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Convergence Programme

Denmark 2013

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The Danish Government

Index

1. Challenges, Goals and Strategy towards 2020

The recovery of the Danish economy after the downturn in 2008 has turned out to be sluggish. The government has taken a number of initiatives to boost demand and underpin employment in the short term. These initiatives have been implemented within the framework of sound public finances.

The agreements on the *Growth Plan DK* from April 2013 mean the implemented of initiatives that strengthen productivity growth and competitiveness in a broad sense. The agreements on student grants and cash benefit system as part of the *Growth Plan DK* will together with already implemented reforms lead to an increase in the level of education and improve overall labour performance. In addition, the present reform programme also includes a continuous modernization of the public sector.

The medium-term economic policy is planned such that it aims at near balance on the structural budget balance towards 2020, and at least balance in 2020. This medium-term development ensures fiscal policy to be sustainable. The medium-term planning meets the key objectives and targets for public finances following from the Stability and Growth Pact requirement that the deficit on the actual balance is less than 3 per cent of GDP and that the medium-term objective (MTO) for the structural balance is met.

1.1 The macroeconomic scenario towards 2020

The Danish economy is expected to be heading into a period of recovery with gradually increasing employment and lower unemployment. As the global economy improves, growth is expected to pick up, *cf. figure 1.1* and *1.2*. In addition, domestic demand is expected to rise, partly as a result of a significant potential for improvement in investments – from a low level – as well as economic policies that support growth and employment in these years. Economic policies include the frontloading of public investment, the reimbursements of voluntary early retirement contributions in 2012, the investment window for companies and the agreements on the *Growth Plan DK*.

Common to the many initiatives is the aim to support growth and employment within the framework of a credible fiscal policy. Sound public finances and confidence in economic policies are essential for Denmark to maintain low interest rates, which contribute to supporting growth in the Danish economy, *cf. chapter 2*.

Growth Plan DK builds on the prerequisite of sound public finances. The plan is composed such that it both stimulates the activity in the short term and also improves the competitiveness and productivity. Thereby Danish firms get better opportunities to exploit an international recovery in the coming years. In addition, the plan aims to improve the conditions for higher long-term growth and increased efficiency in the public sector.

Figure 1.1
Real GDP

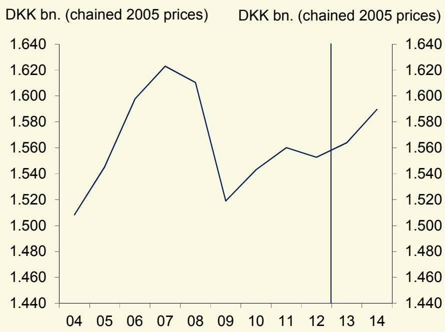
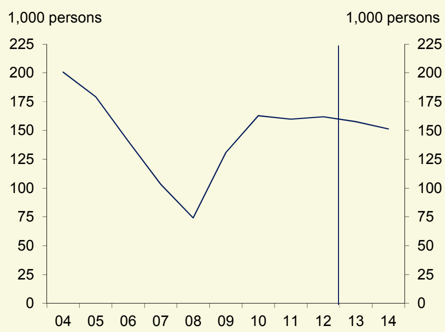


Figure 1.2
Gross unemployment

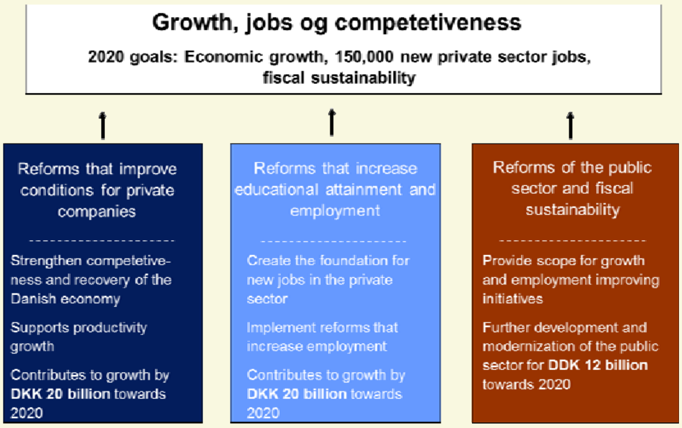


Source: Statistics Denmark and interim assessment.

1.2 Goals and strategy towards 2020

Growth Plan DK is based upon the ambitious reform and modernization agenda from *Denmark at Work – challenges for Danish economy towards 2020 (May 2012)*. The growth plan will contribute to higher growth towards 2020 by a total of DKK 40 billion (measured as increased level of GDP in 2020) and, through modernization, free up DKK 12 billion in the public sector for targeted improvements of public services. The government will continuously implement reforms in three main tracks, *cf. figure 1.3*.

Figure 1.3
Growth Plan DK – New growth target, three reform tracks



Source: *Vækstplan DK – Stærkere virksomheder, flere job*, February 2013.

The growth plan's new aim of an increased GDP growth of DKK 40 billion corresponds to increased structural GDP growth by ⅓ percentage points on average each year in the period 2014-2020, so that the overall year-on-year growth will amount to 2 per cent on average. The growth target is complementary to the fiscal policy objectives of structural balance in 2020 and fiscal sustainability.

The growth target of DKK 40 billion will be fulfilled mainly through two of the three reform tracks. Firstly, actions will be made to improve the economic environment for businesses. This strengthens the competitiveness, supports the employment and boosts the productivity. On the account of these actions an increase in GDP of DKK 20 billion is expected towards 2020. Secondly, initiatives on raising educational attainment will be extended in the years to come accompanied by implementation of ongoing reforms in order to increase structural employment. These initiatives will contribute with an additional DKK 20 billion to the overall economic growth towards 2020.

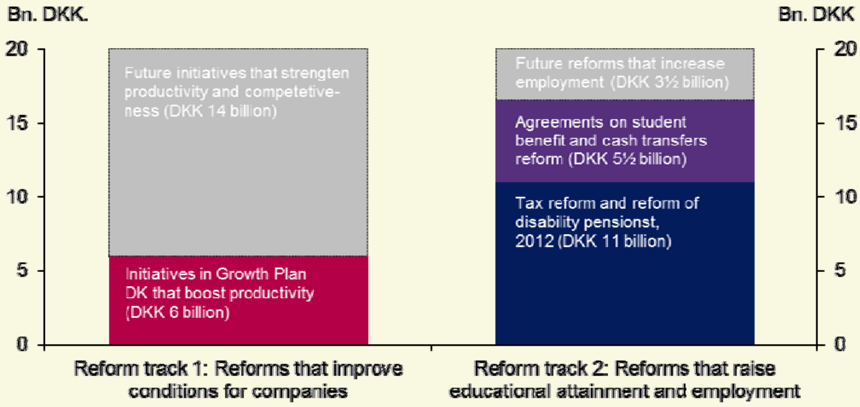
The conclusion of the two partial agreements in Growth Plan DK as well as the agreements on reforms of student benefits and cash benefit are all important steps towards fulfilling the new growth target, *cf. box 1.1*.

Box 1.1
Status for fulfilling the growth target

The agreements in Growth Plan DK support the competitiveness and strengthen the business environment in Denmark. In total, the initiatives are expected to raise productivity (measured by GDP) corresponding to DKK 6 billion, which particularly is linked to the effect of lower corporation tax. At the end of 2013 The Danish Productivity Commission will present their recommendations on how to boost productivity further in order to raise the outstanding reform contribution of DKK 14 billion.

The agreements on the student benefit and cash transfer reforms contribute to an overall increase in employment of 10,000 persons in 2020 (corresponding to an increase in GDP of DKK 5½ billion). In this context, the remaining contribution from this reform track is approximately 6,000 persons (corresponding to an increase in GDP of DKK 3½ billion).

Figure a
Status for fulfilling the growth target



Finally, the government ensures fiscal sustainability and a strengthened modernization agenda for the public sector in the third reform track. The aim of this track is specifically to free up DKK 12 billion towards 2020 by modernizing the public sector in order to improve public services in areas of high priority. This is equivalent to an annually efficiency improvement of 0.3 per cent on average in the period 2013-2020.

The three long-term reform tracks will create the basis for increased employment and renewed growth, including an increase in private sector employment corresponding to 150,000 full-time employees towards 2020. In the wake of the economic slowdown, private sector employment is expected to increase approximately 80,000 persons due to higher demand and a general recovery of the Danish economy, but this requires that the business environment is appropriate for Danish companies in order for them to be a part of the international economic recovery. Due to already implemented reforms and demographic changes the private sector employment will increase approximately 37,000 full-time employees, while new and forthcoming reforms and the effect from the 2012-reforms on taxes, disability pensions and flex job contributes to an additional increase of approximately 33,000 persons towards 2020*, cf. figure 1.4*.

The economic policies of the government are based on a precautionary principle where the government incurs new expenses only when there is a parliamentary majority for specific initiatives that guarantee the necessary funding. The fiscal policy is kept in line with the Budget Act, which implies that the structural deficit is not to excess ½ per cent of GDP. This is in accordance with Denmark's medium-term targets for public finances (MTO) under the Stability and Growth Pact, which is -½ per cent of GDP.

In recent years, the public finances are consolidated in order to reduce the public budget deficit to less than 3 per cent of GDP and to improve the structural balance in accordance with the EU recommendation, *cf. figure 1.5*.

The public deficit is further reduced towards 2020 as the normalization of the economic conditions materializes. The target of structural balance between public sector revenues and expenditures will at least be met in 2020. The public deficit will be below the threshold of 3 per cent throughout the whole period towards 2020, which is in line with EU's Stability and Growth Pact. The target of structural balance is roughly expected to be fulfilled over the same period of time*, cf. figure 1.5.*

Figure 1.4

Private sector employment developments 2013-2020, contributions from reforms and business cycles etc.

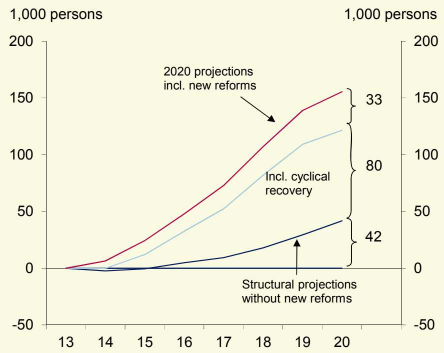
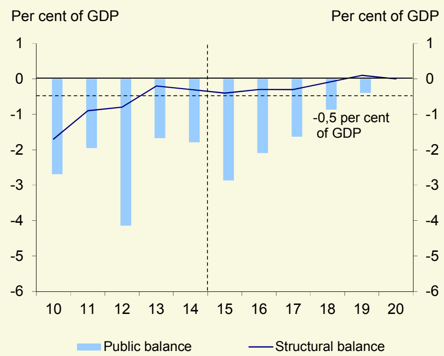


Figure 1.5

Developments of public budget balance and structural balance, 2010-2020.



Note.: *Structural projections without new reforms* indicates the effect on private sector employment from already implemented reforms and demographic changes etc. in the period 2013-2020. *Incl. Cyclical recovery* indicates the effect on private sector employment from the anticipated normalization of the business cycles towards 2019. *2020 projections incl. new reforms* indicates the effect on private sector employment from new reforms incl. non-concrete reform ambitions that will increase private sector employment by 6,000 persons.
Source: Ministry of Finance.

2. The Macroeconomic Scenario Towards 2020

The Danish economy is expected to enter a period of growth and increasing employment, where a gradual, albeit slow, normalization of cyclical conditions will take place. GDP is expected to grow by 0.7 per cent in 2013. Through the year growth will be higher, but the decline in GDP in late 2012 drags the annual growth rate down in 2013. In 2014 GDP is expected to grow by 1.6 per cent, and in the following years the recovery is expected to gain momentum, with average growth of 2 per cent a year until 2020. The scenario implies that employment will be around 160,000 persons higher in 2020 compared to 2013, of which 150,000 higher in the private sector.

2.1 Introduction

The economic scenario up to 2014 is based on an interim assessment of the short term outlook for the Danish economy conducted in April 2013. The assessment provides updated forecasts for GDP and other key variables in demand and production along with employment and unemployment for 2013 and 2014. Allowance has been made for subsequent statistical releases and political decisions made since the release of the last comprehensive forecast for the Danish economy in *Economic Survey*, December 2012. These include the preliminary national accounts for 2012 and new figures for unemployment, interest rates, and prices as well as the various agreements on the basis of *Growth Plan DK*. The forecast also takes into account the agreement with the municipalities on the increase of municipalities' investments in construction by DKK 2 bn. in 2013, due to the expected lower service costs together with the effects of public sector collective agreements for the next two years.

In 2015-20, the medium-term scenario is based on a technical projection with a gradual normalisation of cyclical conditions, reaching a full normalisation in 2019. The normalisation of the business cycle is closely linked to the recovery of international growth, particularly in the euro area. Furthermore, it is supported by the assumed economic policy, including the effects of the agreements in relation to *Growth Plan DK*, and the extraordinarily low interest rates that form the basis of the assessment.

2.2 The outlook for Danish economy in 2013 and 2014

The Danish economy is highly influenced by developments abroad. Declining or exceptionally weak growth in many major trading partners in recent years has contributed to a weak trend in activity at home. It is still scarce with actual evidence of real economic improvement in the euro area, and developments in the international economy are only expected to provide a limited contribution to Danish growth this year. Exports are not expected to be a major driver of growth in Denmark until 2014. The precondition for this is that there is a turnaround in economic developments in the euro area during 2013. The possibility that a recovery is under way should be viewed in the light of a number of crisis initiatives in individual countries that seem to be having an effect. Thus, the turmoil in financial markets has subsided considerably, and the outflow of capital from the crisis-ridden countries in the euro area has reversed.

It is essential to the recovery in Denmark that Danish businesses can latch on to the recovery abroad as it takes off. The reduction in the corporate tax rate, and other corporate taxes, along with other initiatives in *Growth Plan DK* strengthens the long term growth potential and will contribute to an improvement in Danish businesses international competitiveness over the coming years. However, Danish wage competitiveness will still be affected by the fact that wage growth for the brother part of the last decade have exceeded wage growth abroad. Only in the last few years has wage growth been lower than abroad. At the same time productivity growth has been weak and thus not offset the relatively strong domestic wage increases.

The general uncertainty and economic developments have also influenced Danish consumers and businesses. Like many other countries, Denmark is in a relatively lengthy period of business cycle normalisation where households and businesses are holding back on consumption and investments. This has implied a weak trend in domestic demand.

In 2013 growth is expected to return to the Danish economy, and will gradually gain traction through the year, *cf. figure 2.1.* GDP is expected to grow 0.7 per cent. Growth through the year is expected to be higher, but the decline in GDP at the end of 2012 will reduce the annual growth rate down. In 2014 GDP is expected to grow by 1.6 per cent.

2013 growth will mainly be driven by economic policy that supports both private consumption and investments. The policies include already introduced initiatives such as the kick start and the investment window, along with new initiatives, as agreed in the growth plan, *cf. box 2.1.* At the same time there is a large surplus of private corporate savings. This provides a potential for growth in particularly investments.

Figure 2.1
Contributions to GDP growth

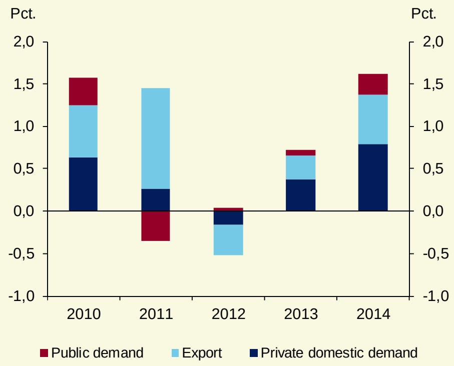
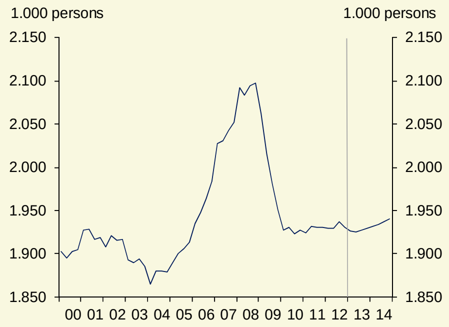


Figure 2.2
Private employment



Note: The contributions to GDP growth are calculated by the so-called input-output-based method where the contribution from for example exports is corrected for the direct and indirect import content.

Source: Statistics Denmark and own calculations.

