1. English summary

1.1 The current economic outlook

The global economy came to a halt last year, and in many countries the economy contracted by the end of the year. This weakness passed through to the Danish economy, which is highly dependent on developments in export markets. Hence, both at home and abroad the basis for growth in 2013 is weak.

The international business cycle has recovered some in the beginning of the year, and growth is expected to pick up in the second half of 2013 and into 2014 as confidence in particularly in the European economies is restored. Exports may then again become a significant driver of growth next year, *cf. figure 1.1.*

Danish companies are now better equipped to latch on to a recovery abroad – when it comes. Some of the loss in wage competitiveness that was accumulated prior to the set-back in 2008-09 has been countered over the past years, and the agreements on *Growth Plan DK* contain a number of initiatives to strengthen the competitiveness of Danish companies, including reductions in the corporate tax rate and various corporate duties.

Figure 1.1
Drivers of GDP growth

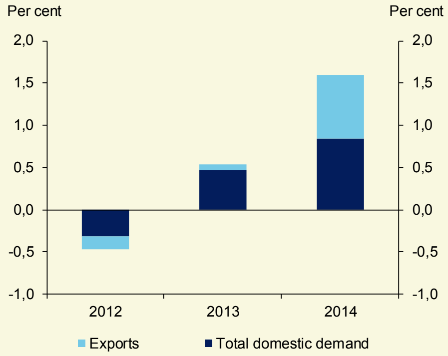
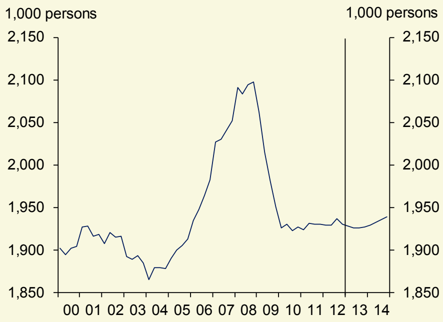


Figure 1.2
Private employment



Note: The growth contributions in figure 1.1 are corrected for the import content of both exports and domestic demand.
Source: Statistics Denmark and own calculations.

Due to the contraction in late 2012 the Danish economy entered 2013 at a low level of activity. This affects the annual GDP growth rate, which is expected at 0.5 per cent in 2013. Like last year, there may be fluctuations throughout the year, and the recovery of production is not expected to gain momentum until the second half of the year. Demand will be underpinned by economic policy this year, which is likely to raise corporate investments in particular. Construction investments by publicly owned companies contribute considerably to overall investments.

Next year the recovery is expected to become increasingly self-sustained. Both exports and private domestic demand is expected to pull up production in 2014, with GDP growth expected at 1.6 per cent.

In spite of the weak cyclical stance, it has been possible to buoy up the labour market in general. Private employment is stable at a level higher than before the overheating of the Danish economy in the mid-2000's, *cf. figure 1.2.* Unemployment has also been fairly stable over the last three years, and is lower than in most other countries. This reflects previous reforms, great flexibility in the labour market, and the fact that there has been room for manoeuvre in economic policy to support the labour market following the downturn of 2008-09.

Although only a relatively moderate increase in production is expected this year and next, the progress is assessed to be strong enough to bring a gradual increase in employment from the second half of 2013. This is because a number of private industries with a relatively large labour content in production have been catching-up significantly to the large cyclical fall in productivity associated with the downturn in 2008-09. However, employment in industries that are subject to international competition remain hampered by a relatively weak productivity growth in the years leading up to the crisis, which has contributed to the accumulation of a wage competitiveness loss since 2000.

The short-term outlook is still subject to considerable uncertainty. However, it appears that some calm has returned to financial markets over the past year, indicating more stability concerning the sovereign debt crisis in the most vulnerable countries. This may contribute to a more positive economic outlook for Europe. It is assumed that there will be an improvement in the international economy – including the euro area – through 2013, and that this will lead to more confidence in the economic development, also in Denmark. The continued management of the European sovereign debt crisis and market confidence in the crisis initiatives are considered to be crucial for developments onwards.

Furthermore, it is assumed that fiscal policy in Denmark will be implemented as planned, within the framework of sustainable economic policy, including the requirements of the Budget Act. Credibility about public finances is a crucial precondition for the economic recovery. Over the past years a number of reforms have been implemented in order to ensure healthy public finances, which strengthen confidence in the Danish economy.

1.2 The forecast

The recovery in the Euro area appears slowly to be coming along helped by a range of initiatives both at the international level and in the individual countries, which have been implemented in order to deal with the sovereign debt crisis. An improvement in confidence and the belief in a gradual, moderate economic advance can already be detected in financial markets. Capital outflows from the crisis-ridden countries of the euro area have turned, and yield spreads are back at the level from before the sovereign debt crisis escalated in late 2011, *cf. figure 1.3*. The interest rate on government debt in countries like Italy and Spain are now at a level of around 4 per cent, down from over 7 per cent when yields were at their highest.

The prospect of an improvement is also reflected by some recovering of business confidence, including in the euro area, after a considerable weakening through 2011 and into 2012. However, business confidence remains relatively weak, pointing mostly to modest progress. The ECB rate cut in early May is also an expression of the fact that there is still a need to support the economies through expansionary monetary policy.

Despite the containment of the sovereign debt crisis in the southern European countries, it is still expected that these countries will face falling GDP in 2013 overall. At the same time German growth is expected to increase only gradually after a weak end to 2012. Hence, GDP in the euro area as a whole is expected to decline by ½ per cent this year. From the second half of 2013 and onwards growth is expected to return to the euro area, but by all accounts the increase in GDP in 2014 will be relatively slow, with an estimated annual growth rate of about 1 per cent, *cf. figure 1.4*. Prospects for other EU countries are slightly more positive, with Sweden as one of the countries with the highest economic growth rate. Great Britain will also pull up the growth average.

Figure 1.3
Interest rate spread to Germany in 10-year government bonds

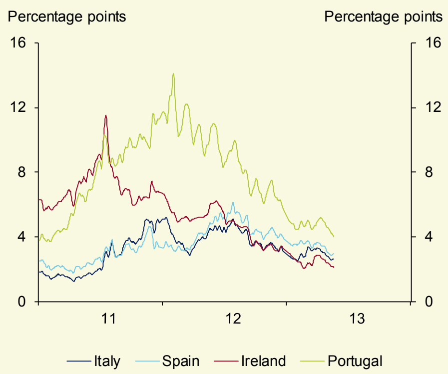
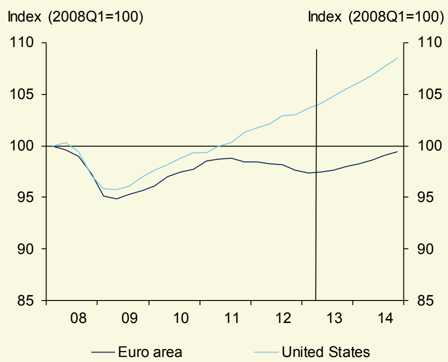


Figure 1.4
Real GDP



Source: The EU-Commission, Reuters EcoWin, Bloomberg, and own calculations.

In the US the recovery is more pronounced, and there has already been a turnaround in both the housing and the labour market. The uncertainty surrounding the extent of fiscal tightening has subdued since late 2012, as some of the austerity measures have been withdrawn. Improvements to the public budget will continue to be implemented, but they are not believed to hamper the US recovery significantly. This is in part due to a considerable savings surplus, which allows for increased private consumption. Private sector consolidation is estimated to be completed, leading to increased bank lending for instance. US GDP is expected to grow around 2 per cent in 2013 and 2½ per cent in 2014.

Following the election of a new government in the fall, Japanese growth has strengthened significantly after a long period of low growth and deflationary tendencies. This is first and foremost ascribed to a much more expansionary monetary policy coupled with fiscal policy easing primarily driven by public investments. Japanese GDP grew 0.9 per cent in the first quarter of 2013, mainly due to an improvement in both private consumption and exports. The growth in exports partly reflects the Japanese yen has fallen sharply since December as a consequence of the expansionary monetary policy stance.

Some moderation was also seen in emerging economies last year, but growth is expected to remain relatively strong. However, there is some variation across countries. GDP growth in China is expected to be around 8 per cent in both 2013 and 2014, and thus as high as in 2012. In contrast, growth in Brazil and India has been losing strength since 2010. In Russia, which has been particularly hampered by a weak European economy, growth slowed significantly at the end of last year.

