

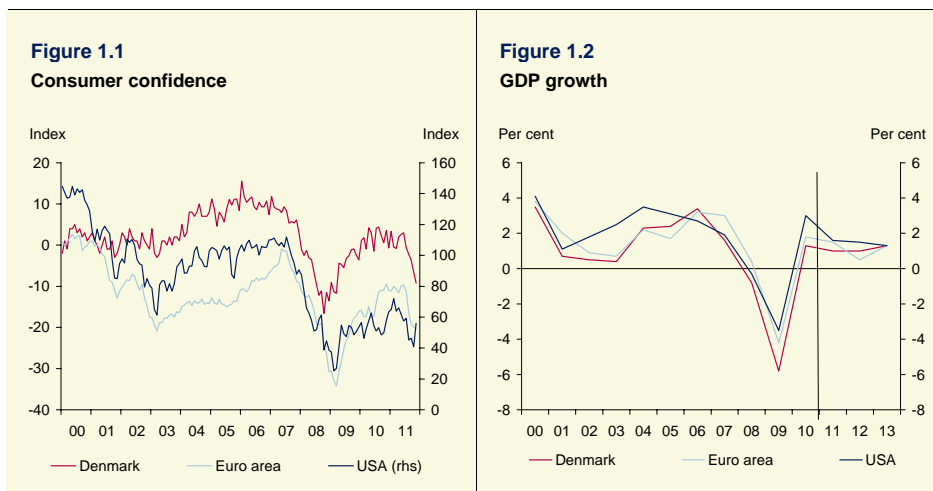
# 1. English summary

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## 1.1 Introduction

The outlook for the global economy has deteriorated significantly during the second half of 2011 due to the aggravated debt crisis in a number of European countries. In both the US and in Europe the confidence crisis has broadened and affects the financial sector as well as consumers and businesses. This is reflected in falling stock prices, rising interest rate spreads, and tighter credit markets, which hampers growth. In most western countries prospects for growth are limited in the coming years.

Denmark is also affected by the weak global economy and both business and consumer confidence has deteriorated. In Denmark GDP is expected to grow by 1 per cent in 2012, with a modest growth contribution from exports due to weak export market growth. The estimated GDP growth rate has been adjusted downwards by 0.8 percentage points since the *Economic Survey*, August 2011. In 2013, GDP is expected to grow moderately by 1.4 per cent, cf. figure 1.1 and 1.2.



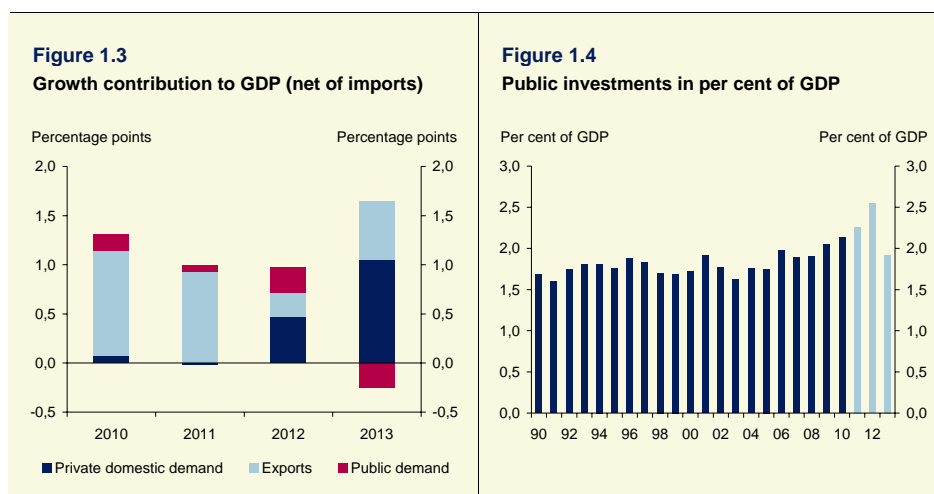
Source: Reuters Ecowin, Statistics Denmark, European Commission Autumn Forecast, November 2011 and own calculations.

The economic outlook is currently characterised by an extraordinary degree of uncertainty. The handling of the European debt crisis and the market's confidence in such crisis initiatives is crucial to how developments will proceed. In this forecast it is assumed that there will be some normalisation of the cyclical development from the second half of 2012 and that the uncertainty among investors, households and businesses is gradually reduced. This requires that the debt crisis is contained through EU initiatives and implementation of the agreed fiscal consolidation in a number of EU countries.

A number of international initiatives have already been taken aiming to limit the debt crisis and to restore confidence in economic policies, *cf. section 1.2*. The intention is to break the negative and to some extent self-fulfilling spiral, where debt problems spread to the financial markets and lead to increased risk premiums and tighter credit conditions, thereby reducing growth and increasing the required fiscal consolidation in the most heavily indebted countries.

If the initiatives are not implemented or not working as planned, and if the situation in the financial markets deteriorate further due to unresolved debt problems, growth prospects would be even weaker. In the latest version of *Economic Outlook*, the OECD has presented such a risk scenario, where GDP in the euro area is set to fall by close to 2 per cent a year in both 2012 and 2013. The Danish economy would also suffer a significant setback in this situation, but not of the same magnitude, partly due to the lower sensitivity of Danish exports' to cyclical developments, *cf. section 1.4*.

