represents the "snow-ball" effect, measuring the combined effect of interest expenditure and economic growth on the debt ratio.

Source : *Eurostat and Commission 2015 autumn forecast, Excessive Deficit Procedure (EDP) notification for Denmark, October 2015*

4. RELEVANT FACTORS

Article 126(3) TFEU establishes that the Commission report "*shall also take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State*". These factors are further clarified in Article 2(3) of Council Regulation (EC) No 1467/97, which also specifies that "*any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with the deficit and debt criteria and which the Member State has put forward to the Council and to the Commission*" need to be given due consideration.

As the debt-to-GDP ratio is below the Treaty reference value, the relevant factors shall be taken into account in all the steps leading to a decision on the existence of an excessive deficit even if the excess over the 3%-of-GDP reference value is neither close nor temporary (as per Article 2(4) of Council Regulation (EC) No 1467/97).

In view of the above provisions, the following subsections consider in turn (1) the medium-term economic position; (2) the medium-term budgetary position (including public investment); (3) the developments in the medium-term government debt position, its dynamics and sustainability; (4) other factors put forward by the Member State; and (5) other factors considered relevant by the Commission.

4.1. Medium-term economic position

Cyclical conditions and potential growth

The Danish economy has experienced a rather slow recovery from the global economic recession in 2008-2009. GDP dropped sharply during the crisis, by 7.4% from the 4th quarter of 2007 to the 2nd quarter of 2009. The downturn was exercabated by an overheating of the economy in the years leading up to the crisis, with the bursting of a housing bubble leading to consolidation efforts among Danish households and subdued domestic demand. The legacy of the crisis has dragged out the recovery of the Danish economy, and GDP was still 3% below pre-crisis levels in the 2nd quarter of 2015. According to the Commission 2015 autumn forecast, the recovery of the Danish economy has gathered speed lately and GDP growth is expected to pick-up from 1.1% in 2014 to 1.6% in 2015 and 2.0% in 2016.

The potential GDP growth rate is also estimated to be picking-up in the years 2014-2017 after having reached a trough of 0.3% in 2012-2013. In 2015, the potential growth rate is estimated at 0.7% and is expected to increase to 1.1% by 2017, driven by positive contributions from labour and increased, but still low, contributions from capital accumulation and total factor productivity. Despite the expected pick-up over the forecast horizon, the potential growth rate remains at a low level from a historical perspective. The historical average of the potential GDP growth rate (since 1966) is 2.0%, but the growth rate has been on a downward path over the whole period. The output gap is estimated at -2.8% of real potential GDP in 2015. As real GDP growth is expected to be higher than potential over the forecast horizon, the output gap is set to narrow to -1.2% of real potential GDP by 2017.

Table 3: Macroeconomic and budgetary developments[a]

	2012	2013	2014	2015		2016	2017
	COM	COM	COM	COM	October 2015 EDP notification	COM	COM
Real GDP (% change)	-0.7	-0.5	1.1	1.6	n.a.	2.0	1.8
GDP deflator (% change)	2.5	1.5	0.8	1.4	n.a.	1.5	1.6
Potential GDP (% change)	0.3	0.3	0.5	0.7	n.a.	1.0	1.1
Output gap (% of potential GDP)	-3.4	-4.2	-3.6	-2.8	n.a.	-1.9	-1.2
General government gross debt	45.6	45.0	45.1	40.2	39.8	39.3	38.3
General government balance	-3.6	-1.3	1.5	-3.3	-3.3	-2.5	-1.7
Primary balance	-1.8	0.5	3.1	-1.8	n.a.	-1.2	-0.5
One-off and other temporary measures	-1.5	1.5	3.2	0.8	n.a.	0.1	0.0
Government gross fixed capital formation	3.9	3.7	3.9	3.7	n.a.	3.5	3.4
Cyclically-adjusted balance	-1.5	1.3	3.8	-1.5	n.a.	-1.3	-1.0
Cyclically-adjusted primary balance	0.4	3.1	5.3	0.0	n.a.	-0.1	0.2
Structural balance [b]	0.0	-0.2	0.6	-2.3	n.a.	-1.4	-1.0
Structural primary balance	1.9	1.6	2.1	-0.8	n.a.	-0.1	0.2

Notes:

[a] In percent of GDP unless specified otherwise.

[b] Cyclically-adjusted balance excluding one-off and other temporary measures.