For the global economy as a whole the end of 2012 and the beginning of 2013 was fairly weak, but growth is expected to return during the course of 2013 and 2014.

Along with progress abroad, export prospects for Danish businesses improve. Export market growth is expected to be slightly higher this year than last year and then almost double in 2014, assuming a recovery in particularly European economies, *cf. figure 1.5.* Thus, exports are only expected to pull up this year's production to a very limited extend, and GDP growth will therefore mostly be carried by domestic demand. Next year, exports are expected to contribute to around half of GDP growth, which is expected at 1.6 per cent.

Figure 1.5
Export market growth and industrial exports

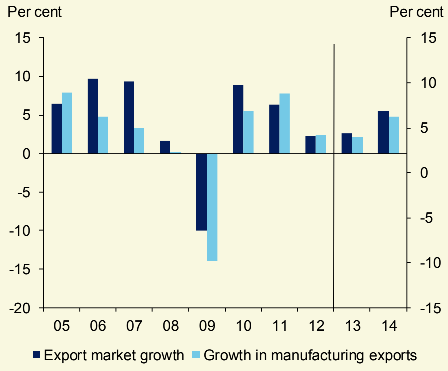
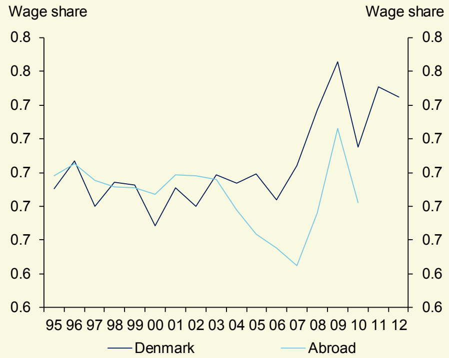


Figure 1.6
Wage share in Denmark and abroad



Note: Wage share in manufacturing (excl. utilities) in figure 1.6, corresponding to OECD definition.
Source: Statistics Denmark and own calculations.

With the agreements on *Growth Plan DK* the competitiveness of Danish businesses is strengthened, allowing them to better latch on to a recovery abroad. However, Danish wage competitiveness is still affected by the fact that Danish wage growth was relatively high for the better part of the last decade, and only in the past few years has it been below wage growth abroad. This is also reflected in a somewhat stronger development in the wage share than abroad, *cf. figure 1.6*.

Danish business investments are expected to increase quite a bit in 2013. This is primarily due to the investment window, which allows companies to make depreciations of 115 per cent on certain types of investments until the end of 2013. Starting in 2014 the gradual reduction in the corporate tax rate will help maintain a stronger incentive for companies to invest in production equipment. In addition, a number of other initiatives will elevate investments by publicly owned companies and residential investments.

Private consumption was weak through 2012. One reason is that real (corrected) disposable incomes fell last year – partly because of fairly high consumer price inflation relative to wages increases. In isolation, the repayment of early retirement contributions has increased consumption possibilities, however, consumer appetite remains dampened by uncertainty about economic development and the consolidation of households' economies. Danish households still have considerable debt compared to income, which is linked to the accumulation of debt and the overheated housing market in the years prior to the crisis and the large financial losses during the crisis, *cf. figure 1.7.*

Figure 1.7
Household consumption and debt share

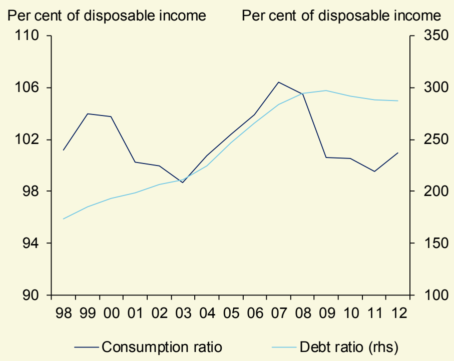
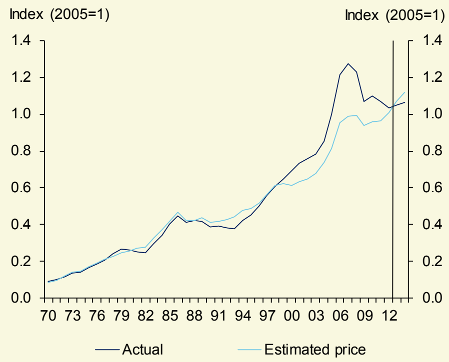


Figure 1.8
Actual and estimated house price



Note: In figure 1.7 debt includes loans and mortgages. The estimated house price in figure 1.8 is based on own calculations in the ADAM model.
Source: Statistics Denmark and own calculations.

With the prospect of a turnaround in the labour market during 2013 and significantly lower consumer price inflation, households' real income is strengthened, which is expected gradually to lead to rising private consumption. Higher incomes also reduce debt relative to incomes, and this passive consolidation may also contribute to an increase in consumption.

Developments in the housing market will also support rising consumption. Helped along by extraordinary low interest rates, prices stabilised during 2012, *cf. figure 1.8.* House prices are expected to rise in 2013 and 2014, as the interest rate level is only expected to increase slightly.

Fundamentally, the low interest rate level reflects a very expansive international monetary policy. During the last years, Denmark has had a considerable interest rate advantage, which has now started to wane. In January, Danmarks Nationalbank raised both the interest rate on certificates of deposits and the lending rate, following several unilateral cuts in recent years. Furthermore, Danmarks Nationalbank only partially followed the ECB rate cut in the beginning of May. An emerging normalisation is also reflected by the fact that the interest rate spread to Germany on 10-year government bonds is once again positive, having been negative for a period.

Despite the weak cyclical stance, private employment has been very stable since the beginning of 2010. The downturn in production in late 2012 is, however, with some delay expected to lead to a slight decline in private employment in the first half of 2013. A turnaround in the labour market is expected in the second half of this year.

Gross unemployment has already fallen somewhat in the first few months of the year, particularly in January, *cf. figure 1.9.* The development is considered to reflect exceptional conditions that are not closely linked to overall employment. Among other things, the change in registered unemployment is affected by the reform of the unemployment benefit system and the implementation of the special education allowance, which came into effect at the beginning the year.

Figure 1.9
Gross unemployment

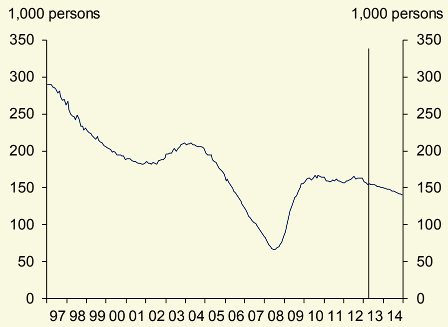
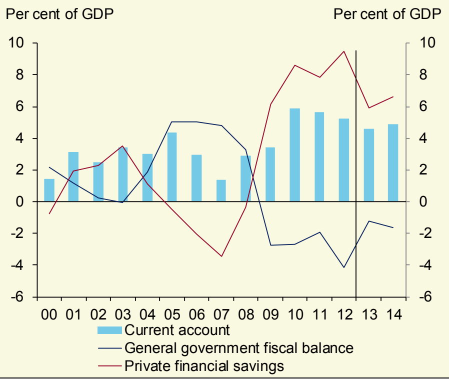


Figure 1.10
Savings balances



Source: Statistics Denmark and own calculations.

The *Agreement on Temporary Labour Market Allowance* introduces a new, more gradual phasing-in of the unemployment benefit reform, in order to avoid that large groups of unemployed exhaust their unemployment benefits at the same time. Recipients of the extended special education allowance and the temporary labour market allowance will be counted as part of registered unemployment.[1] This new phasing-in ensures public assistance for the unemployed who have exhausted their unemployment benefits, but does neither change employment developments nor the structural unemployment in the long run.

Given the growth prospects, employment in 2014 is expected to be about 8,000 persons higher compared to 2012 and unemployment is expected to fall by around 17,000 persons. Gross unemployment is expected to be 5.0 per cent of the labour force in 2014. The estimate is based on the assumption of continued wage moderation in line with recent years' decline in wage inflation to historically low levels.

