

1. Summary

1.1 The current economic outlook

The upturn in the Danish economy continues. Measured by GDP the pace is not high, but employment is increasing strongly, also stronger than expected. Last year GDP grew by 1.2 per cent, and this year and next year growth is estimated at 1.1 per cent and 1.7 per cent.

Economic progress has not been without hiccups along the way. The second half of 2015 turned out to be weaker than expected, resulting in a lower starting point for GDP growth this year, *cf. figure 1.1*. In the light of this and a slightly more moderate outlook for the pace of the global economy, growth projections have been revised down by $\frac{3}{4}$ percentage points in 2016 and about $\frac{1}{4}$ percentage points in 2017 compared to *Economic Survey, December 2015*. In comparison with *Denmark's Convergence Programme 2016*, growth projections remain unchanged.

It is the assessment that the building blocks for growth are still present. Some of the key elements are the strong progress in the labour market and increasing housing prices. Since the turnaround in the fall of 2012, private-sector employment has increased by 82,000 people and is expected to continue growing in 2016 and 2017, *cf. figure 1.2*. Such an increase in employment strengthens incomes and job security, which creates the basis for an increase in private consumption. At the same time, higher foreign demand is expected to lead to a gradually stronger growth in exports.

Figure 1.1
GDP is increasing at a moderate pace...

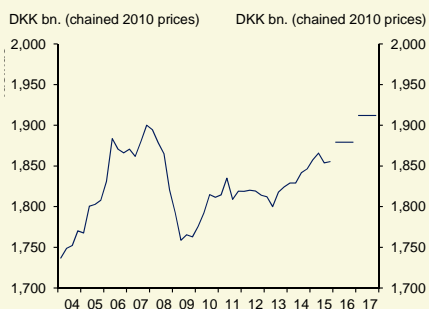
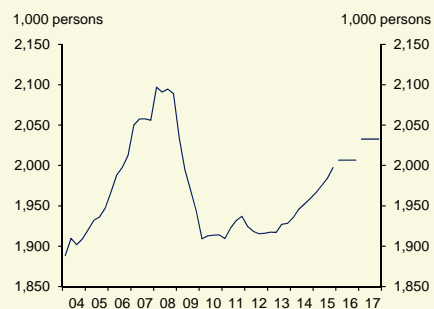


Figure 1.2
... while the labour market shows an economy in significant progress



Note: In figure 1.1 the GDP level is annualised. Employment in figure 1.2 denotes private-sector employment, including people on leave. The dark blue bars indicate the projected annual average.
Source: Statistics Denmark and own calculation.

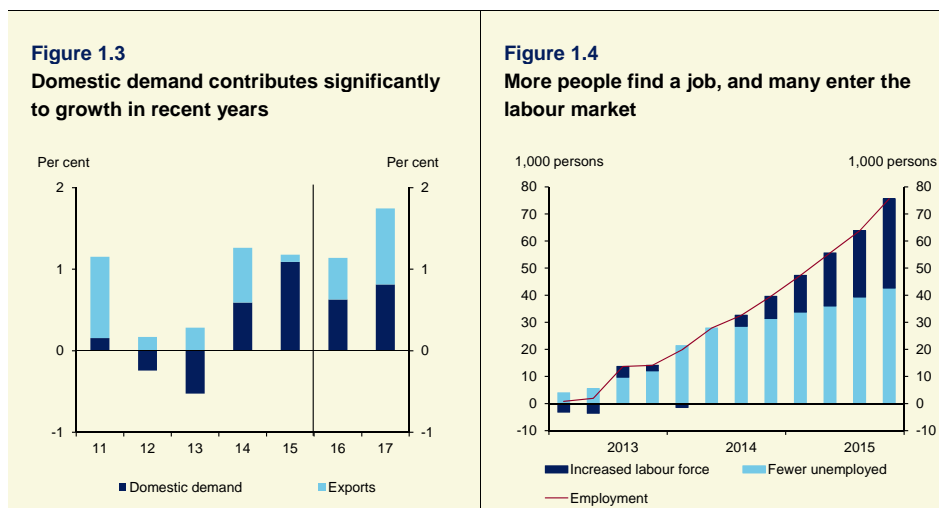
Thus, the assessment is that the economy is still moving towards a situation with normal capacity utilisation. The output gap is estimated at less than 1 per cent in 2017, and unemployment, which is already low by historical standards, is expected to come close to the estimated structural level next year. In the light of this, a gradual tightening of fiscal policy is planned, not least in order to counter tendencies to bottlenecks on the labour market like in 2007-2008, before the outbreak of the financial crisis.

1.2 The forecast

The basis for increasing private consumption is present

Domestic demand, mainly private consumption, was the main driver of GDP growth last year, cf. figure 1.3. In contrast, exports have been the dominant contributor to growth in the preceding years. Domestic demand is also believed to support growth markedly during the forecast period, supported by rising employment and housing prices, low interest rates and real wage growth.

Employment has increased significantly in recent years, and unemployment has fallen. Meanwhile, workers are entering the labour market, adding to the workforce, cf. figure 1.4. Overall, 76,000 persons became employed in the period from Q4 2012 to Q4 2015. Of this number, slightly more than half were unemployed, while the remainder reflects the fact that the workforce has expanded during the past 18 months. The increase in employment triggers greater job security and hence confidence in the possibility of finding a new job in the event of unemployment.



Note: Figure 1.3 shows contributions to GDP growth adjusted for import content of exports and domestic demand. See also note to figure 1.36. Figure 1.4 shows the cumulative increase in employment since Q4 2012 and contributions from reductions in gross unemployment and increases in the labour force. Gross unemployment includes unemployed in activation schemes, of which some are in subsidised employment, and therefore also included in the national accounts measure of employment. There will thus be a limited degree of double counting.

Source: Statistics Denmark and own calculations.

A higher number of people in employment increases total income, and given the sustained low inflation, real incomes are rising markedly. In particular, the long decline in oil prices, which lasted until end of January, has weighed down inflation, but goods prices in general are also lower. A calculation shows that the low inflation has increased the disposable income available for consumption for an average family by about 500 DKK per month in 2015 compared to a situation, where prices rose by 2 per cent per year.

The outlook suggests a further increase in household consumption opportunities in 2016 and 2017. This is due to more people in employment and thus greater earned income, as well as a projected rise in wages that is assumed to significantly outpace the increase in prices.

Household finances have become more balanced. Gross debt, which rose sharply in the years before the crisis, has been reduced slightly, and at the same time, rising housing prices have increased housing wealth. This has improved the balance between household wealth and debt following the loss in wealth resulting from the drop in property prices since the peak in 2007, *cf. figure 1.5*. Housing prices have generally been increasing since early 2012 and are expected to continue to rise, partly because low interest rates have diminished the cost of financing. Overall, better household finances allows for home equity to be spent on consumption or investment.

Figure 1.5
Increasing house prices support household wealth

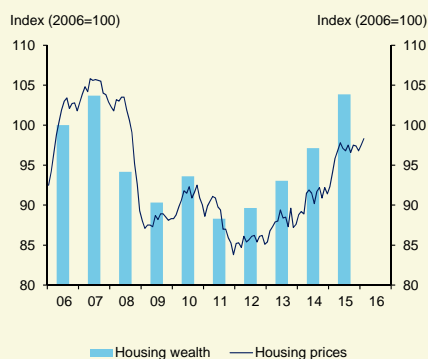
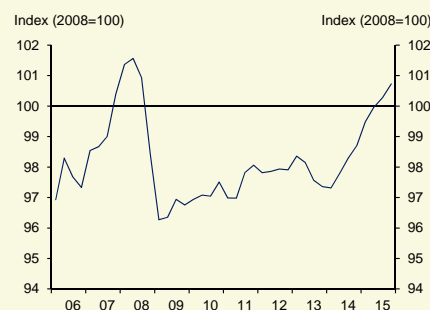


Figure 1.6
Private consumption is on the rise



Note: Figure 1.6 shows private consumption as a two-quarter moving average.

Source: Statistics Denmark and own calculations.

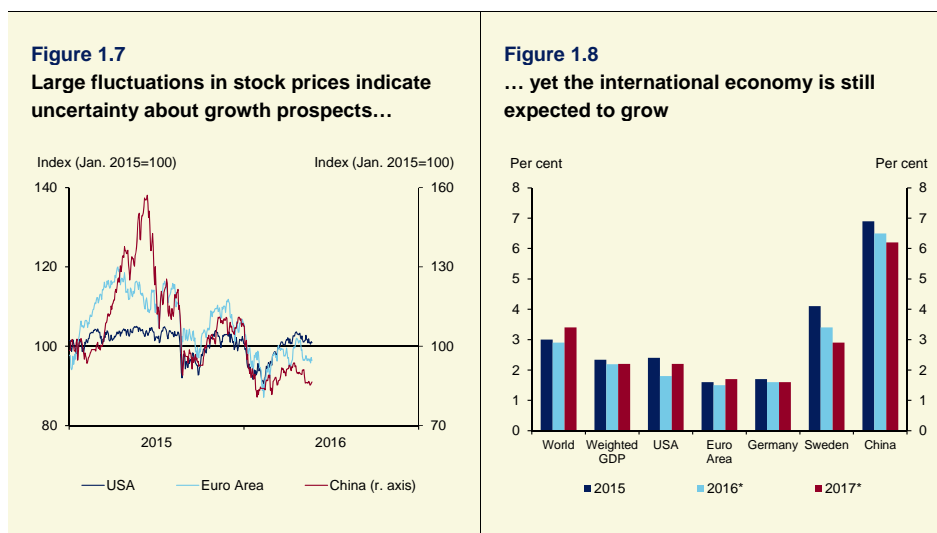
Improvement in labour and housing markets – combined with low inflation and continued low interest rates – has left its mark on private consumption, which has risen substantially since mid-2014, *cf. figure 1.6*. Private consumption is expected to grow by 1.5 per cent this year and 1.7 per cent next year. This growth is still relatively modest though, partly due to some weakness in consumption in Q1 2016. As such, current consumption spending bears little resemblance to the debt-financed boom in consumption and residential investment in the mid-2000s, and household debt is expected to remain stable as a share of income.