In recent years business investments have been at very low levels following the economic downturn of 2008-09. This has created a need for investments in new and more modern production facilities over the coming years. The scope for an increase in investments should be seen in the light of the fact that companies in general have had a considerable savings surplus over the recent years. Hence, they have already undergone a considerable consolidation. Furthermore, businesses have an incentive to bring investment spending forward due to exceptionally low interest rates, and the so called investment window, which allows companies to write off a 115 per cent of certain types of investments until the end of 2013. From 2014 onward the gradual reduction of the corporate tax rate will help maintain a stronger incentive to make business investments.

Residential investments are increased through an increase in the investment framework for the National Investment Fund for Social Housing in 2013. Furthermore, the continuation and expansion of the HousingJobs-scheme in 2013 and 2014 is expected to increase repairs and maintenance by homeowners.

The advance and launch of government initiated investments, which was adopted with the kick start, will continue to contribute to the overall level of investments in 2013. In addition, a number of other initiatives further lift public investments. On this basis public investments in both 2013 and 2014 will be almost as high as the investment level in 2012, which was the highest in almost 30 years.

Box 2.1
Main content of the agreemnets on *Growth Plan DK*

The agreements for *Growth Plan DK* contain a wide range of initiatives aimed at making Denmark ready for growth. The goal of the plan is to improve productivity and competitiveness and make it more attractive to invest in Danish companies and jobs. At the same time *Growth Plan DK* enables balanced growth in government consumption up to 2020. In combination with the reinforced modernization agenda for the public sector, growth in government consumption allows for the development and improvement of public services by 2020. The main elements of the growth plan are:

- **Lower energy taxes.** Reduction of corporate taxes on energy, partly through the elimination of the energy savings tax (CO2 tax on electricity), grant pool for energy-intensive businesses, additional subsidies for industrial cogeneration and easing regarding surplus heating and fuel for processing.
- **Better access to financing.** Better access to financing and liquidity for companies through amongst other things, the extension of the VAT tax credit for businesses, growth loans for entrepreneurs, the extension of the "small growth guarantees" scheme, corporate bonds, and the possibility of new EKF-export guaranties.
- **Lower corporate tax rate.** Gradual reduction of the corporate tax rate and the tax rate of the company tax scheme from the current 25 per cent to 22 per cent in 2016.
- **Specific easing.** Specific easing for small and medium-sized businesses in particular, through the introduction of deductions for self-employed health and worker's compensation.
- **More investment.** Increase of the planned level of public investments, a focused effort to increase investments in renovation of social housing, and the renovation of government buildings and costal protection.
- **Growth and exports promotion etc.** Enhanced effort for growth, exports, and investment promotion and attraction of highly skilled foreign labour.
- **Fund allocated to easing for businesses.** The funds are set aside in the period 2017 to 2020 for further targeted improvement in framework conditions for Danish businesses.
- **Targeted effort against cross-border shopping.** The tax on soft drinks and beer is reduced.
- **Reintroduction and expansion of the HousingJobs scheme in 2013 and 2014.** The scheme provides assistance for maintenance and repair of both ordinary housing and summer and holiday homes.
- **Increase of limit to writing of damaged cars.** The limit for writing of damaged cars is increased from the current 65 per cent to 75 per cent in 2014 and 2015.
- **More and better adult education and training.** A total of DKK 1 bn. will be set aside in funds from 2014-17 for adult education and training. This is aimed at lifting the skill level of the work force and support the retention of jobs in Denmark.
- **Demolition pool etc.** DKK 200 million are set aside annually in 2014-15 for the demolition of poor housing. Furthermore, funds are allocated for the deployment of broadband on the island of Bornholm. The initiatives will strengthen the Danish peripheral areas.

Box 2.1 (continued)

As a part of the growth plan, there has been reached an agreement on reforms of the cash benefit system and the student grant system. This strengthens public finances by DKK 1.2 bn. and DKK 2.2 bn. respectively in 2020. The reductions of costs are a part of the funding for *Growth Plan DK.* Other sources of financing are reduced growth in public consumption and by keeping the municipality's service expenses unchanged from 2013 to 2014. The funding ensures that the growth plan is implemented within the framework of sustainable public finances and the goal of structural budget balance in 2020, which is the core of the government's overall fiscal policy.

Furthermore, the reforms of the cash benefit system and student grants increase structural employment. Along with last year's reforms of taxes, disability pensions and the flexjobs scheme they form a significant part of the total reform ambition, which aims at achieving an overall increase in private payrolls of 150,000 persons by 2020 and an average GDP growth in 2014-20 of at least 2 per cent annually.

In addition to the effects on productivity and competitiveness, the initiatives formed on the basis of initiatives in *Growth Plan DK* also contribute directly to growth and employment in the short run. Thus, viewed in isolation, the initiatives are expected to raise GDP by as much as 0.3 per cent in 2014, and increase private employment by 6,000 persons in 2014. The adjustment in public consumption implies that public employment is expected to increase by 2,000 persons in 2014 against the previously assumed 4,000 persons. Towards 2020 the initiatives in the growth plan, particularly the reform of cash benefits and student grants, imply a structural increase in private employment of 17,000 persons.

In addition, there is an impact from already implemented growth initiatives, reforms, and an increase in private employment from the improvement in the business cycle stance. With the growth plan private employment can increase by 150,000 towards 2020. At the same time public consumption is increased towards 2020, corresponding to an increase in public employment of the order of 10,000 persons.

Source: The Ministry of Finance.

The tax reform from 2012 entails a reduction in personal income tax this year. This, together with lower than expected inflation, increases real disposable incomes. Private consumption is, however, still expected to show a muted development this year. Last year private consumption was also weaker than expected, in spite of the reimbursements of voluntary early retirement contributions. The continued weakness in consumption should be seen in the light of expectations of further consolidation of household finances. The need for consolidation is linked to debt accumulation in the years prior to the crisis together with large financial losses following the crisis. This is also reflected in large price adjustments in the housing market. Housing prices have – by virtue of the exceptionally low interest rates – gradually stabilised and has remained at a largely stable level through 2012.

The labour market is functioning well and many job openings have kept it stable for the past years. Both employment and unemployment surprised on the up side in 2012, particularly in view of the weakness in GDP. Despite the weak economy, unemployment continues to be well below the level from previous periods with low growth. This is also seen in the fact that long term unemployment remains quite low by both historical and international standards. The decline in activity at the end of 2012 is expected to show up with some delay, leading to small decline in private employment in the first half of 2013. A turnaround in the labour market is expected to be seen in the second half of 2013, *cf. figure 2.2* above. Based on the growth prospects, employment in 2014 is expected to be 7,500 persons higher than in 2012, with gross unemployment 10,500 persons lower. Hereby, gross unemployment is expected to be at 5.2 per cent of the labour force in 2014.

Fundamentally, public finances are sound, and fiscal policy is designed to ensure long-term sustainability. Actual public finances depend largely on the business cycle, though one-off measures can also have a large impact the public balance. The deficit in 2012 was at 4.1 per cent of GDP. However, it was extraordinarily affected by the repayment of voluntary early retirement funds, which, in isolation, increased the deficit by 1¾ per cent of GDP. The deficit in both 2010 and 2011 was kept under the 3 per cent limit. In both years the balance was affected by extraordinarily large revenues from the pension yield tax. The deficit is expected to fall below 3 per cent in 2013. In 2013 and 2014 the actual public balance is affected by significant revenue from the restructuring of the taxation of existing capital pensions. Without this extra revenue the deficit is still expected to stay below 3 per cent.

The present current account surplus of almost DKK 100 bn. is at record high. The surplus is partly the result of the fact that Denmark has had a net positive external asset position, which ensures a considerable capital income. At the same time, the surplus reflects the fact that savings exceed investments in Denmark, which creates a need to place investments abroad, particularly as a consequence of the Danish firms' large savings surplus.

The economic outlook is still characterised by considerable risks. The continued handling of the European sovereign debt crisis and the market's confidence in the crisis initiatives are essential to the growth outlook. It is assumed that there will be an improvement in the business cycle stance through 2013 and that the uncertain mood amongst investors, households, and businesses will abate gradually. The precondition for this is that the debt crisis is contained through the agreed upon EU initiatives and fiscal austerity in the member countries.

A new forecast for the Danish economy is prepared in *Economic Survey,* May 2013.

2.3 Assumptions on international economy and financial conditions

Assumptions on the developments in the international economy and financial conditions in 2013 and 2014 are largely in line with the European Commission's winter forecast. However, some estimates are adjusted in light of new forecasts in the IMF's *World Economic Outlook* from April. From 2015 to 2020 the assumptions for growth abroad are made on the basis of OECD's medium-term projections from *Economic Outlook*, No. 91, adjusted to the lower expectations in the European Commission's latest forecast, as a result of the slowdown in growth in 2012. At the same time, the business cycle normalisation is postponed by a year, compared to *Economic Outlook,* No. 91. This implies that most countries will not have a full normalisation until around 2019.

Fundamentally, the European Commission's winter forecast is based on a turnaround in the EU economy through 2013, with gradually more growth thereafter. Simultaneously growth in the world economy is expected to gain traction. The scenario implies that trade adjusted GDP growth abroad will increase from 1.1 per cent in 2012 to 2.2 per cent in 2014. This suggests an export market growth for Danish industrial products to increase from 2.4 per cent to 5.8 per cent.

International crisis initiatives and initiatives in individual countries have apparently had the desired effect. Strengthened confidence and a stronger belief in economic growth can be tracked on financial markets. There have only been minor movements in financial markets, for example in connection with the unresolved parliamentary situation following the Italian election and during the run-up to the agreement on an aid package to Cyprus. An expected improvement is also reflected in the fact that business confidence in the euro area has risen to a level that signals increasing activity. In the US, the recovery is further along and there has already been a clear improvement in both the housing and the labour market. So far, the fiscal tightening caused by the recent automatic spending cuts does not seem to hinder the US recovery significantly. This is in part due a large savings surplus in the private sector, which allows room for increased private consumption.

Less turmoil in financial markets also means that the extraordinarily interest rate advantages, that Denmark has experienced by virtue of being a “safe haven”, have begun to wane. Interest rate advantages are, however, still significant. Danmarks Nationalbank raised the interest on certificates of deposits and the lending rate in January. The interest rate hike came following a number of unlateral interest rate reductions over recent years. A dawning normalisation is also expressed by the fact that the interest rate spread on 10 year government bonds against Germany is positive again, after a period of being negative.

Towards 2020 a gradual normalisation of monetary policy in the euro area is assumed. 10 year Danish government bond rates are expected to increase to 4¾ per cent, and the interest rate spread against Germany is still expected to be small. In the long run a real interest rate of 3 per cent is assumed, with the growth-corrected real interest rate at 1¾ per cent.

As a result of increased international division of labour, world trade in industrial goods has grown around twice as fast as world GDP over the last several decades. If this trend continues, then the assumptions for GDP growth will result in industrial export market growth of 6-7 per cent a year from 2014 to 2020 *cf. table 2.1.* Market growth, which includes large emerging markets, will therefore be considerably higher than the potential growth of the Danish economy. Similarly greater international labour division will result in a continued increase in Danish import quotas.

Table 2.1
Assumptions on international economic growth, interest rates and oil prices

	2011	2012	2013	2014	2015-20
Annual growth, per cent					
Real GDP, main trading partners	2.3	1.1	1.3	2.2	2.5
Real market growth, manufactures	6.0	2.5	2.6	5.3	8.2
Oil price (Brent), USD per barrel, 2010 prices	110	112	112	119	148
Dollar exchange rate, DKK per USD	5.4	5.8	5.8	5.8	5.5
Interest rate 10-year Danish treasury bonds, per cent	2.7	1.5	1.7	2.1	3.7

Note: The oil price and the interest rate in 2015-20 indicate the last year in the period.
Source: Reuters Ecowin, OECD and own calculations.

2.4 Growth and employment towards 2020

The economic outlook towards 2020 is based on the assumption that the recovery period – from the downturn started in 2008 until the business cycle is back to normal – will be drawn out. The projection is based on the effects of reforms that have a majority in the parliament behind it, and hereby follow the principle of caution. The assumptions are presented in *box 2.2.*

Box 2.2
Assumptions in the medium-term projection up to 2020

Assumptions about economic policy:

- Initiatives in the agreement on *Growth Plan DK* are incorporated in the projection.
- The Budget for 2013, the agreement on the exchange of DKK 2 bn. In municipality funds from operating costs to fixed investments in 2013, reform of disability pensions and the flexjobs scheme, and the tax reform from 2012.
- In the medium term projection there is technical room for growth in public consumption of 0.7 per cent annually in 2018-20 within the framework of the budget act and the government's target of structural balance in public finances and fiscal sustainability.

Selected technical assumptions behind the projection:

- The output gap is gradually closed towards 2019.
- Productivity growth in the private non-agricultural sector of 1¼ per cent annually (structurally). Potential growth towards 2020 is 1½ per cent annually, including the business cycle normalization GDP growth is around 2 per cent annually on average towards 2020.
- The structural gross unemployment is estimated at around 105,000 persons towards 2020.

The projection involves a gradual recovery of the business cycle, which is expected to be normalised around 2019, *cf. figure 2.3.* From 2020 onwards growth follows potential GDP growth. Similarly employment is expected to reach its structural level around 2019[1]*, cf. figure 2.4.* Hence, it is assumed that the recovery period following the global crisis will be around 10 years. It is a long period compared to previous recessions. This should be read in conjunction with the deep downturn in production and employment together with large financial losses in households, businesses and the financial sector. Experience suggests that the recovery following a downturn, which has been associated with a financial crisis take longer.

Figure 2.3
Real and structural GVA

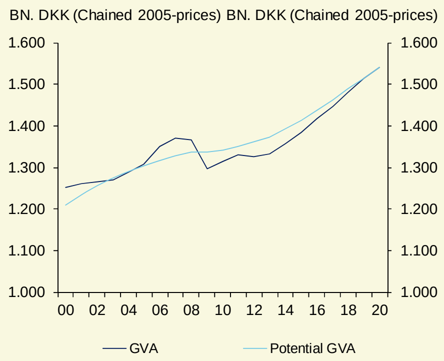
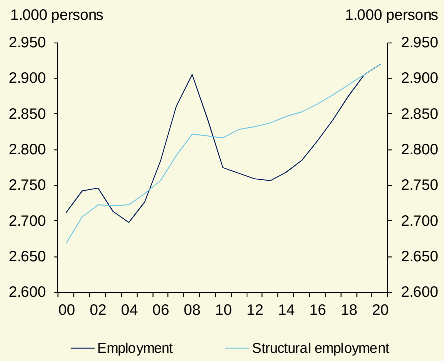


Figure 2.4
Real and structural employment



Note: The difference between actual GVA (gross value added) and the estimated structural GVA indicates the output gap. Structural employment is a calculated estimate of the level of employment in a normal cyclical situation.
Source: Statistics Denmark and own calculations.

At the moment very accommodating monetary policy and extraordinarily low interest rates, amongst other factors, are supporting GDP and employment. The Danish interest rate level reflects Denmark's status as a "safe haven". The demand for Danish mortgage bonds and government bonds in particular has been very high, as they are considered safe, which has driven rates lower. Denmark's status as a "safe haven" should be viewed in reference to the long tradition of stabile framework for economic policy. Gradually, confidence has been build that the laid out course will be held, and continuous reforms have ensured that policy goals are reached. The credibility of the Danish economy is also reflected in the fact that Denmark has kept the highest credit rating throughout the crisis. The low interest rates since 2008 support GDP growth, including through a significant increase in households disposable in-

[1] Det er beregningsteknisk forudsat, at beskæftigelsen herefter fastholdes på sit strukturelle niveau. Der ses derfor bort fra eventuelle tendenser til høj- og lavkonjunktur, efter det strukturelle niveau er nået.

come. Furthermore, the low interest rates have contributed to a stabilisation of the housing market.

Assumptions behind the normalisation of the business cycle have been fairly cautious. Hence, the improvement in both production and employment is assumed to be slower than during previous recovery periods, *cf. figure 2.5* and *figure 2.6.* The graphs illustrate the projected recovery of production and employment until 2019 compared to developments following the two oil crisis, and the economic downturn in the early 1990's.

This further implies that there is scope for a more favourable course, which for instance could be derived from strengthened confidence in the wake of *Growth Plan DK* combined with a more positive development abroad.