Denmark has fundamentally sound public finances. The actual fiscal balance largely depends on the business cycle, but one-off measures can also have a large impact. The deficit was 4.1 per cent of GDP in 2012, but was extraordinarily affected by the repayment of early retirement contributions, which, in isolation, increased the deficit by around 1½ per cent of GDP. The deficit is expected to fall to 1.2 per cent of GDP in 2013 and 1.6 per cent in 2014, *cf. figure 1.10.* In both years the actual public balance is affected by considerable revenue from the rearrangement of taxation of existing capital pensions. The estimated revenues from this rearrangement of DKK 20 bn. each year are subject to considerable uncertainty, leading to considerable uncertainty about the overall estimates for the fiscal balance in 2013 and 2014. Without the additional revenue from the rearrangement of the capital pension tax, the actual fiscal balance is expected still to remain within the limit of 3 per cent of GDP. This should, however, be seen in light of the fact that the revenue from the pension yield tax – which historically has been very volatile – is expected to be above its structural level in both years.

Denmark presently runs a current account surplus of almost 5 per cent of GDP. The surplus is partly a result of the fact that Denmark has had positive net foreign assets since 2010, which generates considerable income. At the same time, the surplus reflects weak domestic demand, particularly as a result of low investments. In Denmark, total savings exceeds investments, thereby creating a need to place funds abroad, especially as a result of companies' very large savings surplus.

Selected key figures from the forecast are presented in table 1.1, while table 1.5 (in the appendix of this summary) shows a comparison to the forecast in *Economic Survey,* December 2012.

[1] The agreement on temporary labour market allowance was concluded after the cut-off date for the forecast, and is therefore not included in the estimates for gross and net unemployment. The new phasing-in of the unemployment benefit reform implies that a large number of recipients of the special educational allowance will have the benefit period extended. To the extent that they accept the offer of either educational allowance or the labour market allowance, they will, in isolation, imply a somewhat higher registered unemployment in the second half of 2013 and 2014, relatively to the estimate in this forecast. The implications of the new agreement will be incorporated in *Economic Survey,* August 2013.

Compared to the December forecast, the growth forecast for GDP in 2013 has been revised down from 1.2 per cent to 0.5 per cent. This is mainly because GDP – in line with the development in Germany – fell 0.7 per cent in the 4th quarter, in contrast to the assumed small increase in the December projection. Thus, the starting point for increasing activity in 2013 was lower than estimated in December, which explains much of the downward revision of the annual growth rate in GDP from 2012 to 2013. Also, expectations for growth through 2013 have also been lowered a bit. The lower annual GDP growth in 2013 reflects significantly lower growth in exports and private consumption. The projection for GDP growth in 2014 is unchanged compared to the December forecast.

The forecast is based on an expected recovery in the euro area during 2013. If this recovery fails to materialise, the Danish economy will be affected negatively, implying that the expected improvement in the Danish economy will be later and weaker. Even though the negative risks are dominant, a more positive scenario, with a faster turnaround in Europe, is also possible. Compared to recoveries after the two oil crisis and the economic crisis in the early 1990s, this forecast is based on relatively cautious assumption for the business cycle normalisation.

Tabel 1.1
Key figures for the Danish economy

	2011	2012	2013	2014
Real growth, per cent				
Private consumption	-0.5	0.6	0.4	1.2
Public consumption	-1.5	0.2	0.9	0.6
Public investment	4.2	7.4	-7.4	1.2
Residential construction	14.6	-9.5	0.3	3.4
Fixed business investments	-0.7	4.7	7.8	1.1
Stock building (per cent of GDP)	0.5	-0.4	0.1	0.2
Exports of goods and services	6.5	0.9	0.9	3.7
Imports of goods and services	5.6	2.5	2.2	3.3
Gross domestic product (GDP)	1.1	-0.5	0.5	1.6
Level, per cent of GDP				
Generel government fiscal balance	-2.0	-4.1	-1.2	-1.6
Current account	5.6	5.2	4.6	4.9
Level, 1,000 persons				
Gross unemployment (annual average) [1)]	160	162	154	145
Employment	2,767	2,759	2,757	2,767
Labour force	2,875	2,877	2,881	2,886
Growth, per cent				
Price index (single-family homes)	-2.7	-3.4	1.2	1.5
Consumer price index	2.8	2.4	1.1	1.5
Hourly wages, private sector	1.2	2.0	1.7	2.0

1) *The agreement on temporary labour market allowance* was made after the cut-off date for this forecast and is therefore not included in the estimates for gross and net unemployment.

1.3 Fiscal policy and public finances

Economic policy is planned in order to support growth and employment within the framework of sound fiscal policy that meets the EU-recommendation and the targets for public finances in the Budget Act. This contributes to a high degree of credibility around economic policy and hereby supporting the Danish economy through current low interest rates.

Public finances are improved from 2012 to 2013. The fiscal deficit is expected to be below the 3 per cent of GDP limit, while the structural balance is estimated to post a small deficit of approximately 0.2 per cent of GDP in 2013. Thus, the EU-recommendation of improving the structural balance by 1½ per cent of GDP from 2010 to 2013 is fulfilled.

The dampening effect of fiscal policy, which, in isolation, follows from the fulfilment of the EU-recommendation, is offset by the investment window and other economic-policy initiatives that do not directly affect public finances. Overall, the economic-policy initiatives are estimated to support growth and employment in 2013.

The overall fiscal framework for 2014 is determined by the Budget Act and the initiatives in *Agreements on Growth Plan DK*. The initiatives in Growth Plan DK – including the HousingJobs scheme and an increased level of investments – support employment and growth in 2014. Currently, the public deficit is estimated to be of 1.6 per cent of GDP, while the structural balance is expected to post a deficit of 0.1 per cent of GDP in 2014. Fiscal policy in 2014 will not be finalised until the fiscal bill for 2014 is adopted.

Public finances in 2012-2014

Statistics Denmark's preliminarily estimate of the public deficit in 2012 is around DKK 75 billion (4.1 per cent of GDP), *cf. figure 1.11*. This corresponds to the public deficit expected in *Economic Survey*, December 2012. The substantial public deficit in 2012 is partly due to reimbursements of VERP-contribution following the retirement reform of June 2011, which amounted to a one-off expenditure of DKK 28½ billion corresponding to around 1½ per cent of GDP. On the other hand, the revenue from the pension yield tax was larger than normal in 2012.

The public deficit in 2012 – measured as percentage of GDP – is the largest since 1984, where it amounted to 4½ per cent of GDP. In 1993, the public deficit was approx. of the same magnitude as it amounted to 3.9 per cent of GDP.

In 2013 the public deficit is estimated to approx. DKK 23 billion (1.2 per cent of GDP). This is partly due to expected temporary revenue from the restructuring of the taxation of existing capital pensions of DKK 20 billion or approx. 1 per cent of GDP in both 2013 and 2014, *cf. table 1.2*. In addition, the expected revenue from the pension yield tax contributes around DKK 42 billion in 2013, which is considerably above the structural level. As with the temporary revenue from the restructuring of the taxation of existing capital pensions, the revenue from the pension yield tax is subject to considerable uncertainty. The pension yield tax depends on developments in financial markets and may therefore vary significantly from year to year. A different development in stock prices and interest rates than those assumed in the forecast can cause significant adjustments of the estimated revenues. An increase in interest rates by ½ percentage point, for example is likely to reduce the estimated revenues from the pension yield tax by around DKK 15 billion in 2013 (0.8 per cent of GDP).

Table 1.2
Public and structural budget balance, 2010-14

Per cent of GDP	2010	2011	2012	2013	2014
Public balance	-2.7	-2.0	-4.1	-1.2	-1.6
Public balance excl. restructuring of capital pension schemes	-2.7	-2.0	-4.1	-2.3	-2.7
Structural balance	-1.7	-0.8	-0.7	-0.2	-0.1

Source: Own calculations.

In 2014 the public deficit is estimated to be around 1.6 per cent of GDP incl. the temporary revenue from the restructuring of existing capital pensions. The slight deterioration of the deficit in 2014 compared to 2013 is partly caused by an estimated decline in the revenue from the pension yield tax. The revenue is estimated to decline from an extraordinarily high level in 2013 to close to the structural level in 2014.