In Denmark, growth in 2012 is supported by the shifting forward of investments in the so-called kick-start package and the reimbursement of Voluntary Early Retirement Pension (VERP) contributions, which will support private consumption. The kick-start is expected to increase growth by 0.4 percentage points by increasing investment activity, while the growth contribution from the VERP reimbursement is estimated at close to ¼ percentage points. Thus, a significant share of growth next year is due to initiatives supporting activity and employment in Denmark in both the short term and longer term.



Note: Public investments as well as renovation of social housing by The Social Housing Fund and energy and infrastructure investments carried out by private entities are included in the kick-start, *cf. box 1.4* in section 1.3.

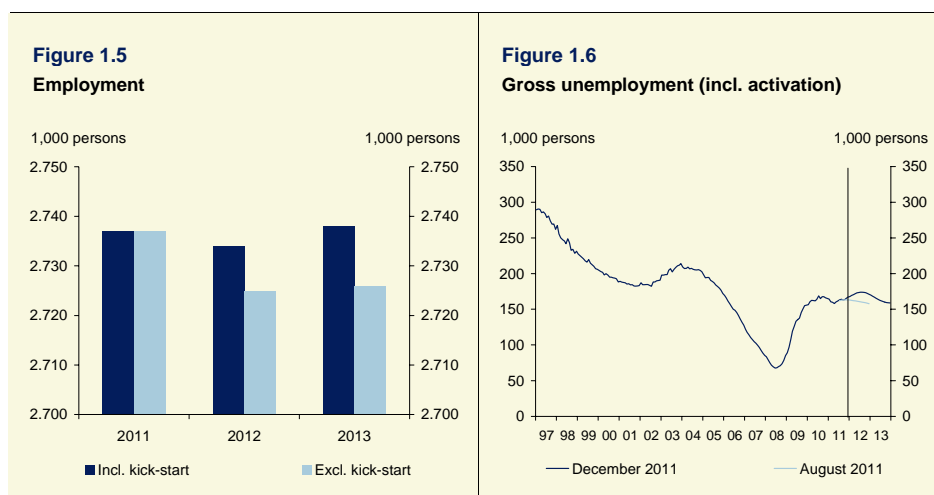
Source: Own estimates.

Assuming that the debt crisis is contained, growth is expected to become more self-sustained in 2013, with the principal growth contributions coming from private consumption, business investment and exports. GDP growth in 2013 is, however, estimated to be relatively modest at 1.4 per cent. The moving forward of public investments to 2012 will (other things equal)

reduce the investment volume in 2013, *cf. figure 1.3*. Seen in a historical perspective, this brings the level of public investments in 2013 down to a more normal level, *cf. figure 1.4*. Increased investment activity in connection with the Fehmarn Belt fixed link, the Copenhagen Metro and other major infrastructure projects, is registered as private investment in the national accounts and is therefore not included as part of the fiscal policy. Investment in railways, the metro and the Fehmarn Belt fixed link is expected to increase from approx. DKK 4 billion in 2010 (approx. EUR 538 million) to just over DKK 10½ billion in 2013 (approx. EUR 1.4 billion), *cf. Budget Outlook 3*, December 2011.

Employment is expected to fall by close to 4,000 persons in 2012. The weaker international economic outlook is expected to reduce employment, while low interest rates and the fiscal policy support employment. The impact on employment from the initiatives in the kick-start package is estimated to 9,000 persons in 2012 (equal to 0.3 per cent of the employment). In 2013 employment is expected to increase by 4,000 persons, while the kick-start this year is expected to contribute with 12,000 persons due to lagged effects. The kick-start thus supports employment in both 2012 and 2013, *cf. figure 1.5*. The kick-start may, together with a return of confidence in European economies and in financial markets, support a gradual, but still rather weak growth in private employment from the beginning of 2013.

Gross unemployment is expected to peak in the second half of 2012 at approx. 175,000 persons before decreasing in 2013 due to rising employment during the year and the impact of the unemployment benefit reform. By the end of 2013, gross unemployment is expected to be back at the same level as by the end of 2011, *cf. figure 1.6*.



Source: Statistics Denmark and own estimates.

In light of the weak cyclical conditions and policy easing, the public finance deficit is estimated to increase to just over DKK 100 billion next year, which corresponds to 5½ per cent of GDP, compared to 4 per cent in 2011. In 2013, the expected economic growth and lower public investments are, together with the non-recurrence of the one-off VERP reimbursement in 2012 and more normal revenues from business and pension taxes

expected to contribute to a significant reduction of the public deficit to approx. DKK 48 billion, which corresponds to 2.6 per cent of GDP. Denmark will thus again be below the 3 per cent reference value in the EU Stability and Growth Pact.

The structural fiscal deficit is estimated to be reduced from approx. 1½ per cent of GDP in 2010 to balance in 2013, which is also in line with the EU recommendation.

**Table 1.1**  
**Key figures**