Uncertainty affects global growth, exports and investments

Uncertainty about the momentum of growth in the global economy continues to affect the outlook. This was reflected in high volatility in equity markets earlier this year, in part as a reaction to falling oil prices and weak economic indicators in some countries in the second half of 2015, cf. figure 1.7. Countries where this was evident include China and other emerging economies as well as a number of commodity-producing countries. Concurrently, there are signs that productivity growth in a number of advanced economies, such as the US, may be structurally lower than before, which curbs growth potential. As a consequence, the growth forecast for Danish export markets has been revised down slightly compared to the *Economic Survey, December 2015*.

However, the prospects for growth in the international economy are about similar to the rate realised in 2015, cf. figure 1.8. In key Danish export markets such as the euro area, the UK, Sweden and the US, growth is supported by low oil prices, expansionary monetary policy and progress in labour markets. Employment growth has generally been high, and as in Denmark it has exceeded what the relatively modest GDP growth would otherwise warrant. A certain weakness in US growth around the turn of the year 2015/2016 can be partly attributed to an adjustment in the oil sector to lower oil prices and is not expected to endure.

Conversely, in some emerging economies, growth is receding. Specifically, a number of commodity-producing economies such as Russia and Brazil have experienced economic contractions. Growth has also slowed in China, but is expected to remain at a relatively high level over the forecast period. This is partly ensured by economic-policy easing, which props up investment and thus growth. The drawback of these concessions is that they contribute to delaying the necessary transition towards a more consumption-driven, sustainable growth path. It increases uncertainty about the long-term growth potential in the Chinese economy.

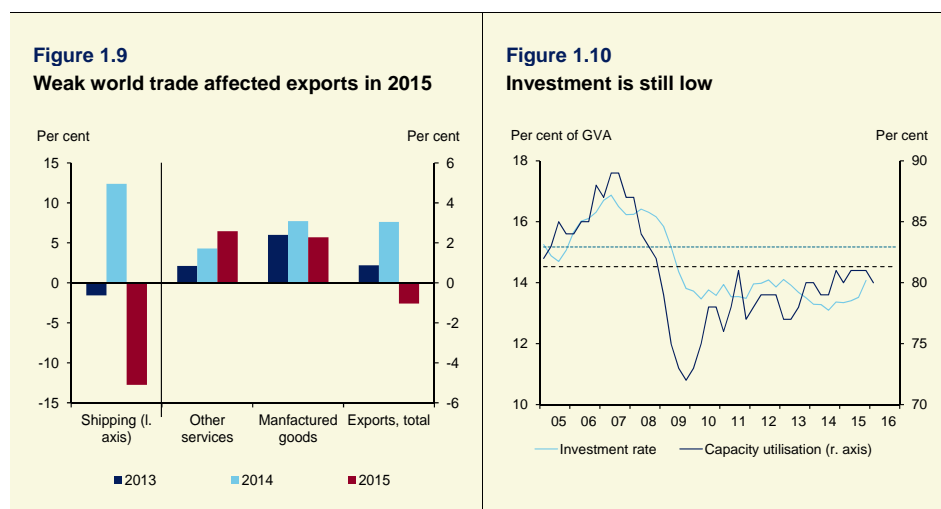


Note: Figure 1.8 includes growth estimates for 2016 and 2017. Weighted GDP corresponds to GDP-growth for Denmark's main trading partners, weighted by their respective shares of Danish exports.
Source: Thomson Reuters Eikon, European Commission and own calculations.

Danish GDP growth has taken a hit because of developments in the global economy. Weaker import demand from countries including emerging economies led to a drop in world trade in early 2015 and thus also in demand for shipping services. This affected Danish exports of shipping, which fell significantly last year. On the other hand, exports of a number of other services and manufactured goods did quite well, *cf. figure 1.9*. Shipping has a high level of import content, while value added for most other export goods and services is largely created domestically. This explains why exports added to GDP growth last year, despite a decline in total exports compared to the previous year, *cf. section 1.5*.

Given continued growth in export markets and a recovery of world trade following last year's decline, the basis for a rebound in exports in 2016 and 2017 is present. This increase is expected to be relatively limited this year (in terms of annual growth) due to some backlog following weakness in late 2015, but it is estimated to take off in 2017.

Capacity utilisation in the manufacturing sector has hovered around the historical average over the past year, and the investment rate has increased, *cf. figure 1.10*. Given gradually less spare capacity in the economy, investments are expected to strengthen further in the future, but at a moderate pace. It should be seen in the context of increased uncertainty about the strength of demand in both the Danish and the international economy, which could affect corporate decisions, to the effect of delaying investments a little longer.



Note: The investment rate in figure 1.10 is investments as a share of the total stock of capital, not taking oil rigs, ships and aircraft into account. It shows the three-quarter moving averages, with dotted lines indicating the historical averages.

Source: Statistics Denmark and own calculations.

Employment continues to increase

The recovery in the Danish economy is most evident on the labour market, where employment increased by more than 30,000 persons last year. At the same time, unemployment has fallen, to the extent that 2015 had the lowest number of unemployed in 40 years except for 2007-2008, where there were several bottlenecks in the labour market, in contrast to now.

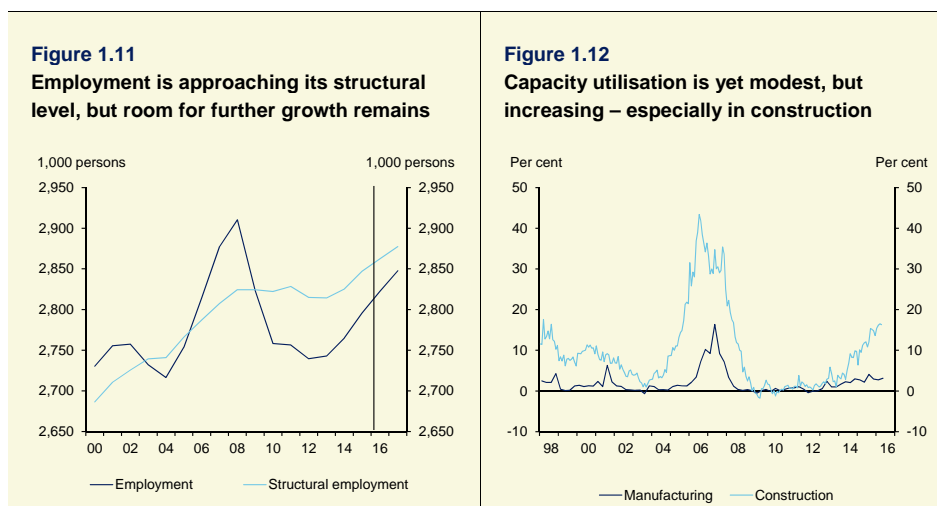
Summary

Increases in employment have been quite strong compared with recent years' modest GDP growth. However, there are currently no indications suggesting that employment in general has outpaced activity across industries. For example, wage shares have overall remained relatively stable despite the increase in employment. In addition, the employment increase mainly took place in the service sector, where increased production happens largely through increased labour input, *cf. section 1.4*.

The tendency for moderate GDP growth to be accompanied by a relatively large increase in employment is thus expected to continue in the forecast period. In 2017, an estimated 50,000 additional jobs will have been created since 2015. This implies slightly slower employment growth in 2016 and 2017 compared to last year, primarily reflecting the revised growth forecasts and weak GDP growth in the second half of 2015.

During the forecast period, employment has gradually approached the estimated structural level, though a negative employment gap remains of about 30,000 persons in 2017, *cf. figure 1.11*. The estimated employment gap consists of e.g. students seeking a part-time job alongside their studies, social assistance recipients outside the labour force and new immigrants. The unemployed only represent about a third of the employment gap.

The series of reforms undertaken - especially the Retirement Reform in 2011 - increases the structural workforce significantly in 2016 and 2017. These reforms thus contribute to creating room for an increase in employment, without incurring widespread wage pressures in the labour market. However, there may also be a shortage of labour with particular skills or in certain places in the country.



Note: Employment in figure 1.11 includes persons on leave and cross-border workers.

Source: Statistics Denmark and own calculations.

The number of firms reporting labour shortages as a limitation of production has increased after some years with virtually no limitations. The extent of this currently coincides with the level in 2005 that is considered to be fairly neutral in cyclical terms, *cf. figure 1.12*. Other

indicators of possible bottlenecks, such as the number of unsuccessful job advertisements, have also risen recently from a very low level, yet still to a limited extent.

The planned gradual tightening of fiscal policy in the coming years should be viewed in light of the increasing capacity utilisation, among other things, *cf. section 1.3*. A gradual tightening of fiscal policy will help prevent a rapid increase in labour demand over supply and thus counteract tendencies to renewed overheating and bottlenecks, as was the case in the years prior to the financial crisis.

Lower growth than forecast in December and continued downside risks

Compared to the forecast in the *Economic Survey, December 2015*, growth estimates are revised down by $\frac{3}{4}$ percentage points in 2016 and just under $\frac{1}{4}$ percentage points in 2017. The downgrade primarily reflects the weak economic development in Denmark in the second half of 2015, which implied a low starting point for this year relative to 2015, and added to uncertainty about the strength of global demand and international economic growth. This affects both exports and business investments adversely. Influenced by some weakness at the beginning of this year, the forecast for private consumption growth is also reduced slightly in 2016, but unchanged in 2017.

Despite lower growth estimates, the overall economic outlook is almost unchanged. The basis for growth in both domestic demand stemming from private consumption and investment and in exports is still present, *cf. above*. At the same time, improvement in the labour market continues unabated. Developments in the labour market are more important for the conduct of fiscal policy than preliminary GDP data, which is often revised subsequently.