In order to meet Denmark's EU-recommendation, it is required that public accounts figures from Statistics Denmark (verified by Eurostat) show that the public deficit is brought below 3 per cent of GDP in 2013. Also, the actual fiscal balance should be considered likely to remain below 3 per cent of GDP in 2014 and 2015 in the European Commission's spring 2014 forecast. In 2015, the public balance is no longer affected by the temporary revenues from the restructuring of the taxation of existing capital pensions.

Figure 1.11
Public and structural balance

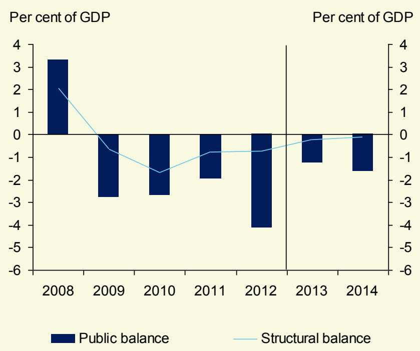
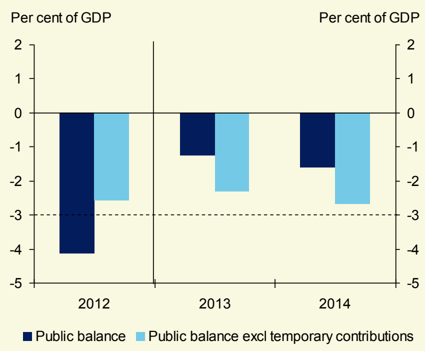


Figure 1.12
Public balance with and without temporary expenditures and revenues



Note: Figure 1.12 shows the public balance net of the impact of repayment of retirement contributions in 2012 and the temporary revenues from restructuring the taxation of pension schemes in 2013 and 2014.

Source: Statistics Denmark and own calculations.

Due to the uncertainty associated with the temporary revenues from the restructuring of the taxation of existing capital pensions, the estimates for the public balance in 2013 and 2014 are particularly uncertain. Excluding the temporary revenues from the restructuring of the taxation of existing capital pensions, the public deficit amounts to 2.3 per cent of GDP in 2013 and 2.7 per cent of GDP in 2014, *cf. figure 1.12*. In light of the considerable uncertainty regarding the public balance, this is close to the 3 per cent of GDP limit in the EU's Stability and Growth Pact. A negative fluctuation of the pension yield tax revenue alone, risks affecting the public balance to an extent that exceeds the current margin. This contributes to limiting the room for manoeuvre of fiscal policy.

With the fiscal bill of 2013 and the initiatives in *Agreements on Growth Plan DK*, fiscal policy is planned so that public finances are brought close to structural balance in 2013 and consolidated in accordance with the EU-recommendation. The actual public deficit is estimated to be reduced to 1.2 per cent of GDP in 2013, while the structural deficit is estimated at approx. 0.2 per cent of GDP in 2013 compared to an estimated structural deficit of 1.7 per cent of GDP in 2010. Hence the structural balance is improved by 1½ per cent of GDP from 2010 to 2013 in line with Denmark's EU-recommendation, *cf. box 1.1*, which describes the requirements that must be fulfilled in order to meet the EU-recommendation.

Box 1.1

Requirements for abrogation of the EU-recommendation

According to Denmark's' EU-recommendation, the actual deficit must be brought sustainably below 3 per cent of GDP by 2013. Fulfilling this key requirement is important for having the EU-recommendation abrogated. This entails, that public account figures from Statistics Denmark (verified by Eurostat) show that the public deficit is brought below 3 per cent of GDP in 2013 and that the actual fiscal balance is considered likely to remain below 3 per cent of GDP in 2014 and 2015 in the European Commission's spring 2014 forecast.

Moreover, the EU-recommendation requires that public finances are improved by 1½ per cent of GDP in structural terms from 2010 to 2013. The Danish Ministry of Finance's (top-down) calculation of the structural balance shows an improvement of 1½ per cent of GDP from 2010 to 2013 in line with the EU-recommendation. The European Commission's calculations of the structural balance is standardized across countries and therefore does not take into account a number of relevant Danish factors, for example temporary fluctuations in the North Sea revenues and revenues from the pension yield tax. According to the EU Commission's spring forecast (may 2013) the improvement of the structural balance is approx. 0.2 per cent of GDP from 2010 to 2013, which is significantly smaller than the required improvement of 1½ per cent of GDP. However, the EU-commission takes a overall assessment into account when evaluating whether the recommendation requirements are fulfilled. This overall assessment is based both on the EU-calculations of the structural balance and the direct impact from fiscal policy measures on public revenues and expenditures (bottom-up calculation). Danish documentation of the impact of fiscal policy measures on the public balance is a determining input to the EU Commission in connection to the overall assessment. The total impact of fiscal policy measures etc. (bottom-up) is most recently estimated to approx. 1.9 per cent of GDP in 2011-13, *cf. table a*.

Table a

Fiscal policy measures to comply with the EU-recommendation

Per cent of GDP	2011	2012	2013	2011-13
Consolidation total (direct budget impact)	1.1	0.6	0.5	2.2
- moderate public consumption growth	0.8	0.1	0.0	0.8
- public investments	-0.1	-0.1	0.2	0.0
- income transfers	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	0.0	0.2	0.1	0.4
- other elements	-0.1	0.1	-0.1	-0.1
Other structural factors affecting the structural balance	**-0.1**	**-0.2**	**0.0**	**-0.3**
Underlying change in fiscal balance (bottom-up)	**1.0**	**0.4**	**0.5**	**1.9**
Change in structural balance (top-down)	**0.9**	**0.1**	**0.5**	**1.5**

Source: Own caluculations

The deficits of the public balance towards 2014 imply that the net public debt increases from around 3 per cent of GDP by the end of 2011 to around 9½ per cent of GDP in 2014, *cf. figure 1.13*. However, gross public debt (EMU definition) is expected to be reduced from 46½ per cent of GDP by the end of 2011 to approx. 43 per cent of GDP in 2014, partly as a result of a reduction of the government's deposits at Danmarks Nationalbank. Thus, the EMU debt maintains a safety margin to the EU limit of 60 per cent of GDP in the Stability and Growth Pact. The government's deposit in Danmarks Nationalbank is expected to be reduced by DKK 110 billion from 2011 to 2014. The reduction of the government's deficit partly finance the estimated deficits on the budget balance, thereby reducing the need to issue government bounds, which otherwise would have led to increased EMU-debt.

Figure 1.13
EMU debt and net public debt

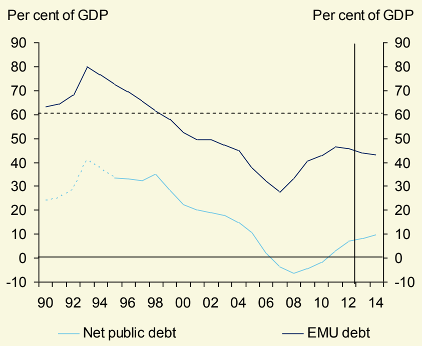
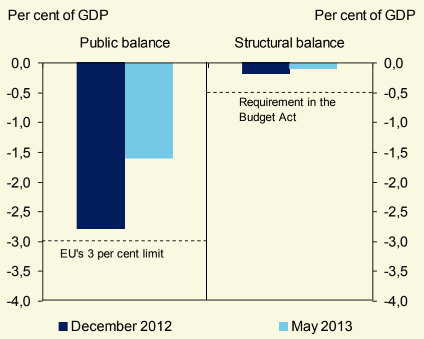


Figure 1.14
Estimated structural balance in 2014



Note: In figure 1.13, from 1990 to 1995 the development of the net public debt corresponds to the EMU debt, since official figures of net public debt are not available before 1995.
Source: Statistics Denmark and own calculations.

Compared to the *Economic Survey*, December 2012, the estimated public deficit is revised downwards by approx. 1.2 per cent of GDP in 2013 and 2014, *cf. figure 1.14*.[2] Primarily, this is due to an estimated temporary revenue from the restructuring of the taxation of existing capital pensions of DKK 20 billion in both years, which in the December survey was technically assumed to amount to DKK 5 billion in 2013, *cf. box 1.2*. In addition, the revenue from the pension yield tax is revised upwards by approx. DKK 21½ billion in 2013 and DKK 9¾ billion in 2014, due to lower interest rates and higher expected increase of share price in 2013. On the other hand, the economic situation is weaker than expected in the December survey, implying lower revenues from personal income taxes, VAT and registration tax.