Source: Commission 2015 winter forecast (COM), Excessive Deficit Procedure (EDP) notification for Denmark, October 2015

Recent structural reforms

Denmark does not experience excessive macroeconomic imbalances[4]. In the 2014 In-Depth Review (IDR) for Denmark, made in the context of the Macroeconomic Imbalance Procedure (MIP), the Commission concluded that the risks stemming from losses of export market shares and the high private sector debt seemed more contained than in previous years. The assessment was done in the light of improving competitiveness, adjustment on the housing market and stability of the financial sector.

In the 2015 Country Report, the Commission concluded that Denmark had made some progress in addressing the 2014 country-specific recommendations (CSRs). Substantial progress was made in continuing to pursue a prudent fiscal policy in the medium term and preserving a sound fiscal position. Some progress was made in the area of labour market reforms, with measures taken to improve the employability of people at the margins of the labour market, enhance educational outcomes and their link to the labour market. In particular, significant structural reforms were implemented over the last few years affecting the unemployment benefit system, the subsidised employment system, active labour market policies and education. Limited progress was made to increase competition in the domestically-oriented services sector. In the retail sector, the strict planning law – both with regards to size and location of retail establishments – remains an obstacle to competition. The construction sector is affected by restrictive authorisation and certification schemes.

Following the assessment above, on 13 May 2015, Denmark received two CSRs: to avoid deviating from the medium-term objective (MTO) in 2016 and to enhance productivity, in particular in the domestically-oriented services sector, including in the retail and construction sectors.

4.2. Medium-term budgetary position

Headline, structural balance and adjustment towards the MTO

The general government budget balance has been volatile in recent years. After posting a deficit of 1.3% of GDP in 2013, the budget balance turned into a surplus of 1.5% of GDP in 2014. The budget balance is expected to turn negative again in 2015, with a forecast deficit of 3.3% of GDP. This volatility should be seen in light of a one-off revenue measure regarding a restructuring of taxation of existing capital pension savings. This fiscal policy measure, which took effect in 2013, has raised extraordinary revenues of 1.5% of GDP in 2013 and 3.2% of GDP in 2014. The revenues coming from this measure are expected to be significantly lower in 2015, at 0.8% of GDP. As the measure expires by the end of 2015, no extra revenues are expected after this year.

In addition, according to the Commission 2015 autumn forecast, the general government budget balance in 2015 is expected to be negatively impacted by an expected drop in volatile revenue items, such as revenues from North Sea oil and gas activities and from the pension yield tax. This drop contributes to a temporary increase in the general government deficit.

Based on the relevant vintages of the Commission forecasts, Denmark is found to be in very bad times in 2015. Therefore, also taking into account that the general government gross debt is below 60% of GDP, Denmark is exempted from making any fiscal effort in 2015.

[4] See Commission Communication COM(2015) 85.

In 2015, from a position well above the MTO (set at -0.5% of GDP), the structural balance is forecast to deteriorate to a structural deficit of 2.3% of GDP, pointing to a risk of significant deviation from the MTO (gap of -1.1% of GDP). However, over 2014 and 2015 taken together, there is no deviation on the structural balance pillar. The expenditure benchmark pillar points to a risk of some deviation (gap of -0.3% of GDP) in 2015, while it is compliant (gap of +0.9% of GDP) in 2014 and 2015 taken together. In such situations, the Commission conducts what is known as an overall assessment. Government revenues in Denmark consist of very volatile components, such as revenues from oil and gas exploration in the North Sea and pension yield taxes. This revenue volatility is fully reflected in the development of the structural balance. As the deterioration of the structural balance is related to the volatile revenue items, the expenditure benchmark is arguably a better indicator of the fiscal effort at the current juncture. However, a revenue measure related to capital pension taxation has an impact on the profile of expenditure growth net of discretionary revenue measures (net expenditure growth) in the years 2013-2016. The effects from this measure, which is expected to raise revenues mainly in 2013 and 2014, is phasing out in the years 2015 and 2016. The pick-up of net expenditure growth in 2015 and 2016 can, therefore, be seen as reflecting the significant drop in net expenditure in 2013. However, the Danish authorities did not increase expenditure by the amount that would have been permitted by the additional revenue measure in these years. Filtering this temporary effect out of the calculations, there would be no deviation from the expenditure benchmark. Therefore, the overall assessment points to a risk of some deviation from the MTO in 2015.