Risks to the outlook are assessed to be predominantly on the downside. They relate mainly to the risk of renewed financial turmoil abroad, and lower global growth in both advanced and emerging economies. The turmoil may be triggered by a British exit from the EU by referendum in June, but there is also the possibility of generally lower potential for growth in a number of countries, including emerging economies. The forecast is based on Britain voting to remain in EU. If they choose to leave the EU it will, however, affect both the British and European – and thus Danish – economy, *cf. box 1.1*.

In case of a weakened global economy there will be knock-on effects on the Danish economy not only directly via weaker exports, but also indirectly through increased uncertainty, causing households and businesses to again postpone consumption and investments.

There are some upside risks as well. These include a potential for low inflation, higher housing prices and low interest rates to stimulate consumption and housing investment more than assumed, both in Denmark and on export markets. This could lead to higher growth in GDP and employment than expected in the forecast.

Box 1.1**Consequences for the Danish economy if Britain votes to leave the EU**

The economic impact on the British economy is estimated to be markedly negative, if the referendum on June 23, 2016 results in the UK leaving the EU (so-called *Brexit*). It will be a time-consuming process to formally leave the EU cooperation; it will most likely take several years to complete, with the earliest possible completion estimated to be by summer 2018. In the meantime, there will likely also be significant negative consequences for the economy. This reflects an expected decline in investments, partly as a result of increased uncertainty about future conditions, tighter credit conditions and caution in spending by consumers and businesses. Elements of this can already be traced, due to the uncertainty associated with the outcome of the vote, according to the Bank of England.

Brexit will also have implications for Denmark and other European countries via lower trade and investment. Britain is a major trading partner for both Denmark and other European countries, and a global financial center as well. By virtue of this role, Brexit is also expected to lead to increased uncertainty in financial markets with falling equity prices, in particular for bank shares.

Bank of England is likely to intervene with monetary easing in the form of securities purchases to offset interest rate increases. The ECB could also react to Brexit by increasing its asset-buying programmes to counter the negative growth impact and to stabilise financial markets.

The OECD has estimated that the level of GDP in 2018 will be 1.3 per cent lower in the UK in the event of Brexit, and 1.1 per cent lower in the rest of the EU. The consequences for Denmark, as a small open economy with extensive trade with EU countries, will also be significant. The effect on the Danish economy can be illustrated through a shock in the ADAM model, based on the following assumptions:

- Export market growth is reduced by ½ percentage point in 2016 and 1½ percentage points in 2017, corresponding to the OECD estimates of the effect on British and European economy.
- Greater uncertainty, tighter credit conditions and some loss of assets due to falling share prices imply that growth in business investment and private consumption is reduced by 1 and 2¾ percentage points and ¼ and ½ percentage point in 2016 and 2017.

In the Brexit scenario, GDP growth in Denmark is reduced by ¼ percentage point to 1 per cent in 2016 and by about ½ percentage point to 1 per cent in 2017 compared to the main scenario of the forecast, *cf. table a*. Unemployment is also expected to be slightly higher in both years, and the general government balance will deteriorate. The balance, however, will continue to remain within the EU's 3 per cent limit. There is considerable uncertainty about the magnitude of these effects.

Table a**Comparison of the baseline outlook and an estimated Brexit scenario**

	Economic Outlook, May 2016		Brexit scenario	
	2016	2017	2016	2017
GDP-growth (real, per cent)	1.1	1.7	0.9	1.1
Unemployment (per cent)	3.8	3.6	4.0	4.1
Government budget balance (per cent of GDP)	-2.0	-1.8	-2.1	-2.2

Source: *The economic consequences of Brexit: A taxing decision.*, OECD Economic Policy Paper, no. 16, April 2016 and own calculations.

Table 1.1
Selected indicators

	2014	2015	2016	2017
Real growth, per cent				
Private consumption	0.5	2.1	1.5	1.7
Government consumption	0.2	0.6	1.0	0.0
Government investment	7.4	-1.0	-3.7	0.2
Housing investment	3.1	-0.5	2.0	6.0
Business investment	1.8	2.5	4.0	5.6
Inventory investment (per cent of GDP)	0.3	-0.3	0.1	0.0
Exports of goods and services	3.1	-1.0	1.5	4.4
Imports of goods and services	3.3	-1.4	2.5	4.6
GDP	1.3	1.2	1.1	1.7
Level, per cent of GDP				
Actual budget balance	1.5	-2.1	-2.0	-1.8
Structural budget balance	-1.0	-0.6	-0.4	-0.4
Current account	7.7	7.0	7.5	7.6
Output gap	-1.7	-1.4	-1.2	-0.7
Level, 1,000 persons				
Unemployment, gross (annual average)	134	124	112	107
Employment (incl. leave), total	2,765	2,796	2,823	2,848
Labour force, total	2,888	2,912	2,928	2,949
Per cent change				
Housing prices (single family homes)	3.4	6.1	4.0	4.0
Consumer price index	0.6	0.5	0.6	1.5
Hourly earnings in the private sector	1.2	1.9	2.1	2.5

1.3 Fiscal policy and public finances

The budget bill for 2016 implies a strengthening of public finances, resulting in a margin vis-à-vis the structural budget deficit limit on the Budget Law, *cf. table 1.2*. The fiscal tightening is aligned with the economy being in a modest but robust recovery, where growth is particularly

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evident in the labour market. A gradual normalisation of fiscal policy from a lenient starting point is an important element in supporting a sustainable recovery.

The fiscal room for manoeuvre will be tight in the coming years due to lower North Sea revenues. At the same time, the inflow of refugees increases the expenditure pressure given the fiscal room, and public investments must be adjusted from the historically high levels during the economic crisis. Despite adjustments, the expenditure levels will remain higher than in the years before the financial crisis.

This summer, the government will publish a medium-term 2025-plan for the Danish economy. The government will set up economic policy targets and ambitions towards 2025 in order to address the challenges facing the Danish economy. The challenges include the need to strengthen the basis for economic growth, increase labour-market participation and handle the expected pressure on public finances in the years ahead. Furthermore, the 2025-plan will include a proposal for the second phase of the Job Reform, which was launched in 2015 with the aim to increase the economic incentives to find a job.

Table 1.2
Key fiscal policy figures

	2015	2016	2017
Structural budget balance, per cent of structural GDP	-0.6	-0.4	-0.4
Actual budget balance, per cent of GDP	-2.1	-2.0	-1.8
Public consumption, real change per cent	0.6	1.0	0.0
One-year fiscal effect, per cent of GDP ¹⁾	-0.1	-0.1	-0.2
Output gap, per cent ²⁾	-1.4	-1.2	-0.7
Gross unemployment gap, 1,000 persons ²⁾	25	16	10
Employment gap, 1,000 persons ²⁾	-52	-40	-30

- 1) The one-year fiscal effect is an estimate of the effect on the overall economic activity due to the changes in fiscal policy from one year to the next. Thus, a negative number indicates a fiscal tightening compared to the previous year.
- 2) The different gaps measure how far production, unemployment and employment are from being in equilibrium.

Source: Statistics Denmark and own calculations.

Expected budget deficits below the EU limit

According to preliminary figures from Statistics Denmark, the budget deficit amounted to 2.1 per cent of GDP in 2015. In 2016 and 2017, budget deficits of approximately the same size, namely 2.0 and 1.8 per cent of GDP, respectively, are estimated. Thus, in the forecast period budget deficits are expected to remain below the 3 per cent of GDP limit of the Stability and Growth Pact, *cf. figure 1.13*.

Despite expected growth in GDP and employment, the budget balance by and large is not expected to improve significantly from 2015 to 2016- 2017. This reflects the fact that the

actual budget balance is significantly influenced by temporary factors due to fluctuations in the financial markets and in oil prices as well as various temporary factors etc.

For instance, one-off revenues stemming from the Pension Package (2014) are improving the actual budget balance by approx. DKK 25 bn. corresponding to 1¼ per cent of GDP in 2015.¹ These revenues lapse in 2016, resulting in a smaller improvement in the actual budget balance than the cyclical improvement otherwise would indicate. Correspondingly, the assumed normalisation of interest rates contributes to reducing the volatile revenues from the pension yield tax from approx. DKK 29 bn. to expected DKK 16 bn. from 2016 to 2017.

Figure 1.13
Actual budget balance comply with the deficit limit of the Stability and Growth Pact

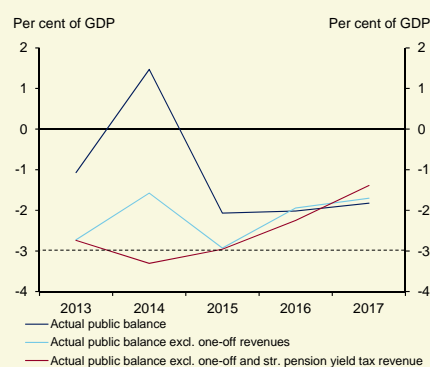
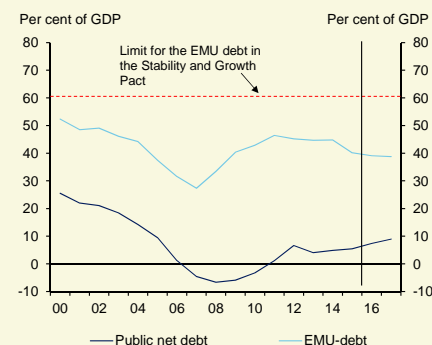


Figure 1.14
Public gross debt (EMU) and net debt remain at low levels



Note.: In figure 1.13, the actual budget balance is adjusted for temporary factors, including revenue from the restructuring of capital pensions. These temporary factors are described in greater detail in *Public finances – May 2016* available at www.fm.dk. A correction is also made for how much the volatile actual revenue from the pension yield tax is estimated to be from the structural level included in the calculation of the structural budget balance.

Source: Statistics Denmark and own calculations.

Given the many temporary factors that affect the actual budget balance, fiscal policy is primarily planned on the basis of the structural balance, which is adjusted for such temporary fluctuations. The Budget Law structural budget deficit limit ensures with high probability that the actual budget deficit does not exceed 3 per cent of GDP during a normal recession.