[2] Compared to *Convergence Programme, Denmark 2013* the public deficit is revised downwards by approx. 0.5 per cent of GDP in 2013 and 0.2 per cent of BNP in 2014. Primarily, this is due to higher revenues from the pension yield tax.

The structural balance is estimated to show a small deficit of approx. 0.1 per cent of GDP in 2014. According to the Budget Act, the structural deficit must not exceed ½ per cent of GDP. Within the fiscal framework of the Budget Act and the requirements in the Stability and Growth Pact, there is limited room for manoeuvre of fiscal policy in 2014.

Box 1.2
Temporary revenue from restructuring of existing capital pensions

The period where existing capital pensions can be restructured was prolonged to include 2014 in connection with agreements on Growth Plan DK. In addition, the temporary revenue from restructuring of existing capital pensions has been revised to DKK 20 billion in both 2013 and 2014 from a revenue of DKK 5 billion in 2013, which was technically assumed in connection with *Agreement on a Tax Reform* (June 2012).

The estimated revenue is primarily based on banks' and pension providers' announcements about intentions and advisory services to customers. The current estimate of the temporary revenue amounts to a total of DKK 40 billion in 2013 and 2014. It should be noted that due to considerable uncertainty, a conservative estimate of the total temporary revenue is applied. The total estimated revenue is assumed to be evenly divided between 2013 and 2014

It has been agreed both in connection with *Agreement on a Tax Reform* (June 2012) that a possibly larger than expected one-off revenue from the restructuring of existing capital pensions should be used to reduce public debt. This is crucial because it insures lower interest expenditures, which help counter the revenue loss arising in subsequent years if a larger share of tax payment is moved forward to 2013 or 2014. Possible deviations from the current revenue estimates do therefore not directly impact the fiscal room for manoeuvre.

The overall framework for fiscal policy in 2014 is determined by *Agreements on Growth Plan DK* (April 2013), and the requirements of the Budget Act, passed by a large majority of Parliament in June 2012. Based on *Agreements on Growth Plan DK*, the growth rate of public consumption expenditures is assumed to be moderate in 2014-17. The moderate consumption growth is reflected in the bill concerning expenditure ceilings for central government, municipalities and regions in 2014-17 which are to be introduced before the summer vacation of the Parliament. Fiscal policy in 2014 is finally determined in the agreements with municipalities and regions on the budget for 2014, the fiscal bill proposal, and the subsequent negotiations of the fiscal bill for 2014, which must be kept within the framework of the set expenditure ceilings.

Effects of the planned fiscal policy and other economic policy measures on activity

Fiscal policy and other economic policy measures from 2012 and onwards are estimated to support economic activity in 2013 equivalent to an increase in the GDP level by 0.5 per cent in 2013 (measured by multiannual fiscal effect), *cf. figure 1.15.* This primarily reflects the impact from the investment window and other investment measures etc., while the fiscal policy in isolation will be somewhat contractionary in 2013, *cf. figure 1.16.* Other investments etc.

cover investments by public enterprises etc., which in are not part of the public sector in the national accounts and therefore do not directly affect public finances.

Figure 1.15
GDP-level with and without economic policy

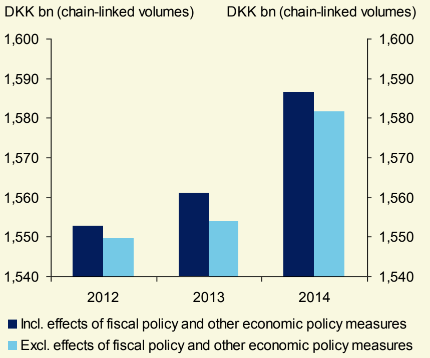
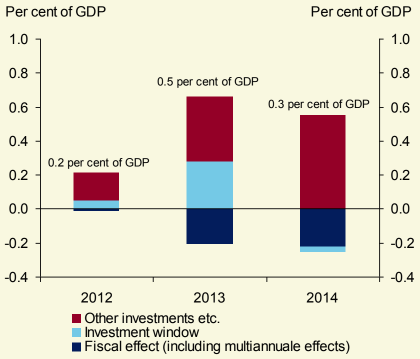


Figure 1.16
Effect on GDP level of fiscal policy and other economic policy measures from 2012 and onwards



Note: Figure 1.15 shows the effect on the GDP level of public budgets (measured by the multiannual fiscal effect), the investment window and other investments.
Source: Statistics Denmark and own calculations.

The estimated effect on activity in 2013 has been revised downwards since the December survey, which estimated the impact on the GDP level at 0.9 per cent of GDP, *cf. table 1.3.*[3] The revision is mainly due to a lower fiscal effect primarily caused by lower second year effects of public expenditures in 2012.

Statistics Denmark's preliminary statement on public finances in 2012 and the national account of 2012 show lower public consumption and employment, lower public expenditures regarding subsidies and a lower level of investments in the railway network than anticipated in the December survey.

It is assumed that public expenditures in 2013 will be in line with budget, however the agreement between the government and Local Government Denmark to increase investments financed by lower consumption expenditures in 2013 is taken into consideration.

[3] The fiscal effect (including multiannual effects) has been recalculated based on new estimates of reference points for neutral fiscal stance. The productivity growth was revised downwards from 1½ to 1¼ per cent per year in the medium-term projection of Danish economy, which the proposal for Growth Plan DK was based on. The downward revision of productivity growth and the resulting adjustment of the reference points for neutral fiscal stance cause a marginal technical upward adjustment of the fiscal effect compared effects presented in *Economic Survey,* December 2012, *cf. Vækstplan DK – Teknisk baggrundsrapport.*

The impact from other investments etc. are revised downwards by 0.1 per cent of GDP in 2013 compared to the December survey. This reflects a downward revision of the impact on investment following from the energy agreement and lower climate-related investment in the wastewater sector.[4]

Table 1.3

Effects on activity of fiscal policy and other economic policy measures from 2012 and onwards

	2012		2013		2014	
Per cent of GDP	**Aug.**	**Dec.**	**Aug.**	**Dec.**	**Aug.**	**Dec.**
Fiscal effect including multiannual effects (GDP level)	0.2	0.0	0.2	-0.2	0.0	-0.2
Investment window	0.1	0.1	0.3	0.3	-0.0	-0.0
Other investment measures etc.	0.1	0.2	0.5	0.4	0.3	0.6
Fiscal effect and other measures (GDP level)	**0.3**	**0.2**	**0.9**	**0.5**	**0.3**	**0.3**
- fiscal effect and other measures (growth contribution)	0.3	0.2	0.6	0.3	-0.6	-0.2

Note.: The fiscal effect (including multiannual effects) of the December survey has been recalculated based on new reference points for neutral fiscal stance due to a downward revision of the productivity growth. Other investment measures cover investments following the energy agreement, the housing agreement, investments in social housing, climate-related investments in the wastewater sector (cf. the agreement with the municipalities) and other investments in the *Agreements on Growth Plan DK*. In addition, the HousingJobs scheme contributes with an extra effect beyond what is captured by the direct budget impact included in the calculation of the fiscal effect. Cf. *Vækstplan DK – Teknisk baggrundsrapport* for further information of the effects of the HousingJobs scheme.

Source: Statistics Denmark and own calculations.

Based on the overall fiscal framework for 2014, fiscal policy and other economic policy measures are estimated to support GDP level by 0.3 per cent in 2014. The reduced effect on GDP level in 2014 compared to 2013 reflects that the effect of the investment window expires in 2014. However, the effects of the initiatives in the *Agreements on Growth Plan DK* strengthen in impact in 2014, which pulls in the opposite direction. Moreover, GDP-growth is generally expected to become more self-sustaining, supported by the initiatives to improve competitiveness in the *Agreements on Growth Plan DK* and higher expected growth in exports.

[4] There is a considerable amount of uncertainty concerning both investments following from the energy agreements and the timing of those investments over time.

Box 1.3

Effects of the *Agreements on Growth Plan DK*

The agreements of Growth Plan DK contribute through a variety of initiatives to the competitiveness and future growth conditions of Danish companies. The aim is to improve productivity and competitiveness and make it more attractive to invest in Danish companies and jobs. This supports that Danish companies can fully benefit from a future international recovery.

