The Danish Budget Law

Background

- Public sector spending growth 1993-2001:

  Projected: 1,0% p.a. Realized: 2,5 % p.a.

- Public sector spending growth 2002-2010:

  Projected: 0,9 % p.a. Realized: 1,6 % p.a.

Existing rules
Central government

No budget law

No restrictions requiring a balanced budget

No rules of procedure in Parliament restricting spending or financing of amendments

Only rule: limit total central government debt:

DKK 2.000 bn. (= USD 350 bn.
= GDP one year)

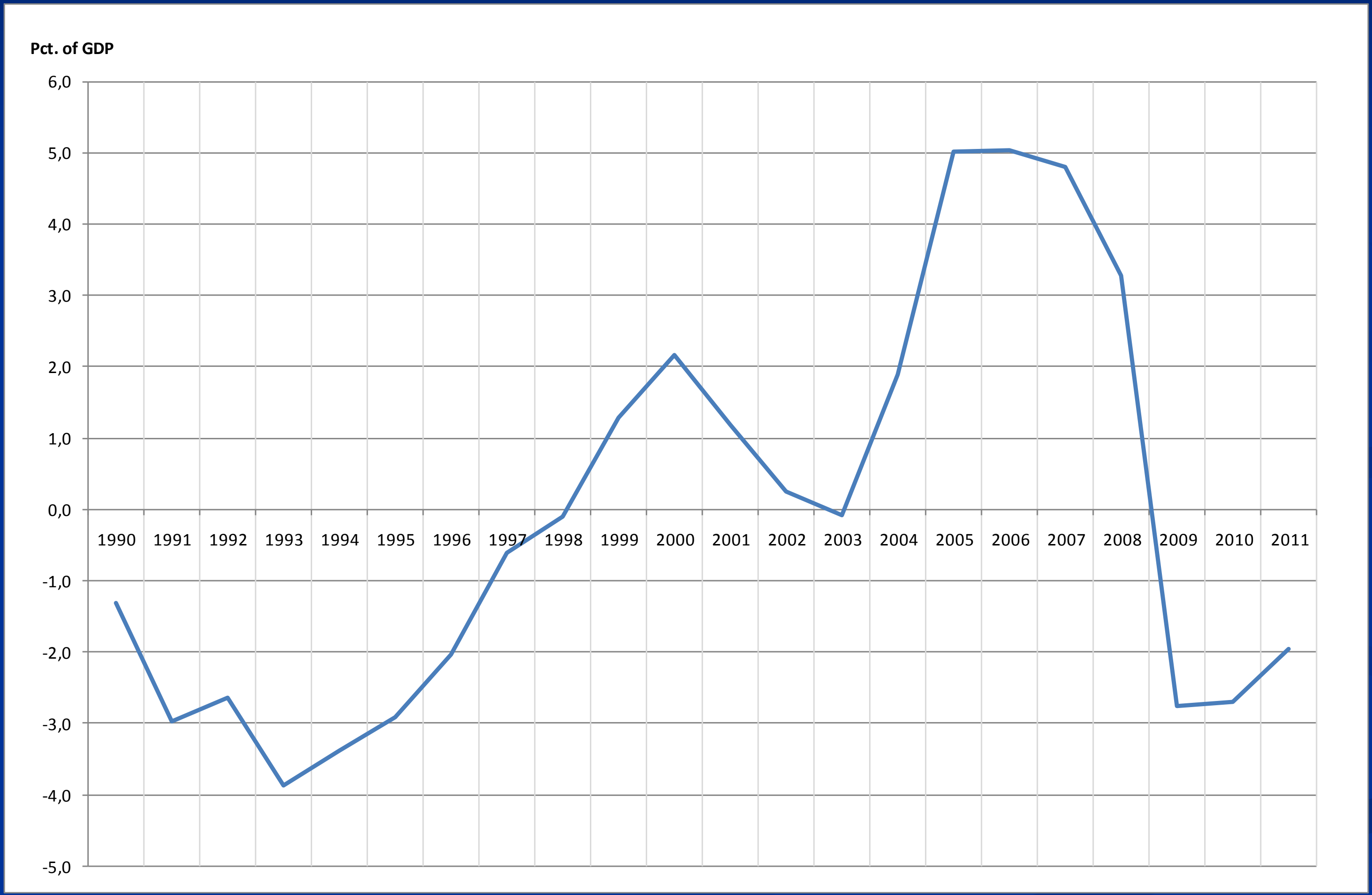
Existing rules
<u>local</u> government

Regions and municipalities required to maintain a <u>balanced budget</u>

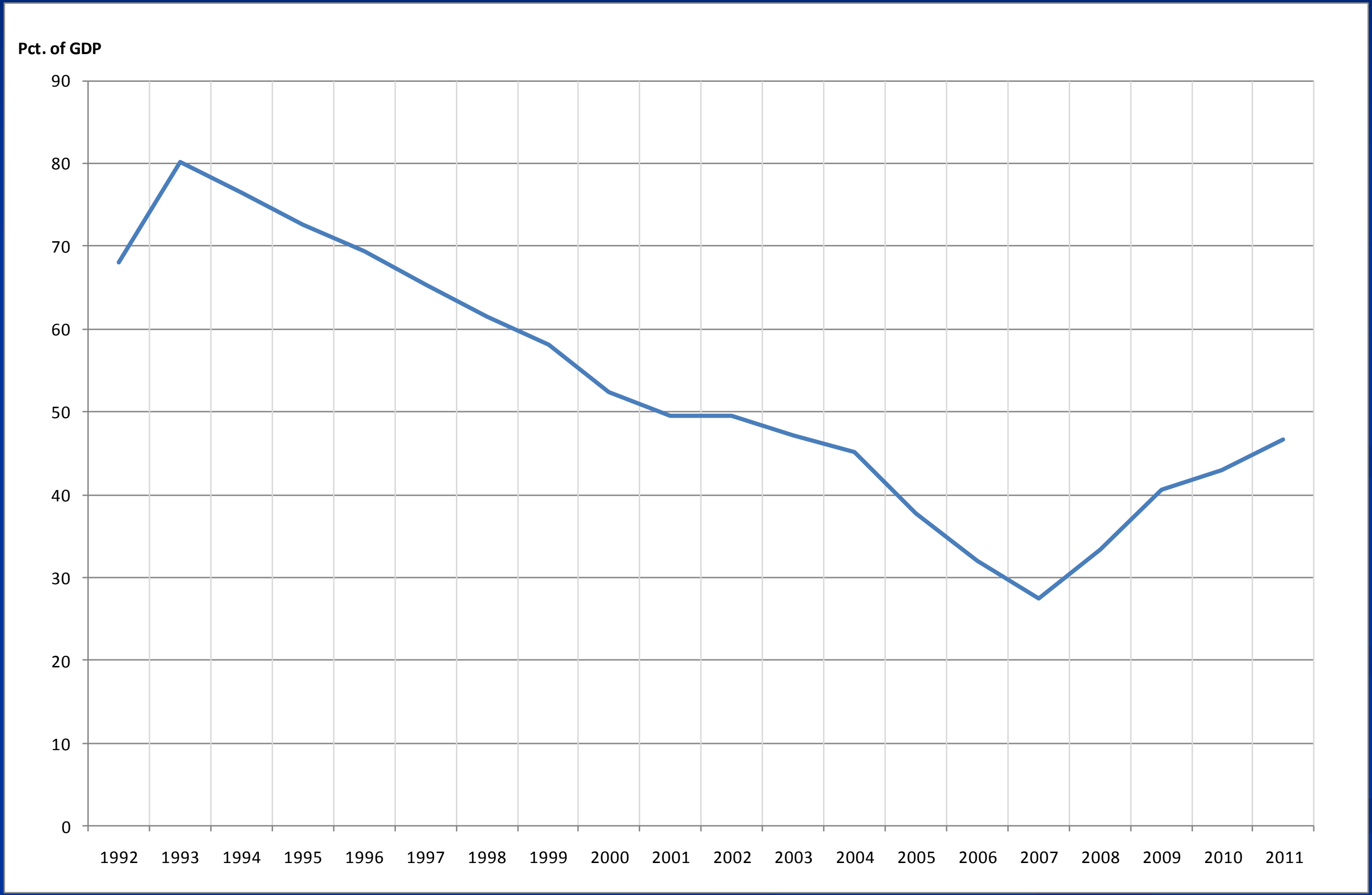
Restrictions on tax increases

Restrictions on spending on building projects

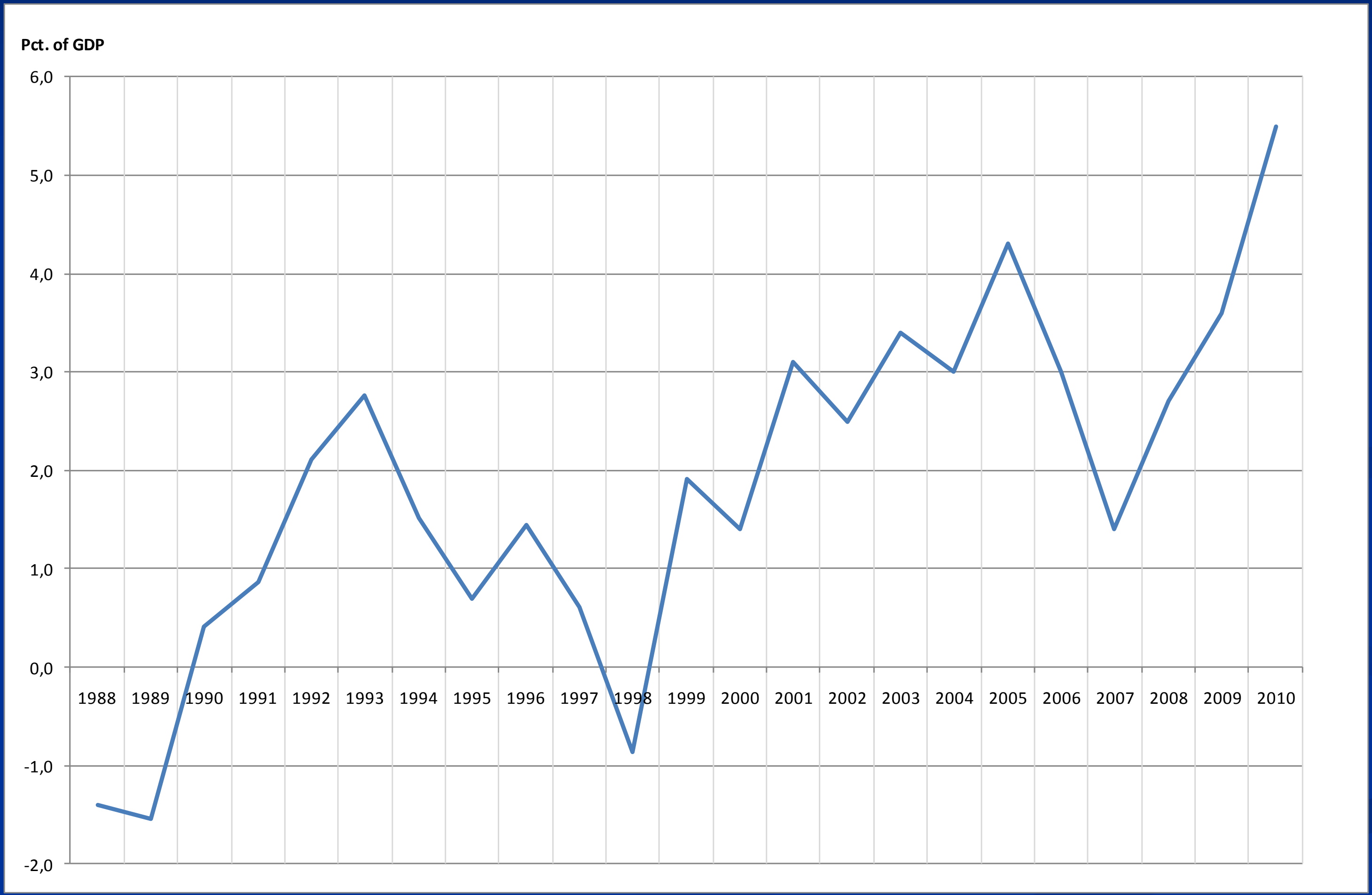
Public sector balance



EMU debt


Pct. of GDP
90
80
70
60
50
40
30
20
10
0
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011

Balance of payments



Reasons for budget law

- Fiscal crisis increases demands for budget discipline.

- Ensures that Denmark implements its obligations under the Fiscal Compact. (though Denmark is not a member of the Euro-zone)