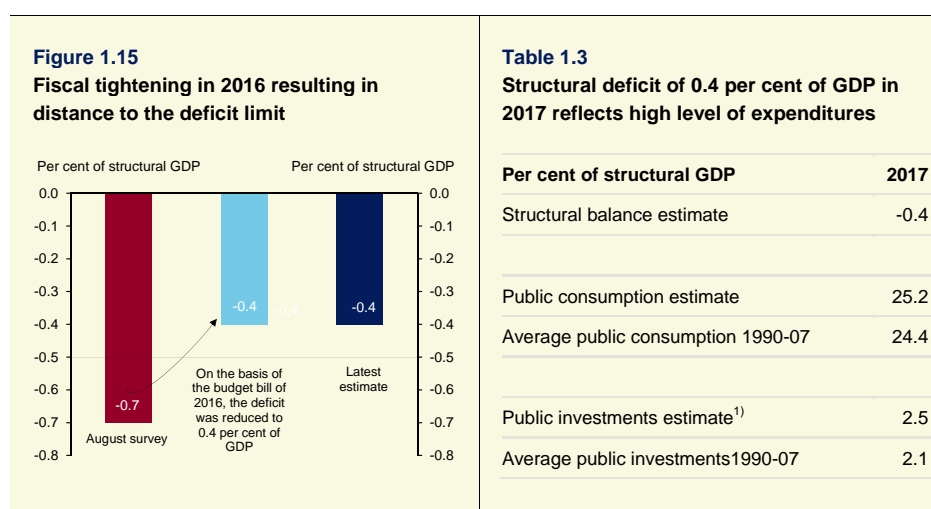
The estimated budget deficits imply a moderate net public debt of 9 per cent of GDP and EMU debt of 39 per cent of GDP at the end of 2017 *cf. figure 1.14*. Thus, a wide safety margin is maintained against the EMU debt limit of 60 per cent of GDP in the EU Stability and Growth Pact.

¹ In the opposite direction, an extraordinary write-down of public arrears derived from the change in the accounting principle for the debt to the public and depreciation as a result of challenges with A Common Collection System (EFI) overall amounts to DKK 6 bn. in 2015.

Fiscal framework for 2017

With the budget bill for 2016, public finances were consolidated by DKK 5 bn. in order to ensure a margin to the Budget Law structural deficit limit, *cf. figure 1.15*. Thus, a major step was taken towards reducing the structural deficits which have characterised fiscal policy in recent years.

In the coming years, there is a need to consolidate fiscal policy further as the improvement in the economy picks up. The starting point for the planning of fiscal policy in 2017 is that the structural budget deficit is maintained at 0.4 per cent of GDP in 2017 despite an underlying weakening as a result of falling structural North Sea revenues. In order to maintain a margin against the Budget Law deficit limit in 2017, a technical reduction of the room for manoeuvre of DKK 2 bn. in 2017 was included in the *Economic Survey, December 2015*. This technical reduction of the fiscal space – which i.a. reflected that the oil price expectations have been revised downwards since the budget bill for 2016 – is maintained in the current assessment.



1) Excl. research and development expenditures.

Source: *Economic Survey*, August 2015 and December 2015 and own calculations.

In 2017, it is key that public investments are adjusted corresponding to the levels in *Denmark's Convergence Programme 2016*. An adjustment of the level of public investments is crucial in order to ensure fiscal space for other economic policy priorities.

Fiscal policy in 2017 is determined in connection with the budget bill for 2017 and the annual agreements between the central government and municipalities and regions on their economy for the coming year. Based on current information and assumptions, the room for public consumption expenditures is almost unchanged from 2016 to 2017. This means that fiscal space for new priorities will be limited without new measures. The structural budget deficit in 2017 reflects the fact that spending levels are still high relative to structural GDP. Thus, public consumption expenditure in 2017 is 0.8 per cent of GDP higher than the historical average before the economic crisis, *cf. table 1.3*. Likewise, public investment is 0.4 per cent of GDP higher than the historical average.

Public investment spending was increased during the economic crisis in order to support the economy. However, the increase has taken place with some delay relative to the planned increase, and therefore the level of public investment in 2017 remains at one of the highest levels as a share of GDP when focusing on the last three decades.

The assumed fiscal policy is assessed to be aligned with an economy where the labour market is now entering the fourth consecutive year with robust progress. Private-sector employment has increased by more than 80,000 persons, and unemployment has decreased by 40,000 persons to a rather low level. Furthermore, monetary policy is expected to remain highly accommodative in the coming years, which increases the need for fiscal tightening in order to support a sustainable recovery. The one-year fiscal effect – which is a calculated measure of the activity effects of fiscal policy relative to the previous year – is estimated at -0.1 per cent of GDP in 2016 and -0.2 per cent of GDP in 2017, corresponding to a moderate tightening of fiscal policy from a lenient starting point.

Limited fiscal room for new measures, but high expenditure level in a historical perspective

In the latest medium-term projection – *Denmark's Convergence Programme 2016* – public consumption could grow by approx. DKK 10 bn. in the period 2017-2020 given the structural budget balance target in 2020. This corresponds to a real public consumption growth rate of 0.5 per cent per annum on average in the period 2017-2020. This is a substantial downward revision compared to the medium-term projection from September 2015 where the fiscal room for manoeuvre was calculated at approx. DKK 15½ bn. The downward revision reflects the effect of falling oil prices and hence, lower expected revenues from North Sea activities.

In a historical perspective, a fiscal space of DKK 10 bn. over four years is limited. This is especially the case in light of a growing population, including the newly arrived refugees. In the absence of other measures and new reforms the fiscal room for manoeuvre has to cover the overall priorities for tax cuts, expenditure growth in high-priority areas as well as funding of unforeseen additional expenses etc., which occur on a regular basis.

The fiscal space is calculated relative to a scenario with zero real growth in public consumption expenditures, i.e. a scenario where the level of expenditures is maintained in real terms, *cf. figure 1.16*. However, it is also important to assess the *rate of growth* in public expenditures relative to the *initial level* of spending.

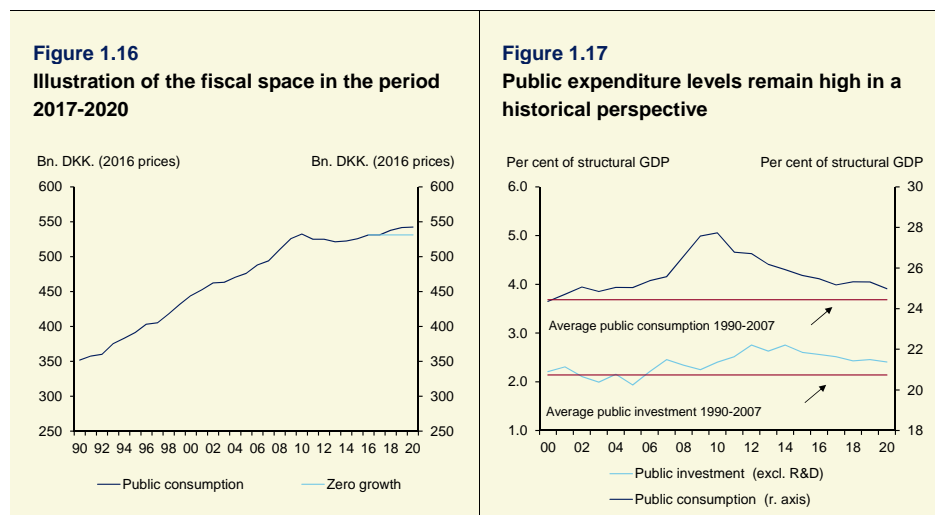
During the period 2006-2010, public consumption expenditure grew markedly, which among other things was associated with ongoing budgetary overspending in the municipalities and regions. At the same time, price and wage increases were high in the public sector. Since 2010, public consumption as a share of GDP has decreased, but it is still higher than in the period before 2007, *cf. figure 1.17*.

Public consumption is estimated at approx. DKK 530 bn. in 2016, corresponding more or less to one quarter of the total economy (GDP) or about half of total public expenditure. Public employment accounts for almost 30 per cent of total employment in Denmark. Public consumption expenditures include salaries to public employees and purchase of goods and services from private companies used in the production of a number of public welfare ser-

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VICES which are made available to citizens, including the purchase of medicines, surgical equipment and school textbooks etc.

With a tight fiscal space for new priorities, but a high initial level of expenditures, it is continually important to use the existing funds more efficiently and more effectively.



Note: In figure 1.16, the projection is based on Denmark's Convergence Programme 2016 for the entire period up to 2020. Public consumption is shown incl. depreciation. Calculations of the fiscal space are based on growth rates in public consumption excl. depreciation, since depreciations are budget balance neutral. In figure 1.17, public investment is shown excl. spending on research and development. The average for spending levels applies to the period before the global downturn in 2008.

Source: Statistics Denmark, *Denmark's Convergence Programme 2016* and own calculations.