Figure 2.5
Growth in GDP in the 2020 process compared to growth after previous setbacks

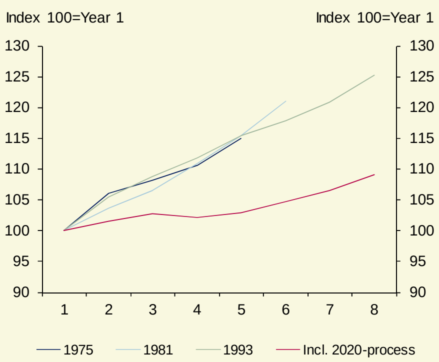
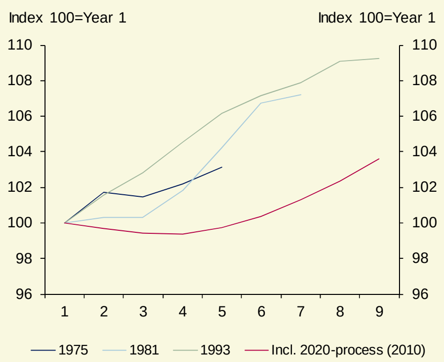


Figure 2.6
Increased employment in the 2020 process compared with growth after previous setbacks



Note: The date of the beginning of the boom in GDP is chosen from the reversal of the output gap. For employment it is chosen based on when to expect increasing employment after periods of declining employment (it is for 1975 and 1981 coincide with the dating of GDP for 1993, a year later than GDP and for 2009, where employment has not increased since, has been selected 2010).
Source: Statistics Denmark and own calculations.

The assumed path, including the specific initiatives in the *Growth Plan DK*, implies that GDP on average grows by around 2 per cent annually in the period 2015-19. By 2020, GDP growth is 1½ per cent corresponding to potential growth.

During the recovery to a normal business cycle stance an overall decrease in gross unemployment is assumed from 151,000 persons in 2014 to around 105,000 persons in 2020, which corresponds to the estimated structural level.

The projected employment growth can also be seen in light of demographics and the reforms that have been implemented, aiming at increasing labour supply and employment. Growing pension payments to an increasing number of elderly people who have greater labor market pensions and live longer than previous generations, pulls demand up relative to potential output.

The continued recovery of the business cycle implies a gradual normalisation of investment and consumption, which for investments in particular has been low since the financial crisis. Investments are expected to grow around 4½ per cent annually during the projection period. Private consumption is expected to grow by just over 2 per cent annually, which implies that both investments and private consumption as a share of GDP will rise until 2020, see *figure 2.7* and *2.8*.

Figure 2.7
Gross fixed capital formation (share of GDP)

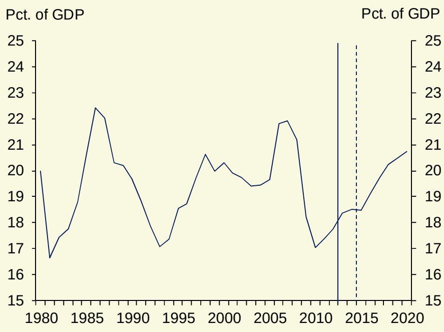
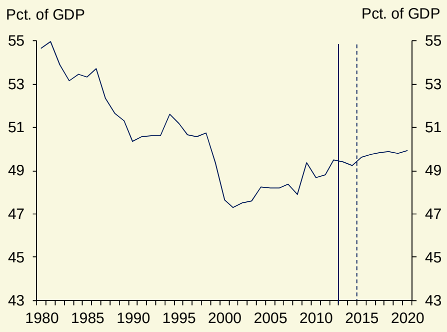


Figure 2.8
Private consumption expenditure (share of GDP)



Kilde: Statistics Denmark and own calculations.

The projection, including *Growth Plan DK* and assumptions about the international economy, imply average annual growth in total exports of goods and services 5½ per cent. The increasing growth in demand is estimated to lead to a slightly higher import growth of 6 per centannually.

In the period 2014-20, the average GDP growth is expected to be 2.0 per cent per year, see *table 2.2*. The growth reflects an underlying annual average potential growth of 1.7 per cent, which comes partly from hourly productivity, partly from the labor supply. In addition cyclical growth contributes by 0.4 percentage points annually, reflecting the closure of the output gap towards 2019.

Table 2.2
Contribution to growth in the potential production and in actual GVA (real terms)

Average annual growth, per cent	1991-07	2008-09	2010-13	2014-20
1. Potential production (GVA)	**1.9**	**0.1**	**0.7**	**1.7**[1)]
Of this, contributions from				
- Hourly productivity (structural)	1.4	0.3	0.5	1.3
- Structural unemployment	0.4	0.0	0.0	0.0
- Structural work force	0.1	0.3	0.1	0.4
- Working hours (structural)	0.1	-0.5	0.1	0.0
2. Cyclical contribution	0.2	-2.9	0.0	0.4
3. Real GVA (1+2)	**2.1**	**-2.8**	**0.7**	**2.1**
4. Net taxes	0.1	-0.5	0.0	0.0
5. Real GDP (3+4)	**2.2**	**-3.3**	**0.7**	**2.0**

Note: There is some uncertainty in the forecast of potential growth in sub periods, including the contributions from the individual components. Due to rounding the sum of the individual components do not necessarily add up.
1) Achieving the overall reform requirements in the Growth Plan DK implies a potential growth in the period of 1.8 per cent.
Source: Statistics Denmark and own calculations.

2.5 Macroeconomic balances

Private sector financial savings have increased significantly both during and after the financial crisis to a level significantly above the historical average. This corresponds to a significant slowdown in private domestic demand. From 2015 onwards a gradual normalization of private financial savings as a percentage of GDP is assumed, so the historical level is approached.

Relatively high but declining current account surpluses are assumed until 2020, see *table 2.3*. The reduction in the private sector savings surplus is partly offset by declining government deficit towards balance in 2020.

Table 2.3
Savings, investments, current account and net asset position

	1990-2009	2010	2011	2012	2013	2014	2020
Per cent of GDP							
Investment ratio, private sector	18.2	14.6	15.4	15.2	16.1	16.4	18.8
Savings ratio, private sector	28.9	32.0	31.7	31.5	31.1	31.9	30.4
Private financial savings	2.0	8.6	7.9	9.5	6.5	6.9	3.0
General government budget balance	0.1	-2.7	-2.0	-4.1	-1.7	-1.8	0.0
Current account	2.0	5.9	5.6	5.2	4.7	5.0	3.0
Net asset position	-17.5	13.1	27.8	35.6	37.7	41.7	55.0

Source: Statistics Denmark and own calculations.

Appendix 1. Key figures for the Danish economy 2010-2020

Table 2.a
Key figures for Danish economy 2011-2020

	Short-term forecast[1]				Medium-term scenario: Recovery	Medium-term scenario: Potential growth
	2011	2012	2013	2014	2015-2019	2020
Output gap and real growth rates (per cent)						
Output gap (per cent of GVA)	-1.8	-2.8	-2.9	-2.4	-0.7	0.0
GVA	1.2	-0.3	0.6	1.8	2.3	1.7
GDP	1.1	-0.5	0.7	1.6	2.3	1.7
Demand, real growth, per cent						
Private consumption	-0.5	0.6	0.5	1.2	2.4	2.2
Public consumption	-1.5	0.2	0.9	0.6[2]	0.6	0.7
Gross fixed capital formation	2.8	2.2	3.3	1.9	5.4	3.4
Change in inventories (per cent of GDP)	0.5	-0.4	0.1	0.2	0.0	0.0
Export	6.5	0.9	1.0	3.7	5.7	3.6
Import	5.6	2.5	2.0	3.3	6.1	4.2
Labour market and productivity						
Growth in labour force (per cent)	-0.5	0.1	0.2	0.3	0.8	0.5
Growth in employment (per cent)	-0.3	-0.3	-0.1	0.4	1.1	0.5
Structural gross unemployment (per cent of labour force)	4.2	4.5	4.0	3.7	3.7	3.7
Registered (net) unemployment	160	162	158	151	122	107
Hourly productivity, entire economy	1.4	0.1	0.5	1.2	1.2	1.1
Growth in GVA per employed	1.5	0.0	0.7	1.4	1.2	1.2

1) The forecast for 2013-14 the interim assessment from April 2013.
2) With the agreement on *Growth Plan DK* the dampening of public growth will, in isolation, imply as real growth of 0.4 per cent in 2014. However, the comprehensive agreement on *Growth Plan DK* leads to growth in public spending of 0.6 per cent in 2014. The change is primarily a result of the reform of the cash benefit system, which particularly in the short-run recuires addittional funds for the strengthening of the targeted active effort. The change in consumption growth is fully funded.

Source: Statistics Denmark and own calculations.

3. Public balance and debt to 2020

Economic policies are planned to comply with the targets and key objectives for public finances in accordance with the EU recommendation, the general rules in the Stability and Growth Pact and the Budget law. In 2011-2013, public finances are consolidated so the actual deficit is brought below 3 per cent of GDP in 2013 and public finances improve by approximately 1½ per cent of GDP in structural terms. During the entire period until 2020, the actual deficit remains below 3 percent of GDP, and the structural deficit is estimated to be close to balance. Fiscal policies are thus in compliance with the Budget law which implies that the structural deficit should not exceed ½ per cent of GDP per year. Fiscal policies also imply that Denmark's Medium Term Objective (MTO) for public finances under the Stability and Growth Pact of - ½ per cent of GDP is fulfilled. In 2020, public revenues and expenditures will be balanced in structural terms. EMU debt is projected to around 40 per cent of GDP in 2020 which will thus ensure a broad safety margin to the requirements of the EU's Stability and Growth Pact.

3.1 The public balance

The economic forecast for 2013 and 2014 is based on an interim assessment from April 2013, *cf. chapter 2*. The assessment has taken into account new economic-statistical information and political decisions since the last forecast in *Economic Survey*, December 2012, including the agreements on *Growth Plan DK*, the public sector collective agreements as well as the agreement with municipalities to increase the municipal capital investments by DKK 2 billion in 2013 as a result of expected lower services expenditures.

The projections for public finances towards 2020 are based on a forecast that reflects the economic policy priorities, including the measures in Growth Plan DK, the 2012 tax reform, the reform of the disability pension scheme and the flexi-job scheme as well as the reform of disability pension scheme and the flexi-job scheme (June 2012) as well as the reform of the early retirement scheme (2011).

The preliminary statement by Statistics Denmark on public finances in 2012 shows a public deficit of almost DKK 75½ billion in 2012, which corresponds to 4.1 per cent of GDP. On EDP-basis, the public deficit was 4.0 per cent of GDP in 2012, *cf. box 3.1*. The deficit in 2012 is among other things due the extraordinary increase of public expenditures in 2012 as a result of the reimbursement of contributions to the voluntary early retirement pension scheme following the early retirement reform as well as the bringing forward of public investments as part of the handling of the crisis.

Box 3.1

Public balance and debt reporting under EDP

Denmark reports the general government deficit and the public gross debt to the European Commission under the Excessive Deficit Procedure (EDP). The public balance on EDP-basis differs from the balance based on the Danish national accounts. The public balance on EDP-basis includes net interest income from central government interest rate and currency swaps, and the treatment of central government revenues from sale of UMTS-licenses differs.

The EDP-corrections have only marginal effects on the general government balance, *cf. table*. The corrections have historically been in the order +/- 0.1 or 0.2 per cent of GDP. I 2012 the correction for interest swaps improves the public balance on EDP-basis, while the correction for UMTS-licenses reduces the public balance on EDP-basis slightly.

Per cent of GDP	2010	2011	2012	2013	2014
Public balance (EDP-basis)	-2.5	-1.8	-4.0	-1.6	-1.7
Public balance (National Account basis)	-2.7	-2,0	-4.1	-1.7	-1.8

Note: The public balance in 2012 is affected by the 2012 on-off reimbursement of the early retirement contribution which is estimated to weaken the public finances with approximately 1¾ per cent of GDP.

Source: Statistics Denmark and own calculations.

Based on the interim assessment, the public deficit is estimated to be reduced by DKK 31 billion in 2013 (1.7 per cent of GDP), and DKK 34.3 billion in 2014 (1.8 per cent of GDP), *cf. table 3.1*. The deficits in 2013 and 2014 are thus lower than the reference value of 3 per cent of GDP in the EU's Stability and Growth Pact.

The interim assessment implies among other things that the estimate for revenues stemming from the restructuring of the taxation of pension schemes (capital pension) is increased by DKK 15 billion in 2013 and 20 billion in 2014 compared to the *Economic Survey*, December 2012, *cf. table 3.1*. This is due to the expansion and extension until 2014 of the special discount scheme attached to the shifting forward of the taxation of capital pension. In both 2013 and 2014, a one-off revenue of DKK 20 billion is thus assumed, corresponding to approximately 1 per cent of GDP in both years.

Excluding the assumed one-off revenue of DKK 20 billion from the restructuring of the taxation of pension schemes, the public deficit is estimated to approximately 2.8 per cent of GDP in both 2013 and 2014. Also when the public balance is estimated excluding the revenues from the capital pension restructuring, the deficit is lower than the reference value of 3 per cent of GDP.

The interim assessment also takes into account other adjustments having an impact on public finances in 2013 and 2014, *cf. table 3.1*. This includes an upward adjustment of the estimate for the revenues from the pension yield tax in both 2013 and 2014 as a result of the new assumptions on developments in the financial markets and a downward adjustment of the public revenues from VAT and other duties due to lower private consumption.

Public consumption in 2013 is based on the budgets corrected among other things for the public sector collective agreements and the agreement with municipalities to increase the municipal capital investments by DKK 2 billion in 2013 as a result of expected lower services expenditures. The public investments reflect among other things the increase in municipal capital investments by DKK 2 billion in 2013 as well as the agreements on Growth Plan DK which imply a further increase in public investments of DKK 2 billion in 2014.

Table 3.1
Public balance 2012-2014 and changes since the December Economic Survey

DKK Billion	2012	2013	2014
Public balance in Economic Survey, December 2012	-71.7	-46.4	-54.0
- change in estimates for revenues from restructuring of taxation of pension schemes		15.0	20.0
- New estimates for pension yield tax		9.0	6.7
- New estimates for North Sea revenues		0.0	-0.1
- Corporate taxes *(*not hydrocarbon taxable *)*		0.0	-0.8
- VAT and other duties		-7.6	-10.5
- Personal taxes and labour market contributions		-4.7	-1.1
- Public consumption		4.6	6.6
- Public investments		-0.7	-2.7
- Subsidies		0.2	1.0
- Income transfers		0.6	2.0
- Net interest payments and dividends		-1.7	-1,6
- Other elements		0.7	0.2
Public balance in interim assessment CP2013	**-75.4**	**-31.0**	**-34.3**
Interim assessment in CP2013 (per cent of GDP)	-4.1	-1.7	-1.8
Economic Survey, December 2012 (per cent of GDP)	-3.9	-2.5	-2.8

Source: Statistics Denmark and own calculations.

The impact of discretionary one-off measures on total public finances and the central government CIL-balance is outlined in annex 1. The public balance is reduced by DKK 28½ billion in total in 2012, in particular due to the repayment of the early retirement contributions, while the other one-off measures offset each other. In 2013, the public balance improves by

DKK 20 billion as a result of the restructuring of the taxation of pension schemes. The impact on the CIL-balance is larger than in 2012 and 2013, *cf. annex 1*.

The agreement on *Growth Plan DK* includes several financing elements which have a particular impact on public finances towards 2020, including:

- The services expenditures of the municipalities are kept unchanged from 2013 to 2014, which will free up DKK 2 billion a year from 2014.
- Growth in public consumption is subdued in 2014-2017 which will free up DKK 1.9 billion in 2014 increasing to 4.3 billion in 2020.
- Public wages are regulated according to wage developments in the private sector which have increased less than expected. This frees up DKK 1.5 billion per year from 2013 onwards.
- The special discount for moving forward taxation of pension schemes is extended to 2014.
- The agreement on reform of the cash benefit system and the agreement on the reform of the student grant system strengthen public finances with DKK 1.2 billion and DKK 2.2 billion respectively in 2020.

3.2 Structural budget balance and fiscal consolidation

The structural budget balance which is corrected for the impact of business cycle developments and other temporary factors (including developments in financial markets and oil prices) is estimated to -0.9 per cent of GDP in 2011, -0.8 per cent of GDP in 2012 and -0.2 per cent of GDP in 2013.

The EU-recommendation implies that the actual public deficit has to be brought below 3 per cent of GDP at the latest in 2013, and that public finances have to be improved by 1½ per cent of GDP in structural terms from 2010 to 2013. Based on the decisions regarding economic policies, the interim assessment shows that Denmark will meet its EU-recommendation. The public deficit is brought below 3 per cent of GDP in 2013, cf. above, and the structural budget balance improves by approximately 1½ of GDP in the period 2011 to 2013, cf. below.