Budget Law

- Public sector budget must be in balance or surplus
- Structural deficit: < 0,5 %
- Correction mechanism:

  if structural deficit in August in a given year exceeds balance requirements > 0,5 % of GDP
- No definition of structural deficit

Ceilings central government:

- 4 year expenditure ceilings starting in 2014-17

- 2 ceilings:

  a) operating expenses

  b) non-cyclical income transfers (e.g. pensions, student grants/loans)

Ceilings covers 60 % of total central government spending

NOT included in central government ceiling

- Cyclical spending, e.g.

  Unemployment benefits and employment promotion

- Grants from central to local governments

- Interest on government loans

Ceilings, regional government

2 ceilings:

a) Health

b) Regional development

Ceilings cover 97 % of total regional government spending

Ceiling Municipalities

One ceiling

Covers operating expenses of municipalities, e.g.

- Schools
- Care for elderly
- Roads etc.

Ceiling covers 70 % of total municipal spending

- All three levels of goverment must observe ceilings separately
- No transfer from one level to another

Sanctions

- Central government: cost overruns from one year are deducted from next year's budget

- Regions and municipalities: overruns will for each individual region/municipality be deducted from the block grant from the central government for the following year

Exceptions to budget law

”<u>Exceptional circumstances</u>”, e.g.

a) ”an unusual event which has a decisive influence on public finances AND which is beyond the control of government”

b) ”Periods of serious economic setback”

Changing ceilings

- Each year parliament will establich spending ceilings, can be changed if a new level/profile of expenditure is desired
- Redistribution between 3 levels of government
- Changes in tax expenditure & expenditure related to the business cycle

Monitoring

The Economic Council will publish annually an assessment of

- Sustainablity of public finances and medium term development in the structural balance
- Whether spending ceilings are aligned with fiscal objectives
- Whether spending ceilings are being observed (ex ante & ex post)