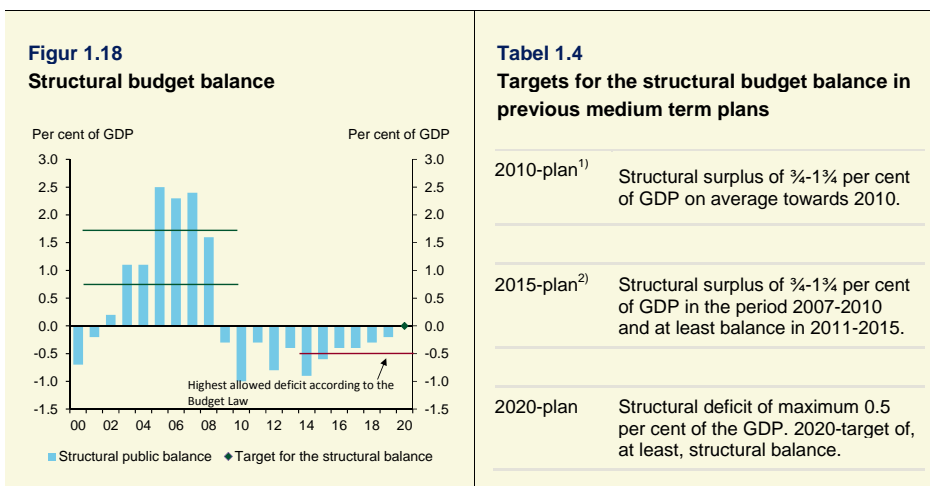
The government will present Job Reform 2 and the 2025-plan in August

This summer the government will publish a new medium-term plan for the Danish Economy, where the planning horizon for economic policy is extended from 2020 to 2025. Since the 2005-plan from 1997, medium-term economic plans have constituted an important fiscal-policy framework under various governments. The medium-term plans have among other things played an important role in ensuring sound public finances and strengthening the basis for growth and employment by identifying challenges at an early stage, and providing a basis for forward-looking solutions.

The medium-term plans have helped to ensure confidence in public finances and the overall credibility of the Danish economy. For example, Denmark is among the relatively few countries that has retained the highest rating (AAA) from international rating agencies throughout the economic crisis.

In connection with medium-term plans Denmark has often set ambitious targets for the structural budget balance to cope with future challenges, cf. figure 1.18 and table 1.4.

In the 2010-plan, the target was structural budget surpluses within the interval $\frac{3}{4}$ - $1\frac{3}{4}$ per cent of GDP on average for the years towards 2010. This reflected, among other things, the need for public savings ahead of larger generations retiring and being replaced by smaller generations in the labour market. In the 2015 and 2020-plans, the target has been, as a minimum, structural budget balance at the end of the planning horizon.



- 1) Adjusted for Statistics Denmark's revised categorization of the ATP (Labour Market Supplementary Pension; in Danish: Arbejdsmarkedets Tillægspension) and reorganization and the elimination of the so-called SP scheme (the Special Pension scheme; in Danish: Særlig Pensionsopsparing) in order to make figures comparable with the current method of calculating the structural budget balance.
- 2) In 2009, in light of the financial crisis the target was replaced by a target of at least structural balance in 2015, cf. *Denmark's Convergence Programme 2009*.

Source: *En holdbar fremtid – Danmark 2010* (from 2001), *Mod nye mål – Danmark 2015* (from 2007) and own calculations.

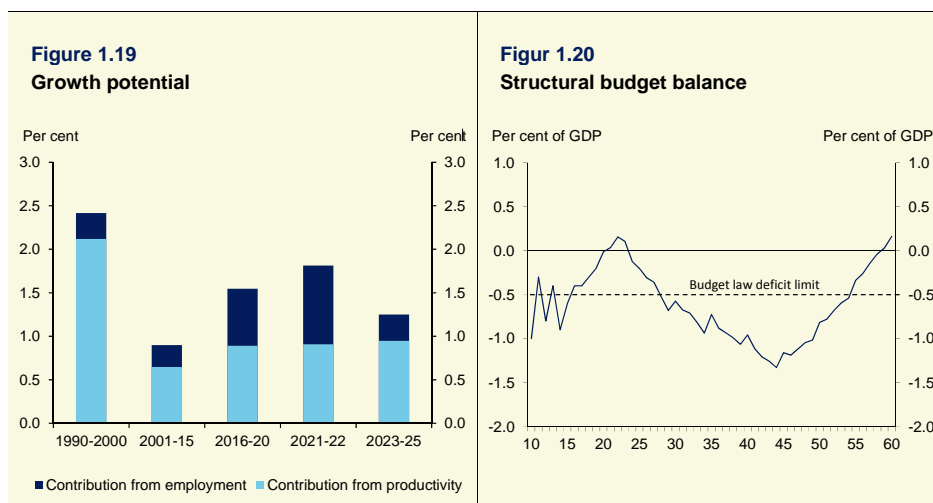
The 2025-plan will provide the framework for fiscal policy in the coming years. As part of the plan the government will set up economic policy targets and ambitions towards 2025 in order to address the challenges which the Danish economy is facing. Some of the main challenges for the Danish economy now and in the longer term are:

- Limited fiscal space: Falling oil prices have implied that the room for manoeuvre in fiscal policy is smaller than before. Without new measures, there is a fiscal space of approx. DKK 10 bn. towards 2020. This underlines the need for sharp prioritisation of expenditures and for a continued focus on modernisation and efficiency in the public sector in the coming years
- Moderate growth potential for the Danish economy: Productivity growth in Denmark has been weak for several years – both compared to previous periods and compared with a number of other countries. It has pulled down growth. Reform efforts – including the retirement reform from 2011 – have increased the supply of labour, which contributes significantly to the growth potential towards 2020. This contribution fades in the longer term,

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and overall potential growth is expected to slow down to approx. 1¼ per cent per annum during the years up to 2025. This assumes that productivity growth will return to the average for the period from 1995 to before the financial crisis, *cf. figure 1.19*.

- Pressure on public finances: Currently, fiscal policy is planned within the framework of the 2020-plan. If current economic policies are maintained after 2020, a technical projection shows substantial budget deficits for the period 2035-2055 exceeding the Budget Law structural deficit limit, *cf. figure 1.20*. Among other things, the fiscal pressures during this period reflect that life expectancy has increased faster compared to what was assumed when reforming the retirement system. The long-term projection shows that the budget balance improves again as the indexation of the pension age catches up on the life expectancy around the middle of this century.



Note: In figure 1.19, the productivity contribution is calculated as a residual, i.e. changes in potential GDP that can not be explained by the rise in structural employment measured in hours.

Source: *Denmark's Convergence Programme 2016*.

As part of the 2025-plan, a proposal for the second phase of the Job Reform, which was initiated in 2015, will be put forward. The government's overall objective is to increase the economic incentive for finding a job, i.e. to make-work-pay better, in order to have more people providing for themselves, *cf. box 1.2*.

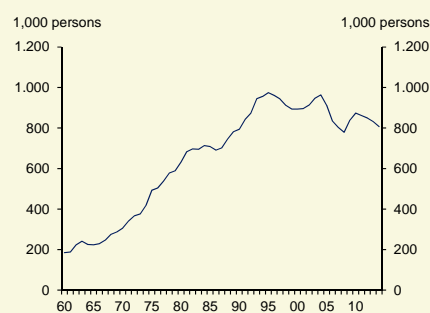
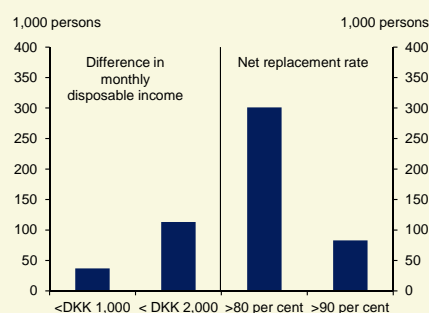
Box 1.2**The economic benefit of employment**

In recent years, there has been a drop in the number of people relying on public income transfers. However, there continues to be a large group of approx. 800,000 persons (full-time equivalent), which are receiving income transfers for shorter or longer periods of time, *cf. figure a*. This group consists of i.a. persons receiving disability pensions, cash benefits or sickness and unemployment benefits. A number of these persons have permanently withdrawn from the labour market, but there is still a potential for bringing down the number of persons on public support and increasing employment.

Participation in the labour market depends *inter alia* on the economic gain of being employed. The incentive to be employed has increased in recent years, particularly as a result of successive reforms of the benefit system and the tax system. Despite this, there is still a group of approx. 113,000 persons, for whom the difference in disposable income between being employed or on income transfers is less than DKK 2,000 per month, *cf. chart b*. The phasing-in of the tax reform of 2012, viewed in isolation, reduces this group up to 2023, but the group will continue to represent approx. 83,000 persons based on 2023-rules.

The net replacement rate, which measures the disposable income of benefit recipients as a percentage of the disposable income if employed, is another way to measure the financial gain of employment. Currently 301,000 persons have net replacement rates of over 80 per cent. The difference between the disposable income from work and the disposable income from unemployment for this group is thus less than 20 per cent. Taking the fully-phased-in rules for taxes and income transfers in 2023, there will still be a significant group of about 225,000 persons who have net replacement rates of over 80 per cent.

The relatively large group with limited economic incentives to obtain employment reflects several factors. First, the replacement rate of income transfers is relatively high in Denmark. Furthermore, among other things, there are transportation costs associated having a job, which affect the gain of being employed.

Figure a**Number of persons receiving income transfers****Figure b****Difference in disposable income and net replacement rate**

Note: Figure a shows the number of full-time equivalent recipients of income transfers excluding student grant (SU) recipients and state pension retirees but including persons in subsidised employment. The reduction of the state pension age from 67 years to 65 years in 2004 has seen in isolation reduced the number of income transfer recipients. Figure b shows the difference in monthly disposable income of being employed relative to receiving income transfers. The net replacement rate is the disposable income when receiving income transfers as a percentage of the disposable income when employed. Data covers 2015.

Source: Statistics Denmark, Ministry of Finance (1997), *Finansredegørelse 97* og Ministry of Taxation (2016): *Skatteøkonomisk Analyse – Den økonomiske tilskyndelse til at arbejde stiger* from 21 March, 2016.

1.4 Has productivity growth stalled?

Usually GDP grows faster than employment. The reason is underlying productivity growth which enables the same labour force to produce an increasing amount of goods and services. In recent years, however, employment has been growing markedly while GDP growth has been more moderate, *cf. figure 1.21*. Hence, the ratio between GDP and the number of employees has only increased very slightly since 2010, after having increased steadily until 2006. In 2015, GDP per employee was roughly in line with the 2006-level, *cf. figure 1.22*.

Figure 1.21
Strong employment growth on the back of moderate GDP-growth...