At the same time, the agreements on Growth Plan DK also support growth and employment in the short run. The initiatives in the Growth Plan are in isolation estimated to increase the level of GDP by 0.1 per cent in 2013 and 0.3 per cent in 2014, *cf. table a*. The effect in 2013 and 2014 is mainly due to the reintroduction of the HousingJobs scheme (including the expansion to include summer and holiday homes) and other investments. I addition, public investments are increased from 2014 and onwards.

Table a

Effects from the Growth Plan DK agreements in 2013 and 2014.

	2013	2014
Effects on GDP-level (per cent) of Growth Plan DK agreements	**0.1**	**0.3**
- from the reintroduction and expansion of the HousingJobs scheme	*0.1*	*0.2*
- from other investments	*0.0*	*0.1*

Note: Other investments in *Agreements on Growth Plan DK* reflect increasing investments in renovation of social housing under the auspices of the National Building Fund for Social Housing and the preponed activities in Fehmarnbelt.

Source: Statistics Denmark and own calculations.

The economic policy supports the labour market in 2013 and 2014. This should be seen in light of already implemented initiatives to increase employment, particular the investment window.[5] In addition, the reintroduction and expansion of the HousingJobs scheme and increased investments regarding in the *Agreements on Growth Plan DK* are estimated to increase employment in 2013 and 2014. Overall, the initiatives (including Growth Plan DK) in isolation are estimated to increase employment in the private sector by 19,000 in 2013 and 2014.

The underlying tightening of fiscal policy, in order to meet the EU recommendation, reduces the overall effect of fiscal policy and other economic policy measures to 6,000 persons in 2013.[6] Based on the overall fiscal framework for 2014, the total employment effect is estimated to approximately 6,000 persons in 2014.

[5] Implemented initiatives include the kick-start package, the reimbursement of VERP-contributions, the housing agreement, the tax reform from June 2012 (including the investment window) and climate investments in the wastewater sector.

[6] Including a fall in public employment by 8,000 persons in 2012 and 2013 collectively.

1.4 A robust Danish labour market

At all time since the financial crisis private sector employment has been higher than in the years 2000-2005, before the housing bubble led to a sharp – and unsustainable – growth in private sector employment.[7] This reflects that past reforms have strengthened structural employment, and that there has been room for manoeuvre in economic policy to support the labour market following the downturn in 2008-09. Employment has probably also been underpinned by the flexible wage setting in the Danish labour market, where a large portion of the wage formation occurs at the individual company. In recent years, private wage growth has come down substantially to a level below wage growth abroad.

These conditions have also dampened the development in unemployment, which has remained largely constant over the last three years. Registered gross unemployment has been relatively unchanged at around 160,000 persons. Equivalently, the sampled-based unemployment statistic, based on interviews in association with the labour force survey (LFS), has been stable around 220,000 unemployed, *cf. figure 1.17.*

The higher level of LFS unemployment is partly due to the inclusion of both students and recipients of other public benefits, who say that they are actively applying for and able to start work, *cf. section 5.2.* The latter group may include persons receiving cash benefits but not considered ready for the labour market, people in early retirement, and other persons, who receive benefits unrelated to unemployment, but who nevertheless answers that they would be able and willing to accept a job, disregarding how many hours might be involved. In total, students, people in early retirement, and other benefit claimants, make up about ⅓ of the total number of LFS unemployed.

The number of long-term unemployed has also been stable since mid-2010, at around 55,000 persons, *cf. figure 1.19.*

Developments in unemployment partly reflect that there are many job openings on the Danish labour market. This makes it easier for the unemployed to find job again, and hereby reduces the risk of a longer unemployment spell. In 2012, more than 500,000 persons had changed job within the last year, *cf. figure 1.20.*

[7] At the same time, unemployment was historically low and wage growth was rising rapidly, particularly in the construction sector. Therefore, a reduction in employment was envisaged as a cooling of the economy would occur towards a more normal cyclical situation. However, with the downturn in the international economy in 2008-09, the Danish economy was not in for a soft landing, but rather a sharp turnaround from boom to recession. This gave rise to a very abrupt adjustment of firms' labour demand. Hence, private employment was reduced by around 170,000 persons from late 2008 to early 2010, and over this period, the number of hours worked in the private sector fell by 8.8 per cent.

Figure 1.17
Gross unemployment and LFS unemployment

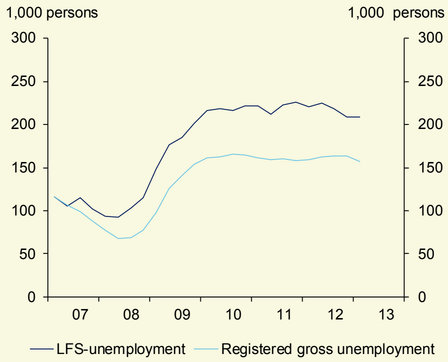
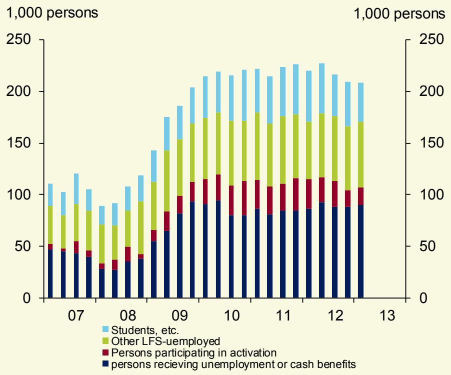


Figure 1.18
LFS unemployment distributed on sub-categories



Note: Own seasonal adjustment of the LFS-unemployment in figure 1.18. Other LFS-unemployed are per sons who neither receive unemployment benefits or cash benefits (labour market ready), but are without employment and answer that they are actively seeking work and can start within 2 weeks.
Source: Statistics Denmark and own calculations.

Figure 1.19
Long-term unemployment

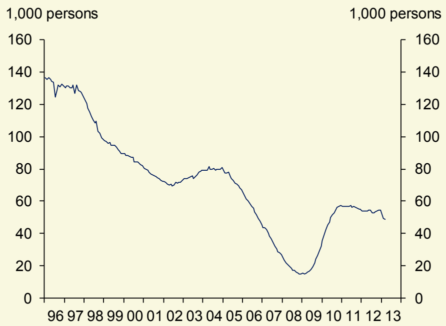
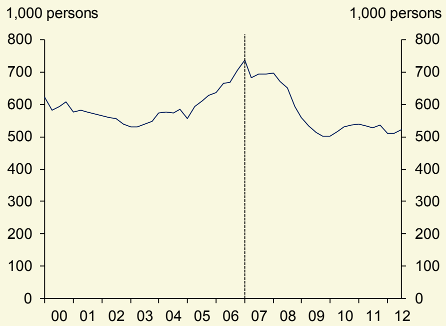


Figure 1.20
Job turnover



Note: Long-term unemployment is calculated as persons who have received unemployment benefits, cash benefits, holiday pay, or have participated in activation for 80 per cent of the time over the past 12 months. Job turnover shows the number of employed who have started their current job within the past year, seasonally adjusted. There is a break in data in the first quarter of 2007. Hence, data before and after the break should be compared with caution. Job turnover includes changes from unemployment to employment, from education to employment, and between jobs (including changes within the same company).

Source: CRAM, RAM, AMFORA, the population statistics for benefit calimants in activation, the Ministry of Employment, and own calculations.

The relatively well functioning and flexible Danish labour market supports the prospect of a slow recovery over the course of this year and the next. Given the growth in production assumed in the forecast, private employment is expected to increase from the second half of this year, contributing to a fall in unemployment in both 2013 and 2014.

The expectation of an impending, slow turnaround in the labour market is also supported by developments in the labour intensive part of the Danish corporate sector in recent years. Here, gross value added (GVA) has gone up by around 5 per cent from 2009 to 2012, while GDP has only grown by 2¼ per cent, *cf. figure 1.21.* The weak development in GDP is especially attributed to falling production in North Sea oil extraction, but weak development in financial services has also pulled down growth rates in the overall economy.