In 2016, the structural balance is forecast to improve by 0.9% of GDP, resulting in a positive gap of 0.9% of GDP to the requirement, whereas the expenditure benchmark points to a risk of some deviation (gap of -0.3% of GDP). However, over the years of 2015 and 2016 taken together, the structural balance pillar points to a risk of some deviation (average annual gap of -0.1% of GDP), while the expenditure benchmark pillar points to a risk of significant deviation (average annual gap of -0.3% of GDP). This, again, calls for an overall assessment. As in 2015, the further phasing out of the capital pension measure in 2016 affects the profile of net expenditure growth. If this temporary measure was filtered out, the net expenditure growth in 2016 would not deviate from the benchmark, neither in 2016 nor over 2015 and 2016 taken together. Therefore, the overall assessment points to a risk of some deviation from the MTO in 2015 and 2016 taken together.

There are sizable differences between the Commission's and the Danish government's estimates of the structural balance. These are due to methodological differences and can to a large extent be explained by the treatment of volatile revenue components. In the estimate of the structural balance, the Danish government corrects for temporary fluctuations of revenue items that are, in their view, not closely related to the economic cycle. Examples of such revenue items are revenues from North Sea oil and gas activities and the pension yield tax. The Danish government estimates a structural level for these revenue items, and any deviation from this structural level will not affect the structural balance. According to the updated medium-term projection presented by the government on 29 September 2015, the revenues from these items are expected to be have been 1.0% of GDP above their structural level in 2014, and 1.2% of GDP below their structural level in both 2015 and 2016. Due to the above-mentioned methodological differences, this low level of revenues in 2015-2016 does not affect the Danish government's estimate of the structural balance, while it has a full impact on the Commission forecast This explains the major part of the difference between the Commissions' and the Danish government's estimate of the structural balance in 2015-

2016. In 2015, another source of divergence relates to the fact that the extraordinary depreciation of tax arrears associated with the EFI case has not been classified as a one-off measure by the Commission, while it is considered a one-off by the Danish government.

According to the latest estimates from the Danish government (from 29 September 2015), the structural balance is estimated at -0.9% of GDP in both 2014 and 2015. In both years, the estimated structural balances were within the -0.5% limit of the national Budget Law at the time of publication of the draft budget, but have later been revised downwards. The revisions do not reflect new fiscal policy measures, as the Budget Law prohibits the government to introduce new policy measures after the publication of the draft budget that leads to a breach of the -0.5% of GDP limit. The structural balance in 2016 is estimated at -0.4% of GDP and is forecast to improve gradually, before reaching balance in 2020.

Public investment

During the crisis, public investments were used actively by the Danish authorities to support the economy. Public investments rose from an average level of 2.8% of GDP in the period 2000-2007 to 3.7% in 2011-2014. The corresponding numbers for the EU-15 average are 3.0% of GDP in the period 2000-2007 and 2.9% of GDP in 2011-2014. Public investments in Denmark are expected to normalise at a high level in the forecast years. The public investment level is thus projected to decline from 3.7% of GDP in 2015 to 3.4% in 2017. Throughout the period, the public investment-to-GDP ratio is expected to exceed the general government deficit-to-GDP ratio.

4.3. Medium-term government debt position

According to the 2015 Ageing Report published on 12 May 2015, general government gross debt in Denmark is expected to decline from 45% of GDP at the end of 2014 to 31% in 2025, remaining well below the 60%-of-GDP reference value in the Treaty. The report includes long-term budgetary projections of age-related expenditure such as pension, health care, long-term care, education and unemployment benefits.

Moreover, the Ageing Report finds that Denmark appears to face low fiscal sustainability risks. The medium-term sustainability gap is at -2.6% of GDP, indicating low risks in the medium-term. Also, Denmark appears to face low risks in the long term. The long-term sustainability gap, i.e. the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path, is estimated at 1.4% of GDP.

4.4. Other factors considered relevant by the Commission

The fiscal framework in Denmark has been reformed in recent years. The Danish authorities publish medium-term budgetary strategies that apply to all levels of government. As Denmark has ratified the Treaty on Stability, Cooperation and Governance (TSCG) and opted to apply its Article 14.5 of the TSCG, it is bound by the substance of the TSCG, including its Fiscal Compact. The fiscal framework in Denmark consists of the Budget Law, a medium-term budgetary strategy (currently up to 2020), as well as the SGP. The basic budgetary principle of the framework targets fiscal sustainability and achieving a structural balance or surplus in 2020.

The 2012 Budget Law transposed the provisions of the TSCG, including the introduction of a balanced budget rule in strutural terms, with a correction mechanism and independent monitoring. Thus, at the time the budget bill proposal is presented in August every year, the structural balance in the following year may not exceed the MTO of -0.5% of GDP. In the period after the presentation of the budget bill proposal, political decisions may not be made that lead to a breach of the MTO. If the projections point to a significant deviation from the MTO – i.e. a structural deficit of 1.0% of GDP – a correction mechanism will be triggered.