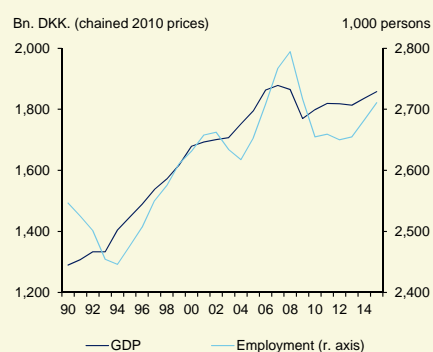
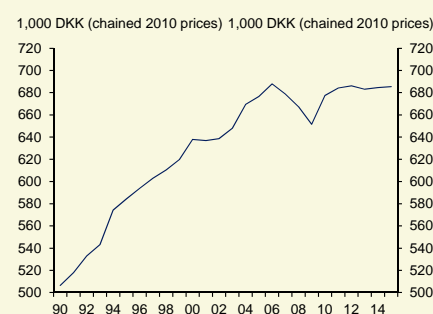


Figure 1.22
... hence the ratio between GDP and the number of employees has only increased very slightly since 2010

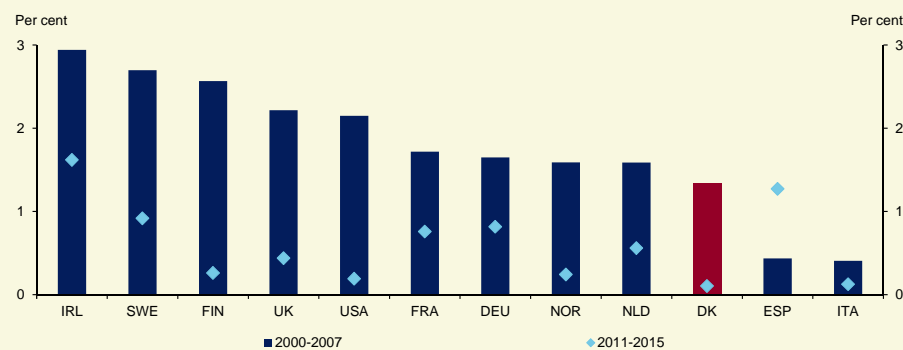


Note: Employment is measured excl. people on leave.
Source: Statistics Denmark and own calculations.

To some extent this reflects that average working hours have fallen, such that each employee works fewer hours. Growth in GDP per hour worked has also been weak in recent years, though. Weak growth in GDP per hour worked at this stage of the recovery can be found in several other countries too. Particularly the US, the UK and Sweden, as well as several countries in the euro area have shown the same characteristics. In the US, GDP per hour worked increased by over 2 per cent annually from 2000 to 2007; there has, however, barely been any increase in recent years. In the UK, growth in GDP per hour worked has decreased to less than ½ per cent annually in 2011-2015 following an increase of approximately 2¼ per cent annually during the period up to the outbreak of the financial crisis, *cf. figure 23*.

Consequently, in recent years productivity growth has stalled – not only in Denmark, but also in many other Western countries. However, there is no clear consensus on what is behind the observed weak productivity growth, or for that matter whether productivity growth has been permanently weakened.

Figure 1.23
Weak growth in GDP per hour worked in many countries since the financial crisis



Note.: 2011-2014 for Ireland, France, Norway and the US.
 Source: OECD and own calculations.

Productivity growth has slowed down in the non-farm private sector

Productivity is often measured as gross value added (GVA) per hour worked in the private sector. Measured in this way, productivity growth in Denmark has slowed during the recent years. In 2015, productivity even declined in the private sector according to preliminary estimates, *cf. figure 1.24*.

Part of the lower productivity growth in the private sector should be seen in relation to the declining production in the North Sea since 2006, as the available oil and gas resources have dwindled. This reflects that the quantities accessible for extraction from the underground has decreased steadily, but about the same number of people is still required to operate oil rigs etc. This has reduced productivity in the raw material extraction sector significantly since the peak in 2006. During the period 1990-2005, North Sea production contributed by around 0.1 percentage point annually to productivity growth in the private sector. From 2006 onwards the raw material extraction sector has dragged down productivity growth by 0.4 percentage point on average each year.

Taking this into account (as well as fluctuations in other sectors such as agriculture and shipping) there has still been a downturn in productivity growth. This is evident from productivity developments in the so-called non-farm private sector.

The non-farm private sector, which consists of manufacturing, construction and services except shipping, is the most relevant measure of productivity growth in the Danish economy. The reason is that the vast majority (about 95 per cent) of private-sector employees work in the sector, and that production in the non-farm private sector – unlike e.g. raw material extraction, agriculture and shipping – is determined by market conditions and not for instance natural resources.

In the non-farm private sector, productivity growth has not decreased as much as in the private sector in total, but some moderation is still recorded, *cf. figure 1.25*. Productivity in the

Summary

non-farm private sector increased (in actual figures) by 0.6 per cent in 2015, which is low compared to previous periods, but significantly higher than the negative productivity growth in the private sector as a whole.



Note: Productivity is measured as GVA per hour worked. The non-farm private sector consists of manufacturing, services excl. shipping and construction. Trend growth has been calculated as growth in the trend of hourly productivity where the trend is defined simply by an HP-filter. To reduce end-point problems the trend has been calculated using actual figures up to 2015 and projections from *Convergence Programme Denmark 2016* up to 2030.

Source: Statistics Denmark and own calculations.

Manufacturing currently looks weaker, services continue a poor development

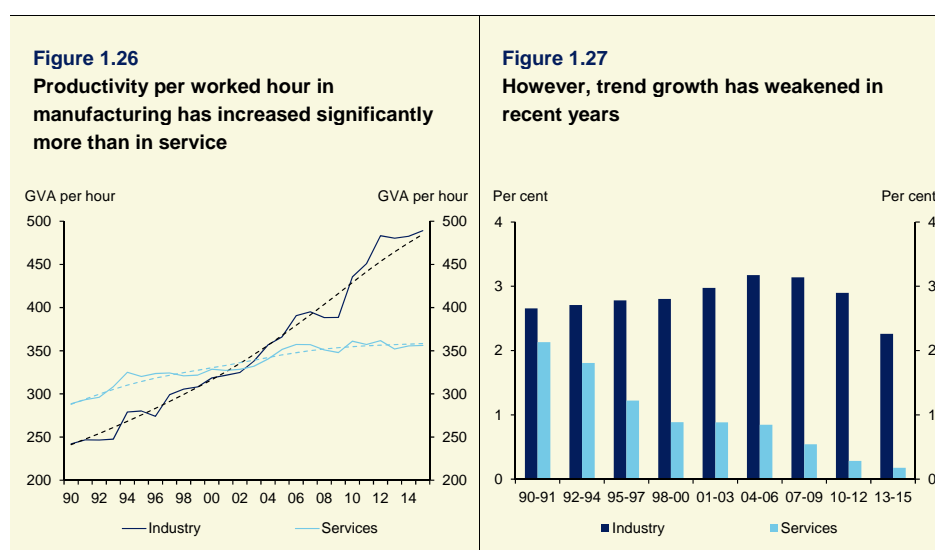
The majority of the non-farm private sector (about 90 per cent measured in employment) is made up of manufacturing and services². Manufacturing has generally been able to increase productivity in line with the development in other countries for many years. From 2010 to 2012 manufacturing productivity increased strongly, which should partly be seen as a recovery following the productivity loss during the recession. In the last few years there has, however, barely been any productivity growth in manufacturing, cf. figure 1.26.

The service sector is generally characterised by weak productivity growth compared to e.g. manufacturing, but also in relation to other countries. This is partly due to the fact that the capital intensity in services generally is lower, and manufacturing thus has a higher potential for exploiting opportunities arising from increased levels of automation and technological progress, etc. At the same time, it is also difficult to measure productivity growth in the service sector, partly because it is difficult to measure the quality of the services provided, cf. The Danish Productivity Commission, 2013.

² In the following, services will refer to private services excl. shipping.

There are indications of a moderation in the underlying productivity growth in both manufacturing and services over the past years, *cf. figure 1.27*. In manufacturing, the trend has decreased after the crisis; whether the lower trend is persistent is, however, uncertain. In services there are also signs of some moderation of the already very limited productivity growth.

It should be emphasised that the productivity measures in recent years are based on preliminary national accounts data, which are subject to considerable uncertainty. This is especially the case for the development of individual sectors. Data is, as mentioned, particularly uncertain with regards to service because it can be difficult to measure the quality of a service. Thus, it is difficult to take the quality-adjusted price properly into account, which creates an additional challenge in terms of calculating the real value added in services.



Note: Productivity is measured as GVA per hour worked. The dotted lines in figure 1.26 indicate the trends. Trend growth has been calculated as growth in the trend of hourly productivity where the trend is defined simply by an HP-filter. To reduce endpoint problems, the trend has been calculated using actual figures up to 2015 and an adaption to historical growth rates of productivity in 2020.

Source: Statistics Denmark and own calculations.

The development in productivity in the service sector has been weak both before and after the crisis. The financial sector can account for some progress in productivity before the recession; here the measured productivity increased by more than 8¾ per cent each year during the boom years in 2004-2008. Productivity in other services, which account for 95 per cent of service employment, has remained virtually unchanged both before and after the financial crisis, *cf. figure 1.28*.