Table 3.2
Fiscal policy measures to comply with the EU-recommendation

Per cent of GDP	2011	2012	2013	2011-13
Consolidation total (direct budget impact)	**1.0**	**0.6**	**0.6**	**2.2**
- moderate public consumption growth	0.7	0.1	0.1	0.9
- public investments	-0.1	-0.1	0.2	0.0
- income transfers (including cash benefit reform)	0.1	0.2	-0.1	0.1
- financing measures in Spring Package 2.0	0.1	0.0	0.2	0.4
- financing measures in Fiscal Consolidation Agreement	0.3	0.1	0.1	0.5
- financing measures in Budget Bill for 2012		0.2	0.1	0.4
- other elements	-0.1	0.1	-0.1	-0.1
Other structural factors affecting the structural balance	**-0.2**	**-0.3**	**0.0**	**-0.5**
Underlying change in fiscal balance (bottom-up)	**0.8**	**0.3**	**0.6**	**1.7**
Change in structural balance (top-down)	**0.8**	**0.1**	**0.6**	**1.5**

Source: Own calculations.

Fiscal policies etc. contribute to strengthening public finances by approximately 1.7 per cent of GDP in structural terms in the period 2011 to 2013 measured by the so-called "bottom-up" approach which measures the direct impact on public revenues and expenditures from fiscal policies etc., *cf. table 3.2*. The consolidation of public finances has to be seen in the context of the phasing in of financing elements in the Spring Package 2.0 and the measures in the Fiscal Consolidation agreement and the Budget Bill for 2012, *cf. the National Reform Programme 2013, chapter 3.*

Based on direct budgetary impact, the contribution from fiscal policy in 2011-2013 is approximately 2.2 per cent of GDP. Several factors, however, are weakening public finances by approximately ½ per cent of GDP towards 2013, including a structural decline in North Sea revenues in 2011-12 and subdued underlying productivity growth in 2011-2013.[1] Public finances thus improve net by approximately 1.7 per cent of GDP from 2010 to 2013 based on the bottom-up approach, *cf. table 3.2*.

[1] In the calculations of the direct budgetary impact of public finances are included among other things, an assumption of productivity growth of 1¼ per cent per year in the non-agricultural industries in the zero-points for neutral fiscal policy. If the structural productivity growth for 2011-2013 is used for the zero-points, the total fiscal consolidation in 2011-2013 corresponds to approximately 1¾ per cent of GDP.

Looking at the "top-down" assessment which is based on the estimate for actual public balance adjusted for temporary elements, including the cyclical adjustment, the structural balance improves by approximately 1½ per cent of GDP from 2010 to 2013, *cf. table 3.3*.

Table 3.3
Structural budget balance

Per cent of GDP	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2020**
1. Public balance	-2.7	-2.0	-4.1	-1.7	-1.8	-2.9	-2.1	0.0
2. Cyclical adjustment	-1.2	-1.5	-2.0	-2.1	-1.9	-1.5	-1.1	-
3. Special adjustments in total	0.2	0.4	-1.4	0.7	0.3	-0.9	-0.7	-
- Corporate tax	-0.3	-0.5	-0.3	-0.2	-0.2	-0.2	-0.2	-
- Vehicle registration tax	-0.4	-0.4	-0.4	-0.5	-0.5	-0.4	-0.2	-
- Pension yield tax	1.1	1.1	1.2	0.5	0.0	-0.4	-0.4	-
- Net interest payments	-0.1	-0.1	-0.1	0.1	0.0	0.2	0.1	-
- North Sea revenues	-0.1	0.2	0.2	-0.1	-0.1	-0.1	0.1	-
- Others	0.0	0.0	-2.0	0.9	1.0	0.0	0.0	-
4. Structural balance (1.-2.-3.)	**-1.7**	**-0.9**	**-0.8**	**-0.2**	**-0.3**	**-0.4**	**-0.3**	**0.0**
Memorandum items								
Weighted cyclical gap	-1.6	-1.9	-2.7	-2.9	-2.5	-2.1	-1.5	0.0

Source: Statistics Denmark and own calculations.

Throughout the years up until 2019, the projected actual deficits are greater than the calculated structural deficits reflecting that cyclical conditions are assumed to be fully normalised only around 2019, *cf. chapter 2*. The cyclical conditions thus contribute to the public balance being weaker than in years with a neutral cyclical impact as employment and production in all years towards 2009 are expected to be lower compared to a neutral cyclical year. In 2020, the projected development is structural and the budget balance is equal to the structural balance, *cf. table 3.3*.

The medium term fiscal policy planning in Denmark implies that the actual deficit is less than the 3 per cent of GDP threshold in the EU's Stability and Growth Pact in the entire period towards 2020. At the same time, the structural budget balance is estimated to be between 0 and -½ per cent of GDP in all years. Denmark's Medium Term Objective for public finances (MTO) is -½ per cent of GDP. This means that the structural balance is approximately balanced in the years 2014-2020, as the annual structural deficit does not exceed Denmark's MTO on ½ per cent of GDP. The fiscal policy planning thereby complies with the Budget law and the rules in the Fiscal Compact.

As part of the strengthening of the Stability and Growth Pact, a fiscal rule on public expenditures has been introduced which implies that real growth in public expenditures cannot exceed potential GDP growth which is a (rough) measure of structural development in the tax base. If growth in expenditures increases beyond potential GDP growth, it must be financed by specific discretionary measures, which increase revenues, *cf. Denmark's Convergence Programme 2012*, where the expenditure rule is further described.

Denmark meet the requirements of EU's expenditure rule in both 2013 and 2014, *cf. box 3.2*. Zero growth is assumed in real public expenditures in 2013 in accordance with the expenditure rule limit in 2013, while real growth in 2014 is assumed to be approximately 0.7 percentage points below the limit.

Box 3.3
Meeting EU's expenditure rule in 2013 and 2014

Denmark is in the Excessive Deficit Procedure (EDP) and has a recommendation with a deadline to bring the deficit below 3 per cent of GDP in 2013. EU's assessment of Denmark's fiscal policy in 2013 is therefore based primarily on Denmark's compliance with the requirements on fiscal policy in the recommendation. Compliance with the recommendation is expected to result in abrogation of the recommendation in 2014. The EU's assessment of Denmark's fiscal policy will hereafter depend on Denmark's compliance with the rules on the medium term budgetary objectives (MTO), including EU's expenditure rule which is part of an overall assessment of the compliance with the MTO-rules.

EU's expenditure rule should contribute to ensuring that countries comply with their MTO or the principle of ensuring progress towards the MTO with structural improvements of 0.5 per cent of GDP per year. For a country that has not yet reached its MTO (or will only reach its MTO in the year in question), growth in real public expenditures corrected for discretionary income measures must thus be so much lower than real growth in potential GDP that the difference (a "convergence margin") ensures an adjustment towards the MTO of 0.5 per cent of GDP per year. For a country that has reached its MTO, real growth in expenditures corrected for discretionary income measures should not exceed real growth in potential GDP.

Denmark expects to comply with its national MTO of 0.5 per cent of GDP from 2013. The rules thus imply that Denmark should continue to ensure a convergence margin between the growth rates in the expenditure target and potential GDP in 2013, whereas real growth in public expenditure can follow real growth in potential GDP from 2014.

For Denmark, the European Commission has calculated a convergence margin, which implies that real growth in public expenditure must be 0.9 percentage points below real growth in potential GDP to ensure a sufficient structural adjustment until the MTO is reached. EU applies an estimate for real growth in potential GDP of 0.9 per cent to assess compliance with the expenditure rule until 2013 and an updated estimate for real growth in potential GDP of 1.1 per cent from 2014 onwards.

In 2013, the year where Denmark is assumed to reach its MTO, the limit on real expenditure growth is approximately zero growth in public expenditures in real terms (growth in potential GDP of 0.9 percent less a convergence margin of 0.9). In 2014, the limit on real growth in expenditure is 1.1 per cent in line with the updated estimate of real growth in potential GDP.

	2013	2014
Key figures		
Average potential GDP growth (a)	0.9[1]	1.1[2]
Convergence margin (b)	0.9	0.9
Lower benchmark[3] (a)-(b)	0.0	0.2
Real expenditure growth [4]	1.0	0.3
Real expenditure growth including discretionary income measures[4]	0.0	0.4

1) European Commission estimate for the average real growth in potential GDP for 2007-2016.
2) European Commission estimate for the average real growth in potential GDP for 2008-2017.
3) The lower benchmark only applies for countries that have not yet reached their MTO (or that will only reach MTO in the year in question).
4) European Commission estimate for the development in the GDP deflator is used in the calculations of real growth in expenditure in 2013 and 2014.

Box 3.3 (continued)
Meeting EU's expenditure rule in 2013 and 2014

In 2013, real growth in public expenditure is estimated at approximately 1 per cent, while zero growth is estimated when adjusting for discretionary income measures. Denmark thus complies with the expenditure rule in 2013 as real growth in expenditure is estimated to be in line with the limit of the expenditure target (approximately zero growth).

As Denmark is still in the EDP-procedure in 2013, the recommendation will be the binding restriction on fiscal policy in 2013. Therefore, the European Commission assessment of Denmark's compliance with the expenditure rule will not be binding. The expenditure rule will only be assessed binding as of 2014, assuming that the EDP-procedure for Denmark will be abrogated in 2014.

In 2014, real growth in the target for public expenditure is 0.3 per cent and including discretionary income measures to approximately 0.4 per cent. As the limit on real growth in expenditures in 2014 corresponds to EU's estimate of potential real growth in GDP of 1.1 per cent, *cf. table*, this implies that Denmark more than complies with the expenditure rule in 2014. Real growth in public expenditures is approximately 0.7 percentage points below the limit in 2014. For the two years as a whole, real growth in public expenditure isss below the limit by approximately 0.35 percentage points each year.

1) Real public expenditures less interest payments and cyclical expenditures for transfers to unemployed.

3.3 Public expenditures and revenues

Throughout the years to 2020 actual public expenditures are assumed to be higher than public revenues. With the continued normalisation of the cyclical conditions, public expenditures are reduced relative to the revenues and in 2020 expenditures and revenues will be balanced.

3.3.1 Public expenditures

The total share of public expenditures to GDP was approximately 56¼ per cent of GDP in 2011. From 2011 to 2012 the expenditure rate increased by approximately 2 percentage points to 58.3 per cent of GDP, *cf. table 3.4*. The increase is primarily due to the repayment of contributions to the early retirement scheme in 2012 and increased public investments.

The share of public expenditures to GDP is estimated to be reduced in the period 2013 to 2020. Public expenditures are reduced to approximately 51½ per cent of GDP in 2020. The reduction reflects the normalisation of the cyclical position which increases GDP and lowers the outlays for unemployment transfers etc. It also reflects the agreed reforms, including the early retirement reform that among other things reduces the expenditures for early retirement and increases labour supply and GDP. At the same time, public consumption expenditures as a share of GDP are reduced towards 2020 which reflects both the normalisation of the cyclical position and the assumed real growth in consumption expenditures, cf. below.

Public interest payments as a share of GDP are reduced towards 2015, as a consequence, among other things, of lower average interests on public debt. From 2016 to 2020, public interest payments, however, increase from approximately 1.7 per cent of GDP to approximately 2 per cent of GDP.

Table 3.4
Public expenditures

Per cent of GDP	ESA	2010	2011	2012	2013	2014	2015	2016	2020
Public expenditures		**56.3**	**56.3**	**58.3**	**56.7**	**55.9**	**54.9**	**54.0**	**51.5**
- Primary expenditures		54.2	54.2	56.3	54.8	54.1	53.2	52.3	49.5
- Public consumption	P3	28.9	28.4	28.6	28.5	28.2	27.9	27.5	26.4
- Public investments		2.1	2.2	2.4	2.2	2.2	2.0	2.0	2.1
- Income transfers	D62	17.2	17.4	17.7	18.0	17.8	17.7	17.3	15.8
- Subsidies	D3	2.5	2.5	2.6	2.7	2.6	2.6	2.5	2.4
- Other primary expenditures		3.3	3.6	5.0	3.4	3.3	3.1	3.0	2.8
- Interest expenditures	D41	2.1	2.1	2.0	1.8	1.8	1.7	1.7	2.0

Note: The public expenditures in 2012 are affected by the one-off repayment of contributions to early retirement of approximately 1½ per cent of GDP.
Source: Statistics Denmark and own calculations.

Public income transfers

The total income transfers share of GDP increases from 2012 to 2013, but is estimated to be gradually reduced from 18 per cent of GDP in 2013 to almost 16 per cent of GDP in 2020. The reduction towards 2020 should be seen in the light among other things of the continued normalisation of the cyclical position. To this should be added the agreement to increase the age limit for early retirement and state pension as well as other reforms, including the deregulation of public income transfers with the tax agreement from 2012. The reforms of disability pension and flexi-job schemes from June 2012 and the reform of the cash benefit system and the state education grant system as part of the agreements on the *Growth Plan DK* also contribute to reducing the income transfers towards 2020.

The total number of benefit recipients increases slightly towards 2020 as a result of meeting the targets for education and the demographic development that implies more recipients of student grants and more retired persons. However, at the same time there will be less recipients of early retirement, unemployment benefits and cash assistance.

Assumptions on public expenditures

Real growth in public consumption was 0.2 per cent in 2012. The real growth in consumption was – 1.5 per cent in 2011 which among other things is due to a strengthening of public spending control and other measures in the Consolidation Agreements.

In 2013, real growth in public consumption is estimated to 0.9 per cent. This is based on the assumption that public consumption expenditures in 2013 equal the budgets corrected for the public sector collective agreements and the agreement with with municipalities to increase the municipal capital investments by DKK 2 billion in 2013 as a result of expected lower services expenditures.

The moderation of public consumption as part of the agreements on *Growth Plan DK* alone imply a real growth in public consumption of approximately 0.4 per cent in 2014, approximately 0.5 per cent in 2015, approximately 0.6 per cent in 2016 and approximately 0.7 per cent in 2017. When defining the expenditure ceilings the other consequences of the agreements on Growth Plan DK are taken into account, including the unchanged services expenditures of the municipalities in 2013 and 2014 and the reforms of cash benefit and student grants. This implies that the public consumption growth changes. This is due primarily to the cash benefit reform which strengthens public finances with approximately DKK 0.5 billion in 2014, increasing to approximately DKK 1.2 billion in 2020, but where extra resources are allocated in the short run with a view to strengthening the targeted active effort. The change in consumption growth is fully financed.

Therefore, real growth in public consumption is assumed in the medium term projection to approximately 0.6 per cent in 2014, approximately 0.5 per cent in 2015, approximately 0.6 per cent in 2016 and approximately 0.7 per cent in 2017. For 2018-2020, it has been technically assumed that real GDP growth is approximately 0.7 per cent per year. Hereby the public consumption can increase with DKK 26 billion (2014 prices) in total in the period 2013-2020, which corresponds to approximately DKK 3¼ billion per year. This means that there is still room for real resources per user to grow, even if demographics weigh on public consumption. The on-going work to modernise the public sector and making it more efficient will help to ensure greater progress in the quality of public services, than what is warranted by real growth, *cf. chapter 6*.

With continued real growth, public consumption expenditures are assumed to decrease from almost 28½ per cent of GDP in 2011 to almost 26½ per cent of GDP in 2020. In 2020, the share of consumption will be above the historic average for the period 1990 to 2012. The concrete measures in the agreements on *Growth Plan DK* contribute to reducing the share of public consumption in GDP in 2020, through a continued moderation of real consumption growth and higher GDP. The consumption share in 2020 reflects the level which is reached in the medium term projection based on adopted reforms etc., and where the requirement is structural balance in public finances in 2020.

Assumptions on public investments

Public investments increase significantly in the years 2009-2012 as a result of the moving forward and initiating investments to support growth and employment during the economic downturn. In 2012, public investments are expected to amount to 2.4 per cent of GDP, which is a high level by historical standards.

The medium term projection for public investments reflects among other things the agreement with Local Government Denmark (LGDK) to increase the municipal capital investments by DKK 2 billion in 2013 and the agreement on Growth Plan DK which implies an extra increase in public investments of DKK 2 billion in 2004, increasing to DKK 4 billion in 2020 when compared to originally planned level. Public investments are thus assumed to 2.2 per cent of GDP in 2013 and 2014. From 2014 to 2020, public investments increase by around DKK 2¾ billion (2014 prices). In 2020 the investments are assumed to around 2 per cent of GDP. The projection towards 2020 reflects among other things the implementation of already planned large investment projects in hospitals and infrastructure.

Besides public investment projects, considerable investments are being made in public enterprises and companies that will appear in the national account as private investments, including the Metro City ring and the Fehmarnbelt connection etc.

Composition of public expenditures by function

The functional distribution of public expenditures shows that social protection is by far the largest expenditure function, *cf. table 3.5*. The expenditures for this function are about 25 per cent of GDP. Social protection covers among other things the majority of income transfers (state pension, disability pension, unemployment benefit, cash assistance etc.) as well as operating expenditures for day care, social institutions and nursing homes. The expenditures for health care and education are the second largest expenditure functions, and both are approximately 8 per cent of GDP.