The fiscal objectives are supported by binding, multiannual expenditure ceilings, which apply for all three levels of governance and cover around ¾ of all public expenditures. Together with the draft budget bill presented in September 2015, the government presented a proposal for revised expenditure ceilings for 2015-2018, as well as new ceilings for 2019. The new proposals are based on an updated medium-term projection. The expenditure ceilings are supported by sanctions mechanisms, which take effect if the ceilings are not adhered to. The expenditure ceilings came into effect in 2014 and have arguably been successful in improving budgetary discipline.

An independent fiscal institution monitors compliance with national fiscal rules in Denmark and produces macroeconomic forecasts. The Danish Economic Council (DORS) has been designated ‘fiscal watchdog’, monitoring the long-term sustainability of public finances and the general balance of public finances in the medium-term. More specifically, DORS evaluates and monitors whether fiscal policy complies with the Danish Budget Law, assesses the general government expenditure ceiling and their compatibility with fiscal targets, and checks that the budgets and actual accounts for the general government comply with the expenditure ceilings. In addition, DORS publishes biannual forecasts on the state of the Danish economy and public finances.

4.5. Other factors put forward by the Member State

On 3 November 2015, the Danish government sent a letter with relevant factors in accordance with Article 2(3) of Council Regulation (EC) No 1467/97. The letter confirms that the estimate of a general government deficit of 3.3% of GDP in 2015 provided to Eurostat in the context of the October 2015 EDP notification is in line with the Ministry of Finance’s current estimate for 2015.

The Ministry of Finance stresses that it is a priority for the Danish government to continue to comply with the SGP and that the expected excess over the reference value in 2015 is not due to deficit-increasing discretionary fiscal measures. The authorities argue that the excess over the reference value in 2015 can be considered to be *exceptional* and *temporary*, while the deficit also remains *close* to the reference value, in the sense of the SGP, concluding that the requirements in Article 126.2(a) of the Treaty are fulfilled. This is in line with the Commission's assessment.

In the letter, the Danish government presents the following *relevant factors*:

In the October 2015 EDP notification, the estimated general government deficit for 2015 includes a technical one-off measure due to an extraordinary depreciation of tax arrears which increase the deficit in 2013, 2014 and 2015 by 0.3% of GDP in each year. The excess over the reference value can thus be fully explained by this technical factor.

In the period up to 2020, the headline balance is set to improve further primarily due to the economic cycle, but also due to a structural improvement. First, the deficit in 2015 and 2016 is i.a. negatively influenced by fluctuations in the revenues from the pensions yield tax and North Sea revenues. Second, the budget proposal for 2016 implies a discretionary improvement of DKK 5 bn (approximately 0.25% of GDP) in order to reduce the structural deficit. Thus, based on the Danish Ministry of Finance’s methodology, the structural balance is estimated at -0.4% of GDP in 2016 and improving gradually towards the target of structural balance in 2020.

Denmark has a history of strong public finances with actual and structural balances close to balance or in surplus and low gross debt. The sustainability of public finances has been ensured through a number of reforms in recent years (resulting in a positive national sustainability indicator estimated at 0.2% of GDP and a "low" sustainability risk based on the S0, S1 and S2 indicators according to the Commission's Debt Sustainability Monitor). The gross debt ratio is expected to decline slightly from 39% of GDP in 2016 to 35% of GDP in 2020 – maintaining a wide margin to the 60% reference value of the Treaty.

Denmark has a good track record of compliance with the preventive arm of the SGP. In addition, the MTO of -0.5% of GDP chosen by Denmark is more ambitious than the minimum required MTO.

Danish fiscal policy is planned within the strong framework of the Danish Budget Law, EU-requirements and the medium-term plan towards 2020, the requirements of which are set out by the Danish Budget Law. Any negative deviation from the limit must be corrected fully already in the year following the deviation, no matter the size. Binding expenditure ceilings for all levels of government underpin that the overall targets for fiscal policy are met. The fiscal framework contributes to a high level of confidence in the Danish economy and is relfected in a high credit rating (AAA).

5. CONCLUSIONS

The general government deficit in Denmark is planned to reach 3.3% of GDP in 2015, which is above but close to the 3%-of-GDP reference value in the Treaty. The estimated excess over the Treaty reference value can be qualified as exceptional in the sense of the SGP. Furthermore, it can be considered temporary. This suggests that the deficit criterion of the Treaty is fulfilled.

This report also examined the relevant factors. Overall, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/97 should be considered as currently complied with, while the general government gross debt remains well below the 60%-of-GDP reference value.