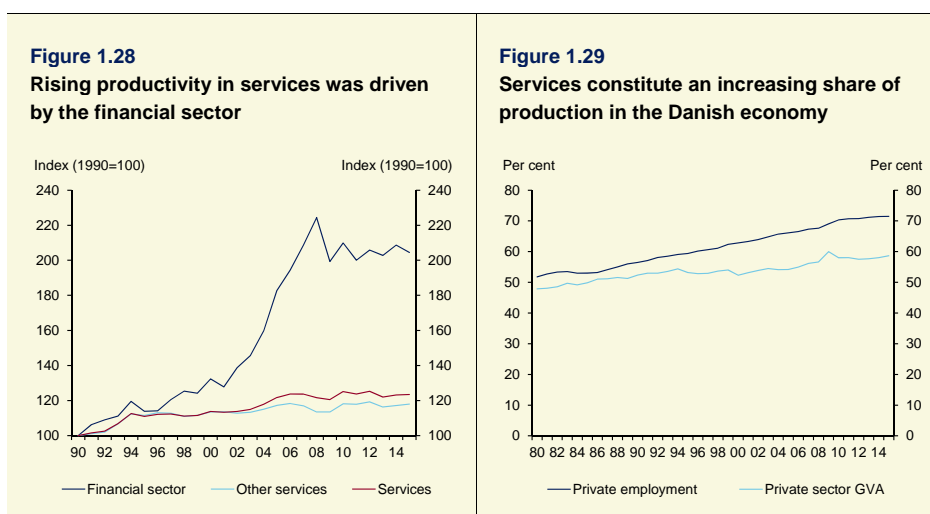
Private services now account for more than 70 per cent of employment in the private sector and about 60 per cent of gross value added, *cf. figure 1.29*. This constitutes an increase of about 20 percentage points since 1980. The larger part reflects the growing domestic and foreign demand for services such as private consumption and exports. It is both direct (final)

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demand such as an increasing number of restaurant visits and indirect demand such as a manufacturing company buying services from an auditor as part of its production.

This development partly reflects a higher demand for services from consumers in wealthier countries, but also increased international division of labour that allows for some production of goods taking place in other countries.

At the same time, the larger service share can also reflect an increased labour division, where a company purchases services such as cleaning from an external firm instead of hiring cleaning staff themselves. This will increase the service share of the economy in the national accounts even if it does not necessarily reflect an increased production of services.

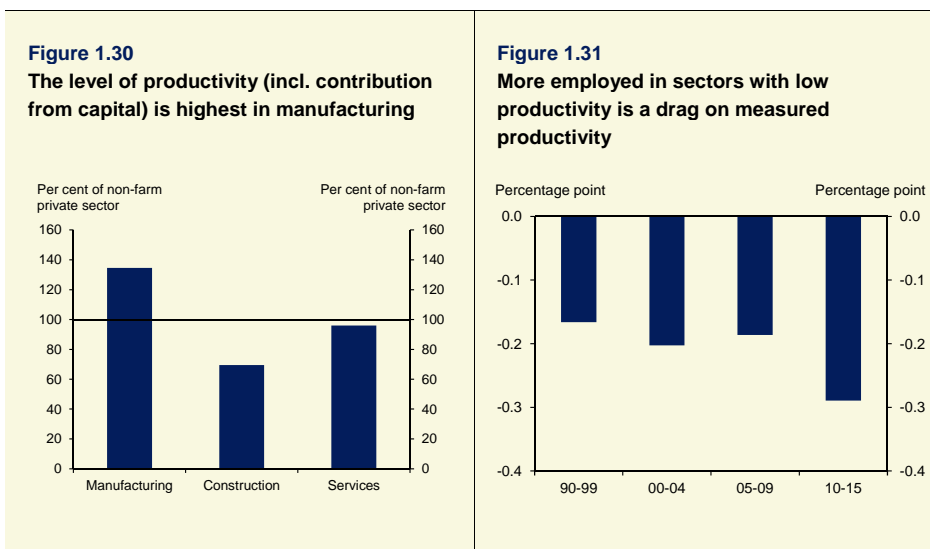


Source: Statistics Denmark and own calculations.

Shifts between sectors curbs productivity growth in the non-farm private sector

The productivity level in services is lower compared to manufacturing and the non-farm private sector in general, *cf. figure 1.30*. This implies that it generally takes more hours of work in the service sector to produce a service with a value equivalent to a manufactured product.

As services constitute an increasing share of the economy, this will in itself be a drag on measured productivity growth. Thus, the shift towards sectors with lower productivity per employee has diminished measured productivity growth in the private sector by up to ¼ percentage point each year since 1990, and the negative impact has increased in recent years, *cf. figure 1.31*.



Anm.: The levels of productivity have been measured as the nominal hourly productivity compared to the non-farm private sector in 2011-2015.

Source: Statistics Denmark and own calculations.

Thus, gradually weaker productivity growth in the non-farm private sector through a number of years is also a consequence of a market-driven sector shift. This part of the weakening does not, however, have anything to do with productivity developments within individual sectors, which is the main reason for the lower productivity growth. It should also be emphasised that the increasing share of production in the service sector ultimately is a result of households in Denmark and abroad buying more of what they value most. Thus, it is not desirable or for that matter possible to shift the composition of production towards some specific sectors with a higher level of productivity. The higher level of productivity in some sectors primarily reflects higher use of capital and/or educational content, but not a greater value of the effort for each employee with a given skill level.

Overall, there are a number of more or less technical factors that may help to explain the observed weakness in productivity growth in the non-farm private sector – and in the private sector generally – in recent years. Nonetheless, a significant part of the development cannot be explained by technical factors.

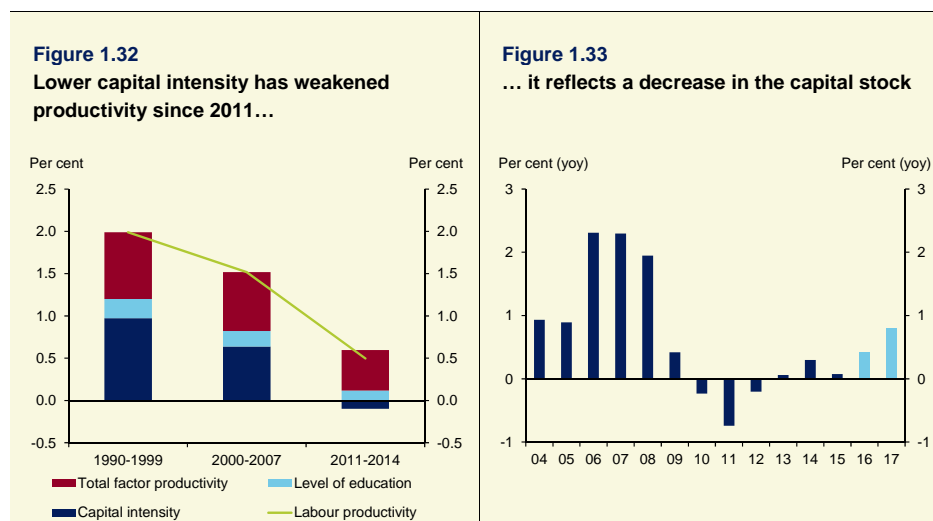
A low level of investment after the crisis has weakened productivity

The productivity of a company can basically be increased in three ways. Firstly, by more/better capital available to employees such as investments in machinery, new computers etc. Secondly, by increasing the level of education and qualifications for the employees. And thirdly, through the so-called total factor productivity (TFP). TFP measures the share of hourly productivity growth that cannot be attributed to increased capital or education and is thus a measure of how efficient the resources of production are used. Among the factors captured by TFP are management, workflow, innovation and technology. There are naturally large uncertainties when it comes to measuring TFP.

Summary

Of these three factors the slowdown in productivity growth in recent years can especially be attributed to weaker capital intensity. In fact, capital intensity has been a drag on labour productivity since the downturn, reflecting for instance that employees during this period have had fewer or worse machines at their disposal, *cf. figure 1.32*. There is also some reduction in the contribution from TFP.

The negative contribution from capital intensity reflects the fact that the capital stock was reduced in the years after the financial crisis, *cf. figure 1.33*. That is, annual investments were not sufficient to compensate for wear and tear on existing capital. Along with the recovery of the business cycle and increasing capacity utilisation, investments are expected to pick up again. This will ensure an increasing contribution of capital intensity to labour productivity, which will benefit capital intensive sectors such as the manufacturing sector.



Anm.: Figure 1.32 illustrates contributions to labour productivity growth. There is still no information on 2015. Figure 1.33 illustrates the development in the capital stock. Data points for 2016-2017 are projections.

Source: Statistics Denmark and own calculations.

Denmark has a productivity challenge, even if productivity has not come to a standstill

Since 2006, GDP per worker has been roughly unchanged, and the measured productivity growth for the private sector as a whole has decreased significantly. However, this does not mean that productivity growth has stalled permanently, or that the development in the activity cannot support the observed increase in employment. At the same time, it should be emphasised that the Danish economy in general has a high level of productivity in comparison with other countries.

One needs to correct for a number of technical issues such as the declining production in the North Sea lowering GDP growth. Greater demand growth for services compared to manufactured goods is also hampering the measured overall productivity growth, even though the

shift is a natural adaptation to the market, which overall leaves households better off. This trend has become stronger in recent years in line with the growing share of services.

Within each sector a gradual slowdown in productivity growth can be observed over a number of years. Part of the explanation is the weakness in investments since the financial crisis, which has left employees with less capital to their disposal. Investments are expected to grow in the coming years in line with the normalisation of the business cycle. This will strengthen productivity particularly in the manufacturing sector.

However, real lower productivity growth (TFP) in the sectors is also a possible reason. The Danish economy is challenged by a generally low productivity growth, particularly with regards to the service sector. Progress in productivity is a prerequisite for maintaining and developing well-paid jobs in Denmark. Thus, increasing productivity is crucial for the future development of the standard of living and welfare for the Danish population.

An analysis based on company data shows signs of relatively weak competition both in services as a whole and within the sub-sectors of services.³ Weak competition implies that companies have less incentive to improve, think innovatively and do things smarter. Besides, it can hamper effective allocation of labour and capital to the most productive companies. This reduces overall productivity and may result in an unnecessarily high price level.

Sub-sectors of services exposed to international competition have, however, had productivity growth comparable to the manufacturing sector – both before and after the financial crisis. Among others this includes wholesale trade. This demonstrates that increased competition can contribute to higher productivity in the service sector, and thus also in the economy in general.

1.5 Exports are in better shape than at first impression

At first glance, Danish exports had a poor 2015 with a major drop in service exports and only modest growth in goods exports. Overall, exports fell by 1.0 per cent in 2015 compared to the year before.