Table 3.5

Distribution of public expenditures by function, 2009-2013

	2009	2010	2011	2012	2013[1)]
Per cent of GDP					
General public services	7.8	7.8	8.0	9.2	7.2
Military defence	1.5	1.4	1.4	1.5	1.5
Public order and safety	1.2	1.1	1.1	1.1	1.2
Economic affairs	3.2	3.3	3.5	3.6	3.6
Environmental protection	0.5	0.4	0.4	0.5	0.5
Housing and community amenities	0.6	0.4	0.3	0.4	0.4
Health	8.6	8.3	8.2	8.4	8.3
Recreation, culture and religion	1.7	1.6	1.6	1.6	1.6
Education	7.9	7.9	7.7	7.8	7.8
Social protection	25.1	25.2	25.2	25.2	25.6
Public expenditures in total[2)]	**58.0**	**57.5**	**57.4**	**59.3**	**57.6**

Note: As part of the expenditures for general public services is the repayment in 2012 of the contributions to early retirement.

1) Statistics Denmark public finance statistics for 2013 and the government's latest estimate for GDP in 2013 in the interim assessment. 2009-2011 reflects national account figures, 2012 is based on preliminary national account figures and 2013 reflects budgetary figures.

2) The statement of total public consumption as a share of GDP by Statistics Denmark differs from the statement in table 3.4. due to differences in definitions and methods used (in table 3.4. is included depreciations and sales of goods of public consumption, which is not the case in Statistics Denmark's statement).

Source: Statistics Denmark and own estimates and calculations.

The medium term projections for the Danish economy do not cover the distribution of expenditures by function (COFOG), but a projection of the real economy sub-components, including public consumption, expenditures for income transfers and public investments, cf. above.

The Government has a number of targets within the areas of education and research that implies that this type of public expenditures will be prioritised up until 2020. The targets are described in detail in the *National Reform Programme, chapter 4*. Furthermore, meeting the education targets will result in a reduction of labour supply in the short run due to an increased number of students. This will also affect public budgets through a reduction in public revenues. The agreed reform of student grants as part of the Growth Plan DK, however, reduces the expenditures in this area with DKK 2.2 billion in total towards 2020 through a more well-functioning and efficient system for student grants.

The demographic development with an increased number of elderly will put further pressure on expenditures to among other things health, elderly care and state pension towards 2020. However, fewer pupils in the elementary school will reduce the pressure on expenditures within this area.

3.3.2 Public revenues

The total share of public revenues was almost 54½ per cent of GDP in 2011. From 2011 to 2014, the share of public revenues to GDP is assumed to decrease to around 54 per cent of GDP and to be further reduced towards 2020 to approximately 51½ per cent of GDP. The reduction from 2014 to 2020 reflects primarily a decrease in the tax burden by approximately 2 percentage points, *cf. table 3.6,* as well as decrease in “other income”.

Table 3.6
Public revenues

Per cent of GDP	ESA	2010	2011	2012	2013	2014	2015	2016	2020
Public expenditures		**53.6**	**54.4**	**54.2**	**55.0**	**54.1**	**52.0**	**51.9**	**51.5**
- Taxes and duties (tax burden)		47.6	47.9	48.4	49.4	48.6	46.8	46.8	46.7
- Personal income taxes etc.[1)]		20.4	20.5	20.7	22.5	22.4	21.0	20.9	20.4
- of which property value tax		0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.6
- Labour market contributions		4.6	4.5	4.5	4.5	4.4	4.4	4.4	4.4
- Pension yield tax		2.1	2.1	2.3	1.6	1.2	0.8	0.7	1.0
- Corporate taxes		2.8	2.8	3.0	3.1	3.0	2.8	2.9	2.9
- VAT		9.8	9.9	10.0	9.9	9.9	9.9	9.9	10.0
- Property tax (land tax etc.)		1.4	1.4	1.4	1.4	1.4	1.5	1.6	1.7
- Excise duties etc.		5.6	5.7	5.6	5.6	5.4	5.5	5.6	5.7
- Social contributions		1.0	1.0	0.9	0.9	0.9	0.9	0.8	0.8
- Interest income	D41	1.6	1.6	1.5	1.6	1.5	1.4	1.4	1.3
- Other income		4.3	4.8	4.3	4.0	3.9	3.8	3.7	3.5

1) Personal taxes cover withholding taxes (including property value tax), annual motor vehicle fees paid by households, inheritance tax and other personal taxes. In 2013 and 2014 the income from the restructuring of the pension schemes are included.
Source: Statistics Denmark and own calculations.

From year to year there are significant fluctuations in the tax base. In 2013, there is a temporary increase in the tax burden due to an increase in personal income taxes. However, a gradual normalisation of the income from the pension yield tax will reduce tax revenues in 2013.

The decline in the tax burden from 2014 to 2020 reflects in particular that one-off revenues disappear in 2014 as well as lower tax revenues from payments of pension schemes. In addition, growth in taxable transfers will be lower in light of the reforms in the agreement on *Growth Plan DK* and corporate tax revenues will decline in light of the gradual reduction of the corporate tax rate from 25 per cent today to 22 per cent in 2016.

3.4 Net lending by sub sectors

The central government deficit is reduced from 2.5 per cent of GDP in 2010 to 1.6 per cent of GDP in 2013 due to consolidation of public finances. In 2012, however, the deficit increased temporarily, among other things because of the repayment of the contributions to early retirement. Towards 2020 the deficit decreases with the normalisation of the cyclical conditions and as the reforms take effect. In 2020, central government finances are assumed to be in balance.

Table 3.7
Public finances by sub sectors

Per cent of GDP	2010	2011	2012	2013	2014	2015	2016	2020
Central government	-2.5	-2.0	-4.1	-1.6	-1.6	-2.9	-2.1	0.0
Local government	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Social funds	0.0	0.0	0.0	-0.1	-0.2	0.0	0.0	0.0

Note: It is technically assumed that net lending of local governments (municipalities and regions) is balanced in the period 2013-2020.
Source: Statistics Denmark and own calculations.

The finances of the municipalities and the regions are technically assumed to be balanced during the entire projection period, which is also almost the case for social funds, cf. *table 3.7*. The finances of the municipalities should in general be balanced. However, on a national account basis, the municipal balance may in individual years show a surplus or a deficit of a certain size.

3.5 Public debt

The government gross public debt – the EMU debt – is reduced from 46.4 per cent of GDP in 2011 to 45.7 per cent of GDP in 2012, and is assumed to decline further towards 2014 as the deficits these years to a large extent are assumed financed by drawing on the central government's account in Danmarks Nationalbank. The EMU debt is rather stable around 44 per cent of GDP in the period 2015-2017. Hereafter, the debt is reduced to around 40 per cent of GDP in 2020. The debt thus ensures a sufficient safety margin to the requirements in the EU's stability and Growth Pact which imply that gross debt should not exceed 60 per cent of GDP.

Overall, EMU-debt is projected to decrease by 2.5 per cent of GDP from 2010 to 2020, *cf. table 3.8*. The continued development in the primary balance of the central government and the municipalities contributes overall to an increase in the EMU-debt by approximately 12½ per cent of GDP from 2010 to 2020, whereas the net interest balance of central government and the municipalities contributes to an increase in the debt by almost 4½ per cent of GDP. The growth in nominal GDP, however, contributes in insolation to a reduction of the EMU debt of approximately 14 per cent of GDP.

Table 3.8
General government gross debt (EMU-debt) and net public debt

Per cent of GDP	2010	2011	2012	2013	2014	2015	2016	2020	10-20
EMU-debt (end-year level)	42.7	46.4	45.7	44.0	42.4	43.5	43.8	40.3	-
Change in EMU debt ratio		3.6	-0.7	-1.7	-1.7	1.1	0.3	-1.4	-2.5
Contribution to change in EMU debt ratio:									
- Primary budget balance		1.5	3.7	1.3	1.3	2.7	1.8	-0.8	12.6
- Net interest payments		0.5	0.5	0.2	0.3	0.2	0.3	0.7	4.4
- Nominal GDP growth		-0.8	-0.7	-0.9	-1.3	-1.4	-1.8	-1.5	-14.0
- Financial contributions etc.[1]		2.5	-4.1	-2.4	-1.9	-0.3	0.0	0.2	-5.5
Net public debt[2]	-1.7	3.1	7.0	8.6	10.1	12.7	14.3	14.2	-
Net debt of central and local Governments[2]	-1.7	3.1	7.0	8.4	9.7	12.3	13.9	13.9	-

1) Financial contributions etc. reflect e.g. the Social Pension Fund's stock of government bonds which is deducted in the EMU debt. To this is added the effect on the EMU-debt of the restructuring of government assets and liabilities (privatisation etc.), payment changes in the tax area, issuance price losses, relending to state guaranteed entities etc.

2) The period 2013-2020 is technically projected based on the development of the general government budget balance etc. and the development of the budget balance of central and local governments.

Source: ADAM, Statistics Denmark and own calculations.

Net public debt, which in contrast to the EMU-debt includes the public sector's financial assets, is projected to increase from approximately 7 per cent of GDP in 2012 to approximately 15.4 per cent of GDP in 2018 as a result of recent years' public deficits and debt accumulation. In 2019 and 2020 net public debt projected to decline as the nominal net debt is growing at a slower pace than GDP (measured in current prices). Net public debt is projected to amount to approximately 14.2 per cent of GDP in 2020.

It is mainly the net public debt, and not the EMU debt, which is relevant for the public sector's financial position and fiscal sustainability.

Annex 1. Discretionary one-off measures in 2012 and 2013

Discretionary one-off measures etc. are estimated to reduce the central government CIL-account by DKK 34.4 billion in 2012, while the public balance is reduced by DKK 28.5 billion, which primarily reflect the repayment of contributions to the early retirement, *cf. table 3.9*. In 2013, the central government CIL-account is estimated to increase by DKK 22 billion and the public balance with 20 billion DK, in particular due to the restructuring of capital pension schemes.

Table 3.9
Discretionary one-off measures in 2012 and 2013

Billion DKK	CIL-account	Public balance
Disbursements from IØ and IFU	0.4	0.0
Expenditures to the EU Presidency	-0.1	-0.1
Revenues from individual guarantees	1.0	1.0
Compensation to municipalities for repayment of land taxes	-0.6	-0.6
Repayments of early retirements contributions	-28.5	-28.5
Conversion of loans into equities in Vestjysk Bank	-0.3	0.0
Losses on capital deposits in Sparekassen Østjylland and Spar Salling	-0.3	-0.3
Buying of shares in DONG Energy A/S	-1.2	0.0
Capital increase in the Vestjysk Bank	0.2	0.0
Commitment to shutdown plants for oil and gas production	-5.0	0.0
2012 total	**-34.4**	**-28.5**
Disbursements from IØ and IFU	0.3	0.0
Restructuring of the pension schemes	20.0	20.0
Capital increase in the European Investment Bank	1.7	0.0
2013 total	**22.0**	**20.0**

Note: A positive value reflects an account increase, while a negative value reflects an account decrease.
Source: Ministry of Finance, Budget Outlook 3, December 2012 and new estimates for the restructuring of capital pension schemes.

4. Sensitivity Analysis and Comparison with CP12

The economic outlook for the international and the Danish economy is still characterised by uncertainty. Some of the uncertainty among investors, households, and businesses have subsided since mid-2012. However, the persistent handling of the European sovereign debt crisis, and the markets continued confidence in the crisis initiatives will be essential for the development going forward.

The assumptions regarding the international economy and financial conditions in 2013 and 2014 are based on the European Commission's external assumptions regarding interest rates, oil prices, and export market growth. Hence, if the European Commission's external assumptions were used, it would only lead to marginal adjustments of the growth forecasts.

The economic development has been weaker in 2012 than expected in the Convergence Programme from 2012 (CP12). This will imply a somewhat longer period of normalisation of the cyclical stance in CP13.

Since CP12 a number of reforms have been adopted. These have consequences for the long term economic development and are incorporated in the projection up to 2020. The reforms include the tax reform from June 2012, a reform of disability pensions and the flexjobs scheme from June 2012, and initiatives in the Growth Plan of April 2013 (which also includes reforms of student grants and the cash benefit system).

4.1 Sensitivity analyses

This section illustrates the sensitivity of public finances and the macroeconomic scenario to changing conditions in selected areas as required in the Code of Conduct for Stability and Convergence Programmes. The sensitivities are illustrated in relation to the common external assumptions for 2013 and 2014 and in relation to a more negative scenario with lower growth abroad. Furthermore, a positive scenario is presented, where growth abroad is assumed to be better than expected.

4.1.1 Scenarios with the European Commission's external assumptions

The assumptions regarding the international economy in CP13 are roughly in line with the external assumptions regarding interest rates, oil prices, and export market growth in the European Commission's winter forecast from February, *cf. table 4.1.* An alternative scenario based on the European Commission's external assumptions would therefore only imply minor changes to the central forecast.

There have only been minor movements in oil prices and interest rates since the European Commission's winter forecast, implying only minor differences in the assumptions regarding these. In CP13 export market growth is expected to be somewhat lower in 2013 than assumed in the Commissions forecast from February. This reflects the fact that more recent growth estimates, including the forecast in IMF's *World Economic Outlook* from April, point towards slightly weaker developments in growth abroad.

A model simulation incorporating the effects of the common external assumptions yields a higher growth forecast for the Danish economy, due to the higher export market growth. The higher level of activity in turn implies marginally better public finances. A somewhat lower level of interest rates in 2014 also lead to slightly higher activity. The changes in external assumptions only have minor implications for public finances. A model simulation incorporating the effects of the common external assumptions yields slight upward revision of GDP growth in 2014 from 1.6 per cent to 1.8 per cent, likewise the public deficit is reduced from 1.8 per cent of GDP to 1.6 per cent of GDP.

Table 4.1

External assumptions

	2012	**2013**		**2014**	
		CP13	EU	CP13	EU
Export market growth	2.4	2.8	2.8	5.4	5.8
Crude oil price, USD per barrel	111.7	111.8	113.7	111.6	106.4
Short interest rates, percentage points	0.5	0.4	0.4	0.9	0.7
Long interest rates, percentage points	1.5	1.7	1.7	2.1	2.0

Source: The interim assessment, prepared in April 2013 and the European Commission's *Winter Forecasts 2012-14*.

4.1.2 Negative and positive scenario

The assumptions for international economy in CP13 are based on a turnaround in the EU during 2013 with gradually higher growth, while the moderate recovery in the US and the rest of the world is assumed to continue. If the improvement in growth either weakens or is absent all together, it will entail a dampening of the export market growth faced by Danish businesses. Alternatively, a more positive scenario is also possible. The sensitivity to a change in assumptions is illustrated by to alternative scenarios.

- *A negative scenario*, where export market growth is assumed to be 1¼ percentage points lower in 2013 and 1½ percentage points lower in 2014 due to a slowdown of the recovery abroad. Such a scenario may occur if a weak international crisis management undermines confidence and growth expectations. This would lead to lower growth, particularly in the countries that are already hit the hardest.

- *A positive scenario,* where the development abroad is stronger than expected. In that case it is assumed that Danish export market growth will be lifted with 1½ percentage points in 2014. Furthermore, it is assumed that Danish businesses would increase investment spending as early as 2013, due to expectations of higher demand. Investment growth in this scenario is around 4 percentage points higher than in the baseline scenario.

In the negative scenario Danish GDP growth will be reduced by around 0.3 percentage points in both 2013 and 2014. Furthermore, unemployment will rise, and the public balances will deteriorate, *cf. table 4.3.*

In the positive scenario higher growth abroad and higher investments will increase Danish GDP growth by 0.2 percentage points in both 2013 and 2014. Unemployment will fall in both years, and public finances will improve.

Table 4.2
Alternative scenarios

	2012	2013	2014
Convergence Program 2013			
GDP growth	-0.5	0.7	1.6
Unemployment, per cent of the workforce	5.6	5.5	5.2
Public balance, per cent of GDP	-4.1	-1.7	-1.8
Gross debt (EMU definition), per cent of GDP	45.7	44.0	42.4
Negative scenario			
GDP growth	-0.5	0.4	1.3
Unemployment, per cent of the workforce	5.6	5.6	5.5
Public balance, per cent of GDP	-4.1	-1.8	-2.1
Gross debt (EMU definition), per cent of GDP	45.7	44.3	43.0
Positive scenario			
GDP growth	-0.5	0.9	1.8
Unemployment, per cent of the workforce	5.6	5.4	5.0
Public balance, per cent of GDP	-4.1	-1.6	-1.5
Gross debt (EMU definition), per cent of GDP	45.7	43.8	41.9

Note: The table shows the impact on registered gross unemployment.
Source: Own calculations in ADAM.