As a result of the relatively high growth in GVA and an adjustment in labour utilisation, the labour intensive part of the private sector has seen some catching-up of the large cyclically determined drop in productivity during the downturn in 2008-09, *cf. figure 1.22.* A pick-up in demand could therefore more quickly bring about the need for these businesses, which employ 94 per cent of all private employees, to hire anew.

However, particularly in businesses subject to international competition, employment growth continues to be hampered by the relatively weak productivity growth in the years prior to the crisis, which has contributed to the build-up of a loss in wage competitiveness since 2000.

Figure 1.21
Growth in GDP and GVA in the adjusted private sector from 2009 to 2012

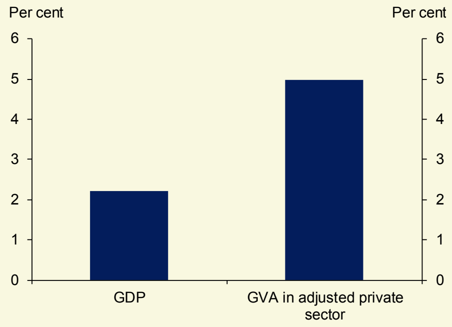
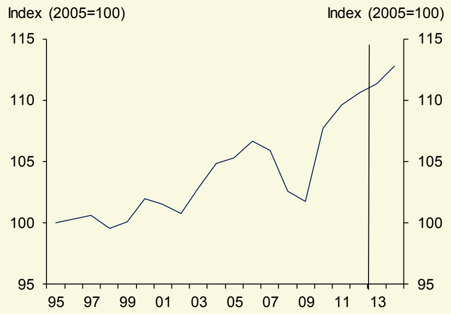


Figure 1.11
Hour productivity in the corrected private sector



Note: In figure 1.21 and 1.22 private sector GVA is shown excluding mining and quarrying, shipping, and financial services.
Source: Statistics Denmark and own calculations.

Structural unemployment has been reduced significantly since the mid-1990es and is now at a very low level, also in an international context. This suggests that institutions in the labour market are relatively well functioning, which continues to be the case after the crisis-induced downturn in employment. In international comparisons, the European labour force survey (LFS) is used. In Denmark, this corresponds to the LFS statistics. In 2012 Danish LFS unemployment was at 7.7 per cent of the labour force, which is somewhat below the average unemployment rate in the EU countries of 10.6 per cent. Compared to the other Nordic counties, Sweden and Finland have slightly higher unemployment than Denmark, *cf. figure 1.23*. In Germany, unemployment is somewhat lower than in Denmark, while Austria is the country in the EU with the lowest unemployment rate.

Figure 1.23
Unemployment in EU countries 2012

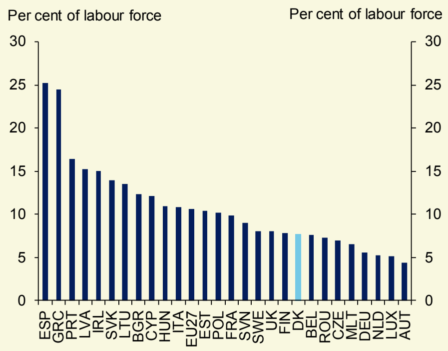
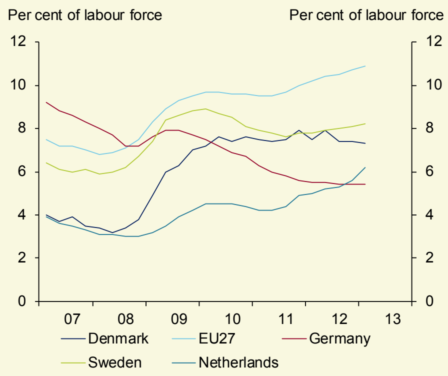


Figure 1.24
Developments in unemployment in selected EU countries



Note: Figure 1.24 is based on quarterly, seasonally adjusted figures.
Source: Eurostat Labour Force Survey (LFS).

Compared to other EU countries, the Danish unemployment rate rose quite rapidly during the crisis, but since 2010 it has been virtually flat. The sharp adjustment should be seen in light of the fact that Denmark had a very low level to begin with, with one of the very lowest unemployment rates in the EU. In Sweden, unemployment has also been fairly constant since the beginning of 2010, while unemployment has fallen in Germany, among others, *cf. figure 1.24.* In most EU countries unemployment has continued to go up.

Unemployment among young people under 25 is low in Denmark compared to other EU countries, *cf. figure 1.25.* Only Germany, Austria, and the Netherlands had lower youth unemployment than Denmark in 2012. Conversely, unemployment among young people in Sweden is relatively high and above the EU average.

In the Danish LFS unemployment, students are also included, as long as they look for work and can start a job within two weeks, independent of the number of hours that may be involved in a job. In Denmark, there are many students, which pull up the LFS unemployment.

If youth unemployment is measured excluding students, youth unemployment in Denmark is reduced from around 14.1 per cent to around 5.5 per cent, corresponding to the second lowest youth unemployment among the EU countries, *cf. figure 1.26.* There are also many students in Sweden and here youth unemployment is halved when unemployed students are removed from the statistics.

Figure 1.25
Youth unemployment in EU countries, 2012

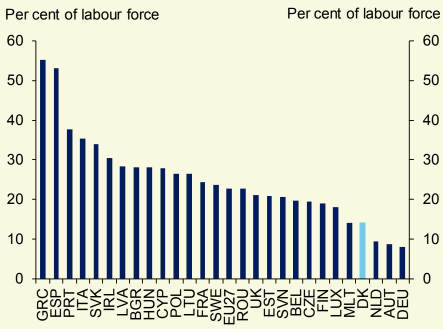
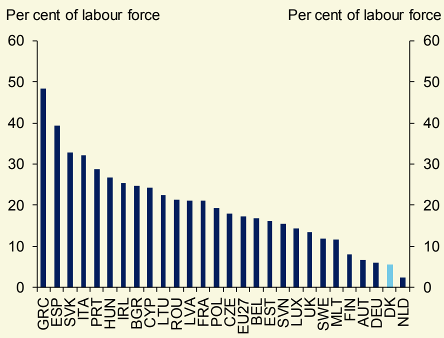


Figure 1.26
Youth unemployment excluding students, 2012



Note: Youth unemployment covers 15-24 year olds. Figure 1.26 is based on a special extract from Euro stat and shows the unemployment rate excluding students and apprentices, who have been in edu cation within the last four weeks.
Source: Eurostat Labour Force Survey (LFS).

Youth unemployment has been virtually unchanged in Denmark over the last three years, while unemployment among the young has risen in most other EU-countries, particularly in the Southern European countries, which already had very high youth unemployment. In contrast, youth unemployment has fallen in Germany among other countries.

The favourable development in the German labour market in recent years and the current very low unemployment partly reflect that Germany has implemented a number of labour market reforms in the 2000s – the so-called Hartz reforms. The reforms have contributed to the reduction in unemployment, including long-term and youth unemployment, and raised employment rates.

The development in Germany can be compared to the performance of the Danish labour market since the mid-1990s, which also saw a number of labour market reforms that contributed to an improvement of the structures in the Danish labour market. Still, the structures of the Danish and German labour markets remain fairly different. For instance, it is relatively easy for Danish companies to adjust the work force, whereas Germany has more restrictive employment protection rules. This implies that German companies to a wider extend use short, fixed-term contracts for employees.[8]

Denmark has a relatively low long-term unemployment rate in international comparison, *cf. figure 1.27.* However, Danish long-term unemployment has increased quite a lot since the beginning of 2010, though the starting level was also very low, *cf. figure 1.28*. In Germany long-term unemployment has fallen over a longer period.