A closer look reveals, however, that there has been steady progress for several years in exports of both manufactured goods as well as services other than shipping, such as engineering and architecture consulting, auditing and tourism. Since 2012, exports of these services have increased by 5.3 per cent, while exports of manufactured goods have risen by 8.0 per cent, *cf. figure 1.34*. In 2015 alone, there was an increase of 2.6 and 2.3 per cent, respectively.

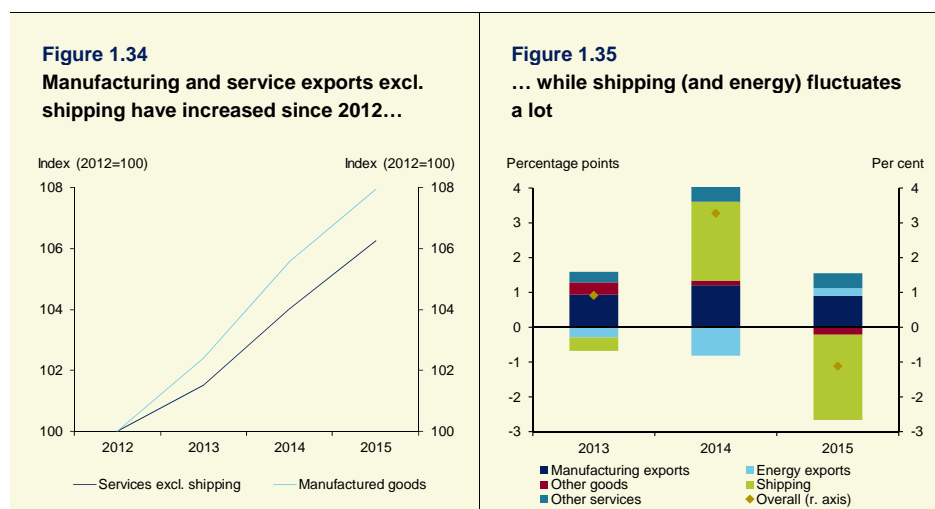
The large fluctuations in overall export growth in recent year must be considered in light of developments in shipping exports. This consists of shipping services provided by Danish shipping companies and sold to foreign buyers. Shipping exports surged in 2014, and according to the latest figures from Statistics Denmark decreased just as sharply in 2015 in

³ Cf. Economic Analysis – Produktivitet og Konkurrence, Ministry of Finance, January 2016.

Summary

spite of some improvement in world trade. Thus, shipping exports were responsible for more than half of export growth in 2014, and it was also the development in this component that was behind the decrease in overall exports last year, *cf. figure 1.35*.

Energy exports have also decreased through a number of years due to declining production of oil and gas in the North Sea. Last year overall exports of energy did, however, increase a bit, despite a large decline in North Sea production.



Note: Figure 1.35 displays contributions to export growth without consideration to import content. Thus the figure is not comparable to the growth contributions in figure 1.36.

Source: Statistics Denmark and own calculations.

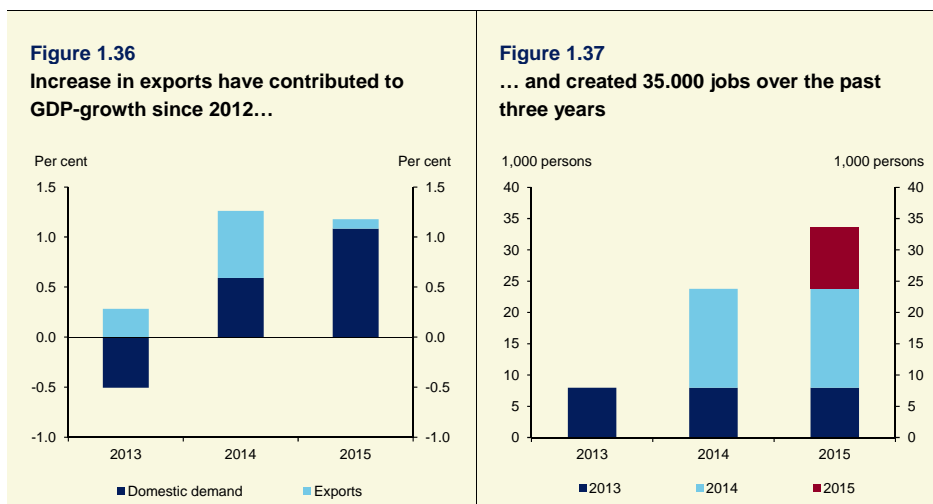
Shipping exports are particularly characterised by a large content of imports such as chartering of vessels and service in ports. Hence, an increase (or decrease) in shipping exports will typically be accompanied by a roughly similar increase (or decrease) in imports. The high content of imports has the implication that fluctuations in shipping exports have significantly less impact on GDP growth and employment than other exports.

For exports of manufactured goods and services excl. shipping a large part of the value is created domestically. Imports therefore make up a smaller share. Industrial exports and exports of services excl. shipping thus have a greater direct impact on GDP growth and employment. This is also the reason why, despite a fall in total exports last year, exports actually had a small positive contribution to GDP⁴, *cf. figure 1.36*.

Similarly, neither falling shipping exports nor energy has had any greater effect on employment. Besides the large import content, the reason for this is that both are produced with a large capital input such as oil rigs and container vessels, but with a limited labour input.

⁴ There is a lot of uncertainty in the calculations of growth contributions in 2014 and 2015. This is due to a large decrease in the import content in shipping in 2014 and an even larger increase in 2015 according to the preliminary figures from Statistics Denmark. In the calculation it is assumed that the import content in shipping in 2013-2015 corresponds to the average import content over these three years.

Thus, it remains the case that exports - despite the decrease last year - has contributed positively to employment in each year since 2012, *cf. figure 1.37*. Overall, it is estimated that the increase in exports has created about 35,000 additional jobs since 2012. This is without taking into account the improvement in employment and capacity utilisation of companies that has helped increase private consumption and investment in Denmark. Exports are thus in much better shape than first impressions would suggest.



Note: The growth contributions in figure 1.36 have been calculated using the so-called input-output based method. In figure 1.37 it is direct demand such as exports of food and indirect demand such as a manufacturing company buying services at an accountant as part of the production of exports goods. It has been calculated using the input-output matrices in ADAM. The effect does not include effects on private consumption and investments. The contribution to employment from agricultural exports spiked by 3-4,000 people in 2013 and took a corresponding drop in 2014. In the figure, it is assumed that this contribution is unchanged in the two years.

Source: Statistics Denmark.

1.6 Annex table

Table 1.5**Key figures compared to the December outlook for 2016 and 2017**

	2016		2017	
	Dec.	May	Dec.	May
Real change, per cent				
Private consumption	1.7	1.5	1.8	1.7
Total government demand	-0.2	0.4	0.0	0.0
- of which government consumption	0.8	1.0	0.0	0.0
- of which government investment	-6.9	-3.7	-0.1	0.2
Housing investment	5.0	2.0	5.0	6.0
Business fixed investment	4.7	4.0	7.1	5.6
Total final domestic demand	1.6	1.5	2.0	1.7
Inventory investment (per cent of GDP)	0.3	0.1	0.2	0.0
Total domestic demand	1.9	1.6	2.2	1.7
Exports	4.3	1.5	4.7	4.4
- of which manufacturing exports	5.3	4.0	5.3	4.2
Total demand	2.8	1.6	3.1	2.7
Imports	4.6	2.5	5.6	4.6
- of which imports of goods	4.7	3.6	5.5	4.7
GDP	1.9	1.1	2.0	1.7
Gross value added	1.9	1.1	2.0	1.8
- of which private non-farm sector	2.4	1.6	2.6	2.4
Change, 1,000 persons				
Labour force, total	24	16	22	21
Employment, total	29	27	27	25
- of which private sector	27	26	28	26
- of which public sector	2	1	-1	-1
Gross unemployment	-6	-12	-5	-5
Net unemployment	-6	-13	-4	-5

Table 1.5 (continued)
Key figures compared to the December outlook for 2016 and 2017

	2016		2017	
	Dec.	May	Dec.	May
Change, per cent				
Export prices, goods	1.5	-1.3	2.0	2.2
Import prices, goods	0.6	-1.8	1.9	1.9
Terms of trade, goods	0.9	0.5	0.1	0.3
House prices (single family homes)	4.0	4.0	4.0	4.0
Consumer prices	1.1	0.6	1.7	1.5
Hourly earnings in the private sector	2.3	2.1	2.6	2.5
Real disposable income, private sector	4.9	3.0	1.8	2.9
Real disposable income, households ¹⁾	1.6	2.0	1.3	0.6
Productivity in the private non-farm sector	0.9	0.2	1.1	0.9
Per cent per year				
Interest rate, 1-year rate loan	0.0	-0.2	0.2	-0.1
Interest rate, 10-year government bond	1.1	0.6	1.3	0.8
Interest rate, 30-year mortgage credit bond	3.1	2.8	3.2	2.9
Balances				
Current account (DKK bn.)	179	151	181	159
General government net lending (DKK bn.)	-56.6	-40.8	-41.7	-38.2
Gross unemployment (annual average, 1,000 persons)	118	112	113	107
Gross unemployment (per cent of the labour force)	4.0	3.8	3.8	3.6
Net unemployment (annual average, 1,000 persons)	98	90	94	85
Net unemployment (per cent of the labour force)	3.3	3.1	3.2	2.9
External assumptions				
Trade-weighted international GDP-growth, per cent	2.3	2.2	2.4	2.2
Export market growth (manufactured goods), per cent	5.8	5.5	6.1	5.7
Exchange rate (DKK per USD)	7.0	6.6	7.0	6.6
Oil price, dollars per barrel	49.5	43.1	57.7	52.7
Oil price, DKK per barrel	344	284	401	345

1) Adjusted income.

Source: Statistics Denmark and own calculations.