4.2 Comparison with Convergence Program 2012

Economic growth in the end of 2012 was weaker than expected in CP12 and for 2012 as a whole Danish GDP fell by 0.5 per cent. The fall in GDP in 2012 further implies a lower starting point for activity growth through 2013. On that basis growth expectations for 2013 have been lowered compared to previous assessments and compared to CP12.

This also implies a somewhat longer period of normalisation of the business cycle than assumed in CP12. Now there is assumed a recovery of the Danish economy where the negative output gap – the difference between actual and estimated potential GDP – just under 3 per cent of GDP is expected to be gradually closed through 2019 – one year later than assumed in CP12.

The weakened economy implies a worsening of public finances as well. The public deficit is expected to be 1.7 per cent of GDP in 2013 and 1.8 per cent of GDP in 2014. If the temporary revenue of DKK 20 bn. in each year from the tax reform of capital pension schemes is disregarded, then the public deficit is expected to be around 2.8 per cent of GDP in both years.

The change in the assessment of public finances since CP12 should be viewed in light of the weaker economic outlook.

Since CP12 several reforms, with implications for economic development in the longer run, have been adopted, and are now included in the projections up to 2020. These include the tax reform from June 2012, the reform of disability pensions and the flexjobs scheme from June 2012, along with different deals made on the basis of *Growth Plan DK.* In both CP12 and CP13 the public budget is balanced by 2020, *cf. table 4.5.*

Finally, the projection up to 2020 is based on an updated interim assessment, and includes, among other things, a new population projection from Statistics Denmark.

Gross public debt (EMU-definition) is expected to stay at around 45 per cent of GDP in the years up to 2020, thus keeping a good distance to the 60 per cent reference value in the EU's Stability and Growth Pact. Compared to CP12 there has been a considerable upward revision of the debt in 2012. In the former forecast it was assumed that there would be a considerable reduction in government deposits in the central bank. Hence, there is a level shift, with a higher account balance, *cf. Economic Survey*, May 2012.

Table 4.3
Changes compared to Convergence Program 2012

	2010	2011	2012	2013	2014	2015	2016	2020
				Changes in per cent				
Real GDP growth								
CP12	1.3	1.0	1.2	1.5	1.8	2.2	3.2	1.5
CP13	1.6	1.1	-0.5	0.7	1.6	1.8	2.4	1.7
Change	0.3	0.1	-1.7	-0.8	-0.2	-0.4	-0.8	0.2
				Per cent of GDP				
Outputgap (per cent of GVA)								
CP12	-2.1	-2.1	-2.1	-1.7	-1.1	-0.8	-0.6	0.0
CP13	-1.7	-1.8	-2.8	-3.0	-2.5	-1.9	-1.3	0.0
Change	0.4	0.4	-0.7	-1.2	-1.4	-1.1	-0.7	0.0
Public balance[1)]								
CP12	-2.7	-1.9	-4.1	-1.9	-1.9	-1.7	-1.0	0.0
CP13	-2.7	-2.0	-4.1	-1.7	-1.8	-2.9	-2.0	0.0
Change	0.0	0.0	-0.1	0.1	0.1	-1.2	-1.0	0.0
EMU debt								
CP12	42.9	46.5	40.5	41.4	41.2	42.1	42.0	39.7
CP13	42.7	46.4	45.7	44.0	42.4	43.5	43.8	40.3
Change	-0.2	-0.1	5.2	0.6	1.2	1.4	1.8	0.6

Note: The public gross debt, EMU definition, has been reduced from 46.4 per cent of GDP in 2011 to 45.7 per cent of GDP in 210, and is estimated to fall further towards 2014, since the deficit in these years is assumed to be largely financed by drafts on governmental deposits in the central bank.

Source: Own calculations.

5. Long Term Projection and Fiscal Sustainability

The key medium-term fiscal policy objectives include the achievement of structural budget balance or surplus in 2020, sustainable fiscal policy and maintaining a safety margin for the gross debt-to-GDP ratio relative to the requirements of the Stability and Growth Pact. A long-term projection of the Danish economy shows that fiscal policies comply with these objectives.

The long-term projection shows that pressures on public finances will increase in the years after 2020 as a result of changes in population and declining North Sea production. In recent years a series of reforms have been implemented which, in addition to strengthening the sustainability of public finances, also reduce the pressure on the budget balance after 2020. The lower projected deficits for this period contributes to a dampening of public debt accumulation towards mid-century so that the EMU debt maintains a margin relative to the limit of 60 per cent of GDP included in the Stability and Growth Pact.

5.1 Public finances after 2020

For the years towards 2020 the Convergence Programme reflects a scenario that incorporates adopted policy and a gradual cyclical normalisation. For the years after 2020 the projection is based on technical principles, which basically reflect unchanged public expenditures in the sense that expenditures per person grow in line with income growth in the economy (productivity and inflation). The projection includes a gradual increase in the retirement age in line with developments in life expectancy as stipulated in the *Welfare Agreement* from 2006 and the *Retirement Reform Agreement* from 2011. At the same time the tax burden is kept unchanged.

In a projection based on these principles, the annual structural budget deficits towards 2030 are in line with the limit of ½ per cent of GDP stated in the Budget Law. Subsequently budget deficits will – based on unchanged policies – gradually increase to approx. 1¾ per cent of GDP around 2045, after which the structural budget balance gradually improves.

The increasing budget deficit in the 2-3 decades following 2020 is primarily caused by demographic changes. Public expenditures as a share of GDP will have a tendency to increase due to the relative large cohorts of elderly and many pensioners etc. At the same time relatively small working age cohorts tend to dampen growth in public revenues and potential

GDP. In addition, declining oil and gas production implies decreasing revenues from North Sea activities. The long-tem projection reflects technical assumptions and therefore does not reflect adopted policies. Thus Denmark will also for the years after 2020 pursue a fiscal policy that complies with the structural budget balance requirements stated in the Budget Law.

Compared to the long-term projection in CP12 changes in economic policy imply a reduction of the challenges for public finances stemming from increasing budget deficits towards the middle of this century, *cf. figure 5.1.*

The delayed and reduced increase in structural budget deficits partly reflects the reform of disability pensions and the flex-job scheme (June 2012), which has an increasing positive effect on public finances over time. Furthermore, the advancing of the tax revenues from pension schemes with lump-sum disbursements (so-called capital pensions) due to the agreement on a tax reform (June 2012), for a period up to 2040 implies increased revenues, lower public debt and thus lower public interest expenditures. The restructuring of pension taxation is roughly neutral (marginally negative) with respect to fiscal sustainability.

Figure 5.1
Structural budget balance compared to Convergence Programme 2012

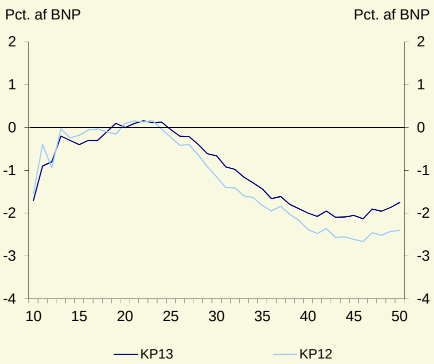
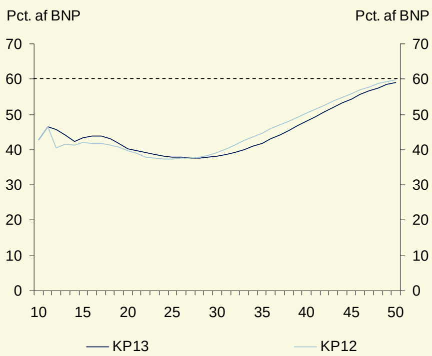


Figure 5.2
Gross debt (EMU definition)



Source: Statistics Denmark and own calculations.

The EMU debt is declining towards 2030 to a level around 35 per cent of GDP. For the years after 2030 the EMU debt is projected to increase, though maintaining a safety margin relative to the 60 per cent of GDP limit of the Stability and Growth Pact throughout the projection period. The gross debt profile has been adjusted downwards significantly compared to CP12. In particular, the lower projected structural budget deficits towards 2050 imply lower public debt in the longer term, *cf. figure 5.2*.

Lower public debt reduces the sensitivity with respect to an increase in interest rates and thereby contributes to maintain confidence in financial markets about the Danish economy. Lower public debt implies that debt service will increase less, if interest rates should increase.

This makes public finances more robust and safeguards to a larger extent room for manoeuvre in fiscal policy.

The medium-term projection embedded in the Convergence Programme is based on a scenario which includes adopted policy and a gradual cyclical normalisation. For the years after 2020, the projection rests on an overall assumption of unchanged structures in the economy except for the gradual phasing out of Danish oil and gas production in the North Sea. Adopted economic policy includes e.g. the effects of the *Retirement Reform Agreement* (June 2011) and the *Agreement on Disability Pensions and Flex-job* (June 2012), both contributing to higher labour supply and structural employment in 2020. Furthermore, it is assumed that public expenditures per person grow in line with incomes, although a correction is made for so-called "healthy ageing". The tax burden is assumed unchanged after 2020, *cf. box 5.1*.

Box 5.1
Principles for projection after 2020

The projection principles used after 2020 reflect an extrapolation of the structures in the economy, as they appear in 2020, and is not an actual forecast.

- Public consumption expenditures are projected on the assumption that nominal 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. Public sector wages grow in line with private wages, and public net purchases of goods and services from the private sector make up a constant share of public consumption expenditures.
- Social benefits (income transfers) are assumed to rise in line with private sector wages such that replacement rates remain overall constant (e.g., in case of job loss or retirement).
- Labour participation rates, and the propensities at which various social benefits are received, are assumed to be constant by age, gender and origin. The overall (structural) unemployment rate is constant (at 3-3¼ per cent for net unemployment). Further included is a contribution to employment from the pension reform, a reduction in the unemployment benefit period as well as contributions from a gradually higher level of education in the labour force.
- The long-term projection of public investment is derived from the principle that the ratio between the gross public capital stock and public production of goods and services is constant after 2020.
- Public subsidies and net foreign transfers are constant relative to GDP.
- The tax burden is projected to be unchanged after 2020, so 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.
- The revenues from taxation of North Sea activities are based The Danish Energy Authority's long-term projection of oil and gas production, while long-term oil price assumptions are based on the 2012-projetion of the International Energy Agency (IEA).
- A gradual improvement in energy efficiency is assumed in both consumption and production.

5.2 Fiscal sustainability

The key medium-term fiscal policy objectives include at least structural budget balance in 2020, sustainable fiscal policy i.e. a positive sustainability indicator, and that the EMU-debt maintains a safety margin relative to the requirements of the Stability and Growth Pact. Fiscal sustainability implies that the policies planned towards 2020 can be sustained in the years after, while public debt stabilises as a share of GDP in the long run – given the assumptions on which the long term projections are based. The calculation of fiscal sustainability can be seen as a “consistency check” of whether the policies planned to 2020 can be sustained thereafter.

The development of public finances is estimated to be sustainable, corresponding to a sustainability indicator of 0.0 per cent of GDP, *cf. table 5.1*. In CP12 the sustainability indicator amounted to 0.3 per cent of GDP. A set of changes has led to a worsening of the sustainability indicator – including a new population projection and a larger part of young people in the educational system, as well as a financing contribution to the initiatives in *Growthplan DK*. The majority of changes since CP12 was included in the projection, which was an integral part of the government’s proposal *Growthplan DK, cf. Vækstplan DK – Teknisk Baggrundsrapport* (available in Danish at www.fm.dk). Since the presentation of the government’s proposal *Growhtplan DK* the newest population projection from Statistics Denmark and DREAM and the interim short-term economic outlook etc. have been included in the projection. This results in a slight weakening of the sustainability indicator of approx. 0.05 per cent of GDP.

As part of the strategy in *Growthplan DK* additional reforms should be targeted to increase both economic growth and employment. These reforms could – when implemented – create a room for manoeuvre, which is sufficient to cover the weakening of sustainability and thus ensure a sustainable fiscal policy. The weakening of the sustainability indicator can also be neutralised through lower public expenditures. As a technical assumption the medium-term projection in CP13 concretely includes an annual real growth in public consumption of 0.7 per cent of GDP in the period 2018-20. However, the government’s ambition still is to make scope for an annual growth in public consumption of ¾ per cent in 2018-2020.

Table 5.1
Changes in sustainability indicator from CP12 to CP13

	Structural balance in 2020	Sustainability indicator
	Per cent of GDP	*Per cent of GDP*
Convergence Programme 2012 (level)	0.0	0.3
	Change	*Change*
Population projection 2012 and 2013	+0.05	-0.4
Tax reform 2012	+0.05	0.0
Reform of disability pensions and flex-job scheme	0.0	+0.1
New short-term economic outlook	+0.1	+0.1
New projection of recipients of social transfers	+0.1	0.0
Projection of education etc.	-0.15	-0.05
Concrete initiatives in Growthplan DK[1)]	-0.05	-0.05
Other factors in total	-0.1	0
	Per cent of GDP	*Per cent of GDP*
Convergence Programme 2013 (level)	0,0	0,0
	DKK bn	*DKK bn*
	0	0

1) Excluding the financing contribution stemming from the available fiscal room for maneouvre, including the effect of the 2013 collective bargaining agreement for the public sector etc., which is a part of the financing of the initiatives in Growthplan DK.

Note: The contributions do not necessarily sum to totals due to rounding. Under the heading "Other factors in total" an average annual growth rate for public consumption of 0.7 per cent is technically assumed for the period 2018-20.

The most important changes in the sustainability indicator since CP12 reflect the following:

- **Population projection 2012 and 2013.** The new population projections entail a small improvement of the structural budget balance in 2020, while the sustainability indicator is weakened by approx. 0.4 per cent of GDP. The weakening of the sustainability indicator is due to higher immigration and changes in fertility, which implies that a slightly smaller part of the population will be in the labour force in the longer run. The sustainability indicator is basically robust vis-à-vis changes in life expectancy since the statutory retirement ages for VERP and public pensions are indexed to life expectancy, but due to lags in the indexation mechanism a small negative contribution is entailed.

- **Tax Reform 2012.** In total the agreed tax reform (June 2012) is neutral vis-à-vis public finances in the long run. Due to the advancing of revenues from taxation of capital pensions, cf. above, the agreement implies a small improvement of the budget balance in 2020 compared to the permanent effect.

- **Reform of disability pensions and the flex-job scheme.** The reform implies lower expenditures related to social transfers and higher structural labour supply, which improves the budget balance by approx. 0.15 per cent of GDP in 2020 and the sustainability indicator by approx. 0.25 per cent of GDP. The reform of disability pensions and the flex-job scheme increases the scope for *public consumption* by approx. DKK 1.9 bn in 2020 and furthermore entails operating expenditures of approx. DKK 1.2 bn. In total the reform increases public consumption by approx. DKK 3 bn (or 0.15 per cent of GDP). Thus, all in all the reform on disability pensions and the flex-job scheme is neutral vis-à-vis the budget balance in 2020.

- **New short-term economic outlook.** The Interim forecast imply a lower starting point for public consumption expenditures in 2013, which strengthens the structural budget balance and fiscal sustainability. Conversely a weaker short-term outlook for economic activity weakens the budget balance and fiscal sustainability, including the assumption on a more prolonged period of cyclical normalisation compared to CP12, since the output gap is assumed to be closed in 2019 in CP13.

- **New projection of recipients of social transfers.** An up-dated *projection of the number of VERP-recipients* implies a larger drop-out rate from the scheme as a consequence of the possibility to get VERP-contributions reimbursed free of tax in 2012. The larger drop-out rate compared to the assumptions in CP12 implies somewhat fewer VERP-recipients in the longer term, although the fewer people entitled to VERP to some extent is offset by a higher take-up rate among the remaining contributors to the scheme. All in all a modest improvement of fiscal sustainability is obtained. An up-dated *projection of the number of disability pensioners* implies somewhat fewer recipients in the future due to the latest data on the influx to the scheme, which strengthens the budget balance in 2020 and fiscal sustainability. Conversely a larger number of people are assumed to retire as "self-pensioners" before the future higher statutory pension age, which pulls in the opposite direction.

- **Educational projection.** The projection towards 2020 includes the fulfilment of the government's objective that 60 per cent of youth cohorts should have a tertiary education (compared to approx. 54 per cent in the baseline scenario in CP12). This weakens the structural budget balance in 2020 by approx. 0.1 per cent of GDP due to fact that more people will be in the educational system receiving study grants instead of taking part in the labour market. In the longer run a higher level of education will imply higher productivity and higher labour market participation rates after graduation and thus higher GDP.

"Other changes" include, for instance, the effects of the agreement on EU's budget for 2014-2020, a safety margin (buffer) of DKK 1 DKK bn under the expenditure ceilings and a revised assessment of the long-term equilibrium level for the relativity between public and private sector wages. A more detailed description of the revisions of the fiscal sustainability calculations is presented in *Vækstplan DK – teknisk baggrundsrapport,* Ministry of Finance, March 2013 (only available in Danish on www.fm.dk).

6. Public finances and institutional framework

From 2014 the Budget Law sets expenditure ceilings for central government, municipalities and regions. The budget ceilings will contribute to ensuring increased efficiency in the management of public expenditure and thus to deal with the fiscal challenges towards 2020. The expenditure ceilings for 2014-17 will be established by law in 2013.

In order to ensure continued progress in public service, the government plans to modernise the public sector so as to free up DKK 12 bn towards 2020. Among the initiatives are increased focus on management, digitalisation and welfare technology, working time rules and work conditions, better regulation and reducing bureaucracy, prioritisation and increased targeting as well as capacity utilisation and improved financial management etc. The plan includes a large number of initiatives. Common to them all is a focus on effects, results, professionalism and trust.

6.1 Institutional framework

The government has set the following key landmarks for the planning of public finances and fiscal policy.

- *Fiscal policy* should contribute to a stable economic development, ensure that the structural public deficit remains below ½ per cent of GDP, and ensure at least structural budget balance in 2020. Fiscal policy is planned with a view to achieve a sustainable development in public finances in the longer term (the sustainability indicator must always be positive), and the public debt must keep a wide safety distance to the requirements set out in the EU stability and Growth pact. Fiscal policy is subject to a principle of caution implying that new expenditures cannot be held before a majority in the Parliament has agreed on concrete initiatives that with a high likelihood will ensure the necessary funding.

- *Expenditure policy* in 2011-13 is planned so as to adhere to the EU recommendation, and planned public expenditure reflects the Fiscal Consolidation Agreement and the Budget Bills for 2012 and 2013. The assumed development in public expenditure in 2014-2020 ensures structural balance by 2020. The budget law underpins that public expenditures comply with the targets and priorities in the medium term plans, e.g. by only taken into account reforms etc. which are backed by a political majority in the Danish Parliament.

- *Tax policy* in 2013 is based on the initiatives in the Budget Bills for 2012 and 2013, the Fiscal Consolidation Agreement, Spring Package 2.0 and Agreement on a Tax Reform from June 2012. The tax reform lowers the tax on labour significantly thereby strengthening labour supply and public finances towards 2020. With the agreement on *Growth Plan DK* a number of a number of taxes on businesses will be lowered, and corporate taxes will be reduced gradually towards 2016.
- *Monetary and exchange rate policy:* A stable currency by virtue of the fixed exchange rate against the euro, which at the same time ensures low and stable inflation expectations. Responsible economic policies underpin confidence in the stable exchange rate so that low interest rates can be maintained.

6.2 Improved expenditure control

To improve expenditure control and to achieve the fiscal and expenditure targets, Parliament adopted the Budget Law in June 2012. The Budget Law contains rules on a new management system for expenditure control.

The aim of the Budget Law is to ensure balance or surplus on general government finances and appropriate expenditure control in central government, municipalities and regions. As such the Law should underpin that the public finances develops in line with the targets and priorities in *Growth Plan DK*, including the requirement in the Fiscal Compact that the structural deficit should stay below ½ per cent of GDP, calculated on the basis of the Ministry of Finance’s estimate for the structural balance.

Among other things, the Budget Law entails that as of 2014 4-year binding expenditure ceilings will be set for central government, municipalities and regions respectively, *cf. box 6.1* and *Denmark’s Convergence Programme 2012* for a more detailed description of the elements in the Budget Law. In 2013, the government will put forward a bill on expenditure ceilings for 2014-17 based on an updated medium-term projection for the Danish economy. The projection will take into account the agreement on *Growth Plan DK*, including the moderation of public consumption growth, *cf. chapter 3,* and the reforms of the student grant scheme and cash benefits.

In general, growth in public consumption in 2014-17 is placed under the expenditure ceiling for central government. Under the Budget Law it is possible to reallocate the expenditure ceilings between central government, municipalities and regions and make adjustments so as to take price and wage developments into account.

With the agreement on *Growth Plan DK*, the political majority for the government’s forthcoming bill on expenditure ceilings for 2014-17 has been secured.

Box 6.1
Main elements in the Budget Law

Expenditure control framework based on expenditure ceilings:

- Three expenditure ceilings shall set binding limits for expenditures in central government, municipalities and regions each year. The ceilings shall specify limits in money terms (quantified in DKK) for the actual expenditures.
- The expenditure ceilings shall be adopted in the Danish Parliament by law.
- The ceilings shall underpin the overall medium term fiscal objective of ensuring structural budget balance.
- The ceilings shall cover a rolling 4-year period. Ceilings for the new fourth year have to be determined in the following years based on an updated macroeconomic scenario.
- The ceilings include most types of public expenditures. The central government expenditure ceiling include among other things operating costs, expenditures for income transfers which is not unemployment related, subsides and foreign transfers. The expenditure ceilings for municipalities and regions include their service/operating cost.
- The unemployment related – and strongly cyclically sensitive expenditures - costs such as unemployment benefits and cash benefits are excluded from the ceiling, so that the automatic stabilisers can operate in line with cyclical fluctuations. Public investments are also excluded from the ceilings.
- The expenditure ceilings for central government, municipalities and regions shall be underpinned by measures to improve financial management and economic sanctions.
- The Economic Council is tasked with evaluating annually whether the economic policy is consistent with the target for the structural budget balance, and whether the adopted expenditure ceilings comply with the medium term fiscal projections for public finances.

Implementation of the Fiscal Compact in Danish legislation:

- A rule that the public finances must balance or be in surplus. The requirement is adhered to if the annual structural deficit is no greater than ½ per cent of GDP. There may be a temporary deviation from the medium-term target under exceptional circumstances.
- A binding correction mechanism in case of significant deviations (of at least ½ per cent of GDP) from the budget balance rule.

Link to the Budget Law: https://www.retsinformation.dk/Forms/R0710.aspx?id=142466&exp=1.

6.3 Efficiency Improvements and Modernization of the Public Sector

Growth in public consumption in 2014-20 only forms part of the foundation for continued quality and progress in the public sector. In addition, there is a large potential for developing public service through a continued modernisation of the public sector. The purpose of modernisation is to ensure that public resources are used to best effect and where they are most needed.

With modernisation the government is seeking to promote a change of practices in the public sector, which will affect both citizens, employees, managers, central government, municipalities and regions. Among other things peoples' individual resources and potential should to a greater extent be the starting point. Increased trust and room for employees' to use their skills and experience are to be achieved through better regulation and reduced bureaucracy, simultaneously more time for core tasks is to be freed up. At the same time managers should have the largest possible managerial space through systematic follow-up on clear and meaningful targets.

Through modernisation the government aims to free up DKK 12 bn towards 2020. Thus the level of ambition for modernisation has been raised by DKK 7 bn compared to the government's 2020-plan from May 2012. The concrete increase in the modernisation ambition reflects the premise of balanced growth in public consumption towards 2020.[1] Thus modernisation ensures that the previously planned development of public service towards 2020 is maintained. The DKK 12 bn corresponds to an efficiency requirement of 0.3 per cent annually on average during 2013-20.

The government is already well under way with modernising the public sector and a number of initiatives have been implemented. Among other things an agreement has been reached on the *eGovernment Strategy 2011-2015*, where the government, Local Government Denmark and Danish Regions have agreed that 80 per cent of written communication (paper forms and letters) in the future should take place via the internet. During the first part of the transition to digital communication it has been agreed that there is a potential of DKK 1 bn annually, and a considerable further potential is expected.

The government and Local Government Denmark have also agreed on a *modernisation agreement*, which implies that the government and the municipalities each will implement initiatives amounting to approx. DKK ¾ bn in total towards 2014. Central government has already implemented initiatives amounting to just above DKK 360 million in 2013. The freed-up funds will remain in the municipalities to improve local service provision.

Furthermore, the agreement between the government and Danish Local Government on the municipal budget for 2013 provides that a systematic and in-depth review of the welfare areas is to be carried out. *The overhaul of regulation and governance* is a new debureaucratisation effort, which instead of abolishing individual regulation is to conduct a survey of the governance of welfare areas with a view to ensure consistency between objectives, governance and evidence. The follow-up on the first reviews on the insured unemployed and day-care will be included in the budget agreement for 2014.

[1] In the proposal for Growth Plan DK is assumed an average growth of public consumption of approx. 0.6 per cent per year in 2014-20. This corresponds to a reduction in expenditure growth in 2014-20 of approx. DKK 7 bn compared to the ambition in the medium-term projection including reforms in the 2020 Plan from May 2012. The reduction is thus counterbalanced by an increased ambition as regards modernisation of the public sector.

Towards 2020 the initiatives to meet the DKK 12 bn target will be included in the government's on-going work on modernisation through the annual Budgets, the budget agreements with municipalities and regions etc. Future modernisation work includes a broad agenda and will inter alia be realised through increased focus on effects and results, digitalisation and welfare technology, working time agreements and working conditions in the public sector, public-private collaboration, better regulation and an increased focus on capacity utilisation, financial management, leadership and improved public procurement, *cf. box 6.2.*

Box 6.2
Examples of modernisation themes

Digitalisation. The government has launched an ambitious effort to promote digitalisation in the public sector. Digitalisation can free up administrative resources and reduce the number of heavy, routine tasks for employees, while citizens and companies receive a more flexible and efficient service at the same time.

Use of welfare technology. The government want to modernise and rethink service production in the public sector through increased use of welfare technology. This should lead to more efficient workflow, citizens becoming more self-reliant, improved working environment for public employees and increased quality of public service.

Rules on working time and work conditions in the public sector. The framework for public tasks is constantly changing. It is important that working time regulation, employment arrangements and wage systems are in place to support that employees can do their best work as well as a continuous improvement in productivity.

Better regulation and targeting. The government wants an ambitious approach, which abolishes tasks and rules that take time away from the core public duties, and focuses on results through reduced bureaucracy on detail and process requirements.

Enhanced focus on capacity utilisation, financial management, leadership and improved public procurement. The government wants to increase the focus of public institutions on better capacity utilisation and cost awareness. This is to be achieved through increased transparency in financial management, broader use of benchmarks and focus on good leadership in the public sector.

Public-private collaboration. Increased collaboration with private stakeholders can challenge, rethink and improve the efficiency of public tasks. Through improved framework conditions the government wants to support that the public sector becomes better able to take advantage of the strengths and skills of the private sector.

A service minded public sector. The government wants to promote a continued change in mind-set aimed at strengthening the "service-gene" in the public sector in order to promote what we want to achieve in other areas. A well-functioning public sector not only forms for the foundation for a society with good opportunities for everyone, but also for growth and employment in the private sector.

Focus on effects, results and mutual learning. The government wants to focus on increasing the existing knowledge on effects, results and best practice. Public institutions in central government, regions and municipalities must learn from each other and focus on the best and most efficient methods.

Annex tables according to the EU's "Code of Conduct"

Table 1a
Macroeconomic prospects

	2012	2010	2011	2012	2013	2014	2015	2016	2020
	Bn. DKK	Rate of change, per cent							
Real GDP	1,552.7 1)	1.6	1.1	-0.5	0.7	1.6	1.7	2.4	1.7
Nominal GDP	1,820.2	5.8	1.7	1.6	2.0	3.2	3.3	4.1	3.8
Components of real GDP									
Private consumption	777.6 1)	1.7	-0.5	0.6	0.5	1.2	2.0	2.5	2.1
Government consumption	432.3 1)	0.4	-1.5	0.2	0.9	0.6	0.5	0.6	0.7
Gross fixed capital formation	288.3 1)	-2.4	2.8	2.2	3.3	1.9	2.7	6.1	3.5
Changes in inventories 2)		1.0	0.5	-0.4	0.1	0.2	0.0	0.0	0.0
Export of goods and services	877.7 1)	3.0	6.5	0.9	1.0	3.7	6.8	5.8	3.6
Import of goods and services	816.5 1)	3.2	5.6	2.5	2.0	3.3	7.1	6.5	4.2
Contributions to real GDP growth		Percentage points							
Final domestic demand		0.5	-0.2	0.7	1.1	1.1	1.6	2.5	1.9
Changes in inventories 2)		1.0	0.5	-0.4	0.1	0.2	0.0	0.0	0.0
External balance of goods and services		0.0	0.8	-0.8	-0.5	0.4	0.1	-0.1	-0.3

1) Based on chained 2005-prices. Growth rates are also based on chained indices.
2) Contribution of change in stock to GDP growth
Source: Statistics Denmark and own calculations

Table 1b
Price developments

	2012	2010	2011	2012	2013	2014	2015	2016	2020
	Level	Rate of change, per cent							
GDP-deflator	117.2	4.1	0.6	2.1	1.2	1.5	1.5	1.7	2.1
Private consumption deflator	115.8	2.5	2.5	2.4	1.4	1.5	1.8	1.8	1.9
Consumer price index	128.9	2.3	2.8	2.4	1.3	1.5	2.0	1.9	2.0
HICP	127.6	2.2	2.7	2.4	1.1	1.5	1.8	1.7	1.8
Net price index	130.2	2.0	2.6	1.9	1.3	1.6	1.9	1.9	2.1
Public consumption deflator	120.3	2.4	1.1	2.2	0.9	1.3	1.8	2.1	2.5
Investment deflator	112.2	1.2	0.9	1.5	2.0	2.1	1.1	1.4	1.7
Export price deflator	113.1	8.6	1.2	2.8	1.2	1.5	1.4	1.2	1.6
Import price deflator	111.7	4.9	3.7	3.1	1.4	1.6	1.6	1.4	1.5

Note: For all price indices 2005=100
Source: Statistics Denmark and own calculations.

Table 1c
Labour market development

	2012	2010	2011	2012	2013	2014	2015	2016	2020
	Level	Rate of change, per cent							
Employment, 1,000 persons	2,758.7	-2.3	-0.3	-0.3	-0.1	0.4	0.6	0.9	0.5
Employment, hours worked (mill. hours)	4,264.8	-2.2	-0.2	-0.5	0.1	0.5	0.6	0.9	0.6
Unemployment rate (per cent)[1], harmonized EU-definition		7.6	7.7	7.7	7.6	7.3	6.9	6.4	5.0
Labour productivity, persons (1,000 DKK)[2]	562.8	4.0	1.4	-0.2	0.8	1.2	1.1	1.4	1.1
Labour productivity, hours worked (DKK)[3]	364.1	3.9	1.3	0.0	0.7	1.1	1.1	1.5	1.0
Compensation of employees (bn. DKK)[4]	998.3	0.2	1.2	0.7	1.6	2.4	2.9	3.4	3.8
Compensation per employee[5]	385.5	2.7	1.5	1.0	1.6	2.0	2.2	2.4	3.2

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). The structural unemployment is 3.3 per cent in 2015 based on the national unemployment definition. There is uncertainty with respect to the relation between the national and the harmonized unemployment definition.
2) Calculated as real GDP per person employed, where GDP is based on chained 2005-prices
3) Calculated as real GDP per hour worked, where GDP is based on chained 2005-prices
4) Based on current prices, i.e. growth rates are in nominal terms
5) Calculated as compensation per employed wage earner

Source: Statistics Denmark and own calculations

Table 1d
Sectoral balances

	2010	2011	2012	2013	2014	2015	2016	2020
	Per cent of GDP							
Net lending/borrowing vis-a-vis the rest of the world	5.9	5.6	5.2	4.7	5.0	5.3	4.8	3.0
Of which:								
- Balance of goods and services	5.6	5.2	4.4	3.8	4.0	3.9	3.6	2.9
- Balance of primary incomes and transfers	0.3	0.2	0.8	0.9	1.0	1.3	1.1	0.1
- Capital account	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net lending of the private sector	8.6	7.6	9.4	6.4	6.8	8.1	6.9	3.0
Net lending of general government[1)]	-2.7	-2.0	-4.1	-1.7	-1.8	-2.9	-2.1	0.0
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1) Public balance (net lending) is based on national accounts. In 2012 the general government deficit is extraordinary high due to the repayment of early retirement contributions.
Source: Statistics Denmark and own calculations

Table 2a
General government budgetary prospects (EDP-basis)

	2012	2010	2011	2012	2013	2014	2015	2016	2020
	Bn. DKK	Per cent of GDP							
Net lending (EDO B.9) by sub-sector									
General government (EDP-form)	-78.9	-2.5	-1.8	-4.0	-1.6	-1.7	-2.8	-2.0	0.1
Central governemt	-77.6	-2.3	-1.9	-3.9	-1.4	-1.5	-2.8	-2.0	0.1
Local government	-2.0	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Social security funds	0.8	0.0	0.0	0.0	-0.1	-0.2	0.0	0.0	0.0
General government (S13)									
Total revenue[1)]	985.6	53.5	54.3	54.1	55.0	54.1	52.0	51.9	51.5
Total expenditure[2)]	1,064.4	56.0	56.2	58.1	56.5	55.8	54.8	53.9	51.4
Net lending	-78.9	-2.5	-1.8	-4.0	-1.6	-1.7	-2.8	-2.0	0.1
Interest expenditures	39.6	1.9	2.0	1.8	1.7	1.7	1.6	1.6	1.9
Primary balance[3)]	-39.3	-0.6	0.1	-2.2	0.2	0.0	-1.2	-0.4	2.0
One-off effects[4)]		0.2	0.4	-1.4	0.7	0.3	-0.9	-0.7	0.0
Selected components of revenue									
Total taxes[5)]	863.3	46.6	46.9	47.4	48.5	47.8	45.9	46.0	45.9
Taxes on production and imports	307.8	16.8	17.0	16.9	16.9	16.7	16.9	17.0	17.3
Current taxes on income and wealth etc.	551.7	29.6	29.7	30.3	31.4	30.8	28.8	28.7	28.3
Capital taxes	3.9	0.2	0.3	0.2	0.2	0.3	0.2	0.2	0.2
Social contributions[6)]	17.0	1.0	1.0	0.9	0.9	0.9	0.9	0.8	0.8
Property taxes[7)]	33.1	2.0	2.1	1.8	1.6	1.6	1.5	1.4	1.3
Other (residual) [8)]	72.2	3.9	4.3	4.0	4.0	3.9	3.8	3.7	3.5
Total revenue[2)]	985.6	53.5	54.3	54.1	55.0	54.1	52.0	51.9	51.5
p.m.: Tax burden[9)]	880.2	47.6	47.9	48.4	49.4	48.6	46.8	46.8	46.7

Table 2a (continued)
General government budgetary prospects (EDP-basis)

	2012	2010	2011	2012	2013	2014	2015	2016	2020
	Bn. DKK	Per cent of GDP							
Selected components of expenditure									
Compensation of employees and intermediate consumption	515.8	28.9	28.2	28.3	28.3	27.9	27.7	27.3	26.3
- compensation of employees	334.9	19.0	18.4	18.4	18.2	17.9	17.7	17.5	16.7
- intermediate comsumption	180.9	9.9	9.8	9.9	10.0	10.0	9.9	9.9	9.6
Total social transfers	350.1	18.8	19.0	19.2	19.5	19.3	19.2	18.8	17.2
- social transfers in kind[8)]	27.8	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.4
- other than in kind	322.3	17.2	17.4	17.7	18.0	17.8	17.7	17.3	15.8
Interest expenditures	39.6	1.9	2.0	1.8	1.7	1.7	1.6	1.6	1.9
Subsidies	47.8	2.5	2.5	2.6	2.7	2.6	2.6	2.5	2.4
Gross fixed capital formation	45.2	2.2	2.2	2.5	2.2	2.2	2.0	2.0	2.1
Capital transfers	40.7	0.8	1.2	2.2	0.8	0.8	0.6	0.6	0.5
Other (residual) [8)]	25.3	1.0	1.1	1.4	1.4	1.3	1.2	1.2	1.0
Total expenditure[2)]	1,064.4	56.0	56.2	58.1	56.5	55.8	54.8	53.9	51.4
p.m.: Public consumption	520.1	28.9	28.4	28.6	28.5	28.2	27.9	27.5	26.4

Note: Public balance figures are on EDP-basis. In 2012 the general government deficit is extraordinary high due to the repayment of early retirement contributions.

1) Excl. central government revenues from sale of UMTS-licenses.
2) Adjusted for swap-related flows and spending on infrastructure investments.
3) Defined as the EDP-definition the net lending plus EDP-definition of the interest expenditures.
4) Based on the calculation of the structural budget balance and includes temporary variations in revenues from pension yield taxation. North Sea activities, net interest, corporate taxes and other special items. The structural budget balance is not calculated on EDP-basis. The calculations of the structural budget balance are based on public finances according to national account principles.
5) Defined as the sum of taxes on production and imports, current taxes on income, wealth, etc., and capital taxes. Does not include compulsory social contributions, which are traditionally included in the tax burden.
6) Does not include voluntary and imputed social contributions, since these are not included in the tax burden.
7) Incl. interest income and dividends and land rent etc.
8) Statistic 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 individual components in the projections.
9) 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 compulsory social contributions.

Source: Statistics Denmark and own calculations.

Table 2b
No-policy change projections

	2012	2012	2013	2014	2015	2016
	Bn. DKK	Per cent of GDP				
Total revenue at unchanged policies	985.8	54.2	54.5	53.6	51.5	51.6
Total expenditure at unchanged policies	1,061.2	58.3	56.7	56.2	55.3	54.6

Table 2c
Amounts to be excluded from the expenditure benchmark

	2012	2012	2013	2014	2015	2016
	Bn. DKK	Per cent of GDP				
Expenditure on EU programmes fully matched by EU funds revenue	0	0	0	0	0	0
Cyclical unemployment benefit expenditure[1)]	21.0	1.2	1.2	1.1	1.0	1.0
Effect of discretionary revenue measures	8.8	0.5	0.5	-0.1	0.0	-0.1
Revenue increases mandated by law	0.0	0.0	0.0	0.0	0.0	0.0

1) The cyclical unemployment benefit expenditure consists of the cost of unemployment benefits and social assistance for unemployed.
Source: Statistics Denmark and own calculations.

Table 3
General government expenditure by function

	COFOG	2011	2012
		Per cent of GDP	
General public service	1	7.9	9.0
Defence	2	1.4	1.5
Public order and safety	3	1.1	1.1
Economic affairs	4	3.5	3.6
Environmental protection	5	0.4	0.5
Housing and community amenities	6	0.3	0.4
Health	7	8.2	8.4
Recreation, culture and religion	8	1.6	1.6
Education	9	7.7	7.8
Social protection	10	25.2	25.2
Total expenditures[1)]	TE	57.3	59.1

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) Adjusted for swap-related flows. The estimate for the total expenditure-to-GDP ratio in Statistics Denmark's calculation deviates from the estimate in table 2a due to definitional differences in the approach of calculation (table 2a includes depreciations 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

	2010	2011	2012	2013	2014	2015	2016	2020
				Per cent of GDP				
Gross debt	42.7	46.4	45.7	44.0	42.4	43.5	43.8	40.3
Change in gross debt ratio[1)]	2.1	3.6	-0.7	-1.7	-1.7	1.1	0.3	-1.4
Change in gross debt[2)]	4.3	4.4	0.1	-0.8	-0.3	2.5	2.0	0.1
Contributions to change in gross debt								
Primary balance[3)]	-0.6	0.1	-2.2	0.2	0.0	-1.2	-0.4	2.0
Interest expenditure[4)]	1.9	2.0	1.8	1.7	1.7	1.6	1.6	1.9
Stock-flow adjustment[5)]	3.0	2.3	0.4	-2.7	-2.1	2.2	0.8	-3.8
p.m. implicit interest rate on debt[6)]	5.4	5.1	4.3	3.7	3.9	3.6	3.9	4.8
Other relevant variables								
Central government account in Danmarks Nationalbank	10.1	12.5	-8.8	-7.5	-7.6	-	-	-
Public net debt[7)]	-1.7	3.1	7.0	8.6	10.1	12.7	14.3	14.2
Net debt in central and local governments[7)]	-1.7	3.1	7.0	8.4	9.7	12.3	13.9	13.9

Note: In 2012 the general government deficit is extraordinary high due to the repayment of early retirement contributions.

1) Change in gross debt ratio is defined as $D_t/GDP_t - D_{t-1}/GDP_{t-1}$, where D is public debt measured in nominal terms (DKK).
2) Change in gross debt is defined as $D_t/GDP_t - D_{t-1}/GDP_t$. where D 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 specification of public net debt and net debt in central and local governments the central government liquid assets in Danmarks Nationalbank as well as other assets are subtracted.

Source: Statistics Denmark and own calculations.

Table 5
Cyclical developments

	2010	2011	2012	2013	2014	2015	2016	2020
				Per cent				
Real GDP growth	1.6	1.1	-0.5	0.7	1.6	1.7	2.4	1.7
				Per cent of GDP				
General government balance	-2.7	-2.0	-4.1	-1.7	-1.8	-2.9	-2.1	0.0
Interest expenditure[1)]	1.9	2.0	1.8	1.7	1.7	1.6	1.6	1.9
One-off effects[2)]	0.2	0.4	-1.4	0.7	0.3	-0.9	-0.7	0.0
				Per cent				
Potential GDP growth[3)]	0.2	1.1	0.6	0.9	1.1	1.0	1.7	1.7
				Percentage points				
Of which, contribution from:								
- Labour	0.0	0.3	0.1	0.1	0.2	0.1	0.2	0.3
- Of which labour force	-0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.3
- Capital	0.0	0.0	0.1	0.2	0.3	0.4	0.6	0.6
- Total factor productivity	0.4	0.4	0.3	0.4	0.5	0.5	0.6	0.5
				Per cent of GDP				
Output gap	-1.7	-1.8	-2.8	-3.0	-2.5	-2.0	-1.4	0.0
Cyclical component[4)]	-1.2	-1.5	-2.0	-2.1	-1.9	-1.5	-1.1	0.0
Structural budget balance[5)]	-1.7	-0.9	-0.8	-0.2	-0.3	-0.4	-0.3	0.0
Primary structural budget balance[5)]	-1.3	-0.5	-0.4	0.1	0.0	0.0	0.1	0.8

Note: In 2012 the general government deficit is extraordinary high due to the repayment of early retirement contributions.

1) As defined in table 2.
2) Based on the calculation of the structural budget balance and includes temporary variations in revenues from pension yield taxation. North Sea activities, net interest, corporate taxes and other special items.
3) Including a contribution from indirect taxes (in real terms).
4) The calculation of the cyclical component is based on the output gap.
5) 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

	2010	2011	2012	2013	2014	2015	2016	2020
	Rate of change, per cent							
Real GDP growth								
- Previous update	1.3	1.0	1.2	1.5	1.8	2.2	3.2	1.5
- Current update	1.6	1.1	-0.5	0.7	1.6	1.7	2.4	1.7
- Difference	0.3	0.1	-1.7	-0.8	-0.2	-0.5	-0.8	0.2
	Per cent of GDP							
Output gab (per cent of GVA)								
- Previous update	-2.1	-2.1	-2.1	-1.7	-1.1	-0.8	-0.6	0.0
- Current update	-1.7	-1.8	-2.8	-3.0	-2.5	-1.9	-1.3	0.0
- Difference	0.4	0.4	-0.7	-1.2	-1.4	-1.1	-0.7	0.0
Actual budget balance[1)]								
- Previous update	-2.7	-1.9	-4.1	-1.9	-1.9	-1.7	-1.0	0.0
- Current update	-2.7	-2.0	-4.1	-1.7	-1.8	-2.9	-2.1	0.0
- Difference	0.0	0.0	-0.1	0.2	0.1	-1.2	-1.1	0.0
Gross debt level								
- Previous update	42.9	46.5	40.5	41.4	41.2	42.1	42.0	39.7
- Current update	42.7	46.4	45.7	44.0	42.4	43.5	43.8	40.3
- Difference	-0.2	-0.1	5.2	2.6	1.2	1.4	1.8	0.6

Note: In 2012 the general government deficit is extraordinary high due to the repayment of early retirement contributions.

1) Statistics Denmark's latest EDP-reporting in April, showed a deficit of 4.0 per cent of GDP on EDP-basis in 2012.

Source: Own calculations.

Table 7
Long-term sustainability of public finances

	2000	2005	2010	2020	2030	2050	2060	2070
				Per cent of GDP				
Total expenditure	53.1	51.9	56.3	51.5	52.3	53.2	52.1	51.9
Of which:								
- Age-related expenditure	27.2	28.3	31.8	29.5	30.0	30.0	28.9	28.7
- Pension expenditure	9.4	9.4	10.2	9.6	9.3	8.2	7.6	7.5
- Social security pension	9.4	9.4	10.2	9.6	9.3	8.2	7.6	7.5
- Old-age and early pensions	7.0	7.3	7.9	7.6	7.2	6.0	5.2	5.1
- Other pensions	2.4	2.2	2.3	2.0	2.0	2.2	2.4	2.5
- Occupational pensions								
- Health care[1)]	4.8	5.2	6.3	6.0	6.3	6.4	6.2	6.1
- Long-term care[1)]	2.0	2.1	2.3	2.3	2.8	3.6	3.6	3.5
- Education expenditure	6.0	6.1	6.7	6.2	5.9	6.2	5.9	6.0
- Other age-related expenditures	5.1	5.4	6.4	5.4	5.7	5.6	5.5	5.5
- Interest expenditure	4.3	2.6	2.1	2.0	2.2	2.9	3.0	2.9
Total Revenue	55.3	56.9	53.6	51.5	51.6	51.5	50.9	50.9
Of which:								
- Property income[2)]	2.2	2.2	2.1	1.4	1.5	1.5	1.5	1.5
- Revenue from pension payouts net	-0.6	-1.1	-0.8	0.4	0.3	0.8	0.6	0.6
Pension reserve fund assets	105.2	128.8	143.3	159.8	169.7	172.0	166.5	165.4
Of which:								
-Public pension fund assets	1.1	0.0	0.0	-0.3	-0.5	-0.7	-0.8	-0.8

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

	2000	2005	2010	2020	2030	2050	2060	2070
				Per cent				
Assumptions								
Labour productivity growth	3.7	0.4	3.8	1.2	1.3	1.2	1.1	1.1
Real GDP growth[3)]	3.5	2.4	1.6	1.7	1.7	2.0	1.7	1.6
Participation rate males (aged 20-64)	85.0	84.9	83.5	85.5	86.0	86.3	86.4	86.6
Participation rate females (aged 20-64)	74.3	75.4	75.8	78.8	79.5	80.0	79.8	80.1
Total participation rate (aged 20-64)	79.7	80.1	79.7	82.2	82.8	83.1	83.2	83.4
Unemployment rate[4)]	7.0	6.6	5.9	3.8	3.8	3.8	3.8	3.8
Structural unemployment	5.8	4.5	3.2	3.1	3.0	3.0	3.0	3.0
Population aged 65+, 1,000 persons	791.1	817.8	918.3	1,165	1,371	1,506	1,543	1,634

Note: Figures are based on national account principles. i.e. not on EDP-basis.
1) Compared to the Convergence Programme 2012, the cost of nursing homes is moved from health care to long-term care.
2) Includes public revenues from interest income and dividends.
3) In some years after 2025 GDP growth is effected by the regulation of early- and old age person ages in line with longevity.
4) Registered gross unemployment (including people in activation programmes).
Source: Statistics Denmark and own calculations.

Table 7a
Contingent liabilities

	2012	2013
	Per cent of GDP	
Public guarantees	19.2	-
- of which: linked to the financial sector	3.6	-

Note: Does not include deposit guarantees. Public guarantees consists of "statsforskrivninger", guarantees concerning loans and other guarantees. Guarantees linked to the financial sector consists of the Financial Stability Company.
Source: Statsregnskab for finansåret 2012.

Table 8
Basic assumptions

	2010	2011	2012	2013	2014	2015	2016	2020
Short term interest rate (annual average)	1.1	1.4	0.6	0.4	0.8	1.3	1.9	3.8
Long term interest rate (annual average)	2.9	2.7	1.4	1.7	2.1	2.6	3.2	4.8
Exchange rate USD/EUR (annual average)	132	139	129	129	129	130	131	137
Nominal effective exchange rate (1980=100)	104	104	101	101	101	101	101	101
World excluding EU, GDP growth[1)]	3.3	2.6	2.9	2.8	3.1	4.1	3.8	3.3
EU, GDP growth[1)]	3.4	2.4	0.2	0.5	1.7	2.6	2.4	2.1
Growth of relevant foreign markets[2)]	3.4	2.6	1.2	1.6	2.3	3.1	2.9	2.5
World import volumes, excluding EU	6.4	5.1	5.6	5.4	6.0	7.8	7.4	6.3
Oil prices	80.1	109.8	112	112	119	128	134	148

1) GDP growth weighted by trade
2) Includes OECD countries and emerging economies, i.e. Brazil, Russia, India, China, South Africa, Turkey, Indonesia and Mexico.

Source: Statistics Denmark, OECD and own calculations.

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In tables numbers do not necessarily
sum to totals due to rounding

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