Figure 1.12
Long-term unemployment in EU countries

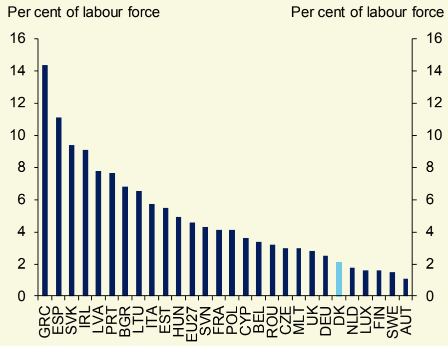
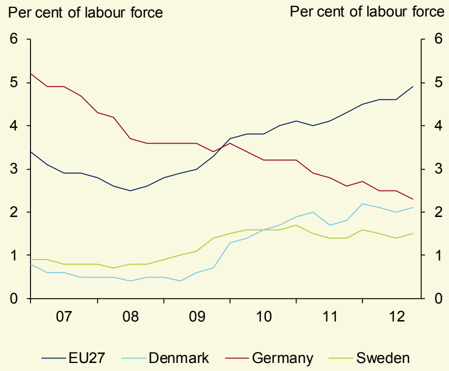


Figure 1.13
Developments in long-term unemployment in selected countries

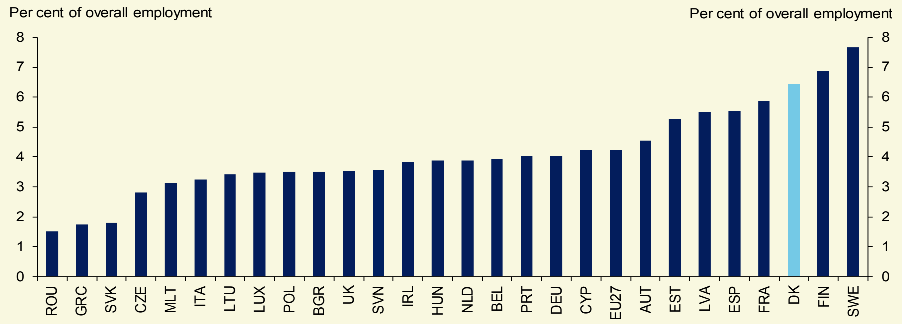


Note: The graphs are based on the survey-based Labour Force Survey and is not comparable to the regis ter-based accounts of long-term unemployment, cf. figure 1.19.
Source: Eurostat Labour Force Survey (LFS) and own calculations.

The low Danish long-term unemployment rate should be read in conjunction with the high job turnover in Denmark compared to other EU countries. In 2012, around 173,000 Danes got a new job each quarter, corresponding to 6.5 per cent of all employed having changed jobs each quarter, *cf. figure 1.29.*

[8] See Danmarks Nationalbank: Quarterly review, 3. Quarter 2012, Part 1: Labour Market Reforms in Denmark and Germany.

Figure 1.14
Job turnover in EU countries per quarter, 2012



Note: Job turnover shows the number of employees who have been in their current position for less than three months (compared to total employment). Job turnover includes changes from unemployment to employment, from education to employment, and between jobs (including changes within the same company). The graph shows the average job turnover per quarter of 2012.
Source: Eurostat Labour Force Survey (LFS) and own calculations.

Measured on employment, Denmark also does well in international comparison, *cf. figure 1.30.* However, both Germany and Sweden have higher employment rates than Denmark. This is because both Germany and Sweden saw a relatively quick recovery in employment after the crisis and have had increasing employment since the beginning of 2010, *cf. figure 1.31.* In Denmark, employment has remained stable over this period, while it has continued to decline in many other EU countries.

Figure 1.30
Employment in EU countries, 2012

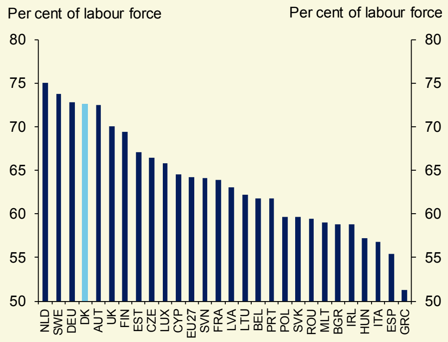
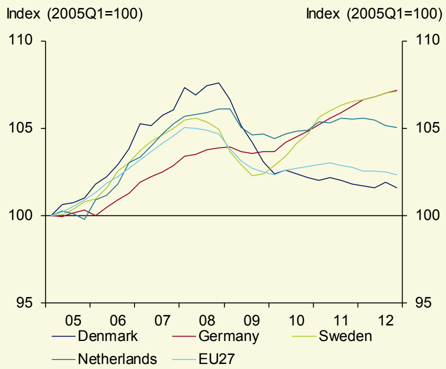


Figure 1.31
Employment in selected countries



Note: Figure 1.30 is based on the European Labour Force Survey, while figure 1.31 is based on European national accounts data.
Source: Eurostats Labour Force Survey (LFS) and own calculations.

1.5 Appendix

Table 1.5
Key figures compared to the December Survey

	2012	2013		2014	
		Dec.	May	Dec.	May
Real growth, per cent					
Private comsumption	0.6	1.5	0.4	1.5	1.2
Total public demand	0.7	0.7	0.3	0.5	0.6
- of which public consumption	0.2	1.6	0.9	0.8	0.6
- of which public investment	7.4	-9.2	-7.4	-3.7	1.2
Residential construction	-9.5	1.5	0.3	3.8	3.4
Fixed business investments	4.7	6.8	7.8	0.0	1.1
Final domestic demand	0.6	1.8	1.1	1.1	1.2
Stock building (per cent of GDP)	0.0	0.1	0.1	0.1	0.2
Total domestic demand	0.3	1.9	1.2	1.3	1.4
Exports of goods and services	0.9	2.2	0.9	3.9	3.7
- of which manufactures	2.3	3.0	2.2	5.0	4.8
Total demand	0.5	2.0	1.1	2.2	2.2
Imports of goods and services	2.5	3.5	2.2	3.3	3.3
- of which goods	3.0	3.7	3.0	3.3	3.1
GDP	-0.5	1.2	0.5	1.6	1.6
Gross value added	-0.3	1.2	0.3	1.5	1.6
- of which private sector	0.4	1.8	0.5	2.6	2.3
Chance in 1,000 persons					
Total labour force	2	11	4	4	5
Total employment	-8	-2	-2	9	10
- of which private sector	2	-7	-5	7	8
- of which public sector	-11	5	3	2	2
Gross unemployment	2	1	-8	-10	-9
Net unemployment	10	13	5	-5	-5

Table 1.5 (continued)
Key figures compared to the December Survey

	2012	2013		2014	
		Dec.	May	Dec.	May
Growth, per cent					
Merchandise export prices	3.1	1.3	0.2	2.1	2.0
Merchandise import prices	2.6	1.5	0.2	2.1	2.0
Merchandise terms of trade	0.5	-0.2	0.0	0.0	0.0
House prices, single-family home	-3.4	0.0	1.2	2.0	1.5
Consumer price index	2.4	1.5	1.1	1.6	1.5
Hourly compensation, private sector	1.7	1.7	1.7	2.0	2.0
Real disposable income, private sector	0.3	1.2	-1.0	2.3	2.7
Real disposable income, households[1)]	-0.9	2.3	1.1	1.2	2.2
Productivity in private non-agricultural sector	0,9	2.1	0.7	2.2	1.8
Per cent per year					
Interest rate 1-year adjustable rate loan	0.5	0.7	0.3	1.1	0.6
10-year government bonds	1.5	1.8	1.6	2.2	1.9
30-year mortgage credit bond	3.7	3.7	3.4	4.1	3.7
Balances					
Current account (bn DKK)	95.4	85.3	85.2	94.1	93.0
Generalt government fiscal balance (bn DKK)	-75.4	-46.4	-23.0	-54.0	-31.4
Gross unemployment (1,000 persons)[2)]	162	165	154	155	145
Gross unemployment (per cent of labour force)[2)]	5.6	5.7	5.3	5.3	5.0
Net unemployment (1,000 persons)	118	133	124	128	119
Net unemployment (per cent of labour force)	4.1	4.6	4.3	4.4	4.1
Unemployment (LFS, per cent of labour force)	7.7	7.8	7.3	7.4	7.0
External assumptions					
Trade-weighted GDP abroad, per cent	1.0	1.6	1.2	2.3	2.2
Export market growth (manufactures), per cent	2.3	3.5	2.6	5.8	5.5
Exchange rate (DKK per USD)	5.8	5.9	5.7	5.9	5.7
Oil price, USD per barrel	111.7	110.5	105.5	119.2	114.3
Oil price, DKK per barrel	646.8	646.9	600.5	697.8	651.7

1) The adjusted income.
2) *The agreement on temporary labour market allowance* was made after the cut-off date for this forecast and is therefore not included in the estimates for gross and net unemployment.

Source: Statistics Denmark and own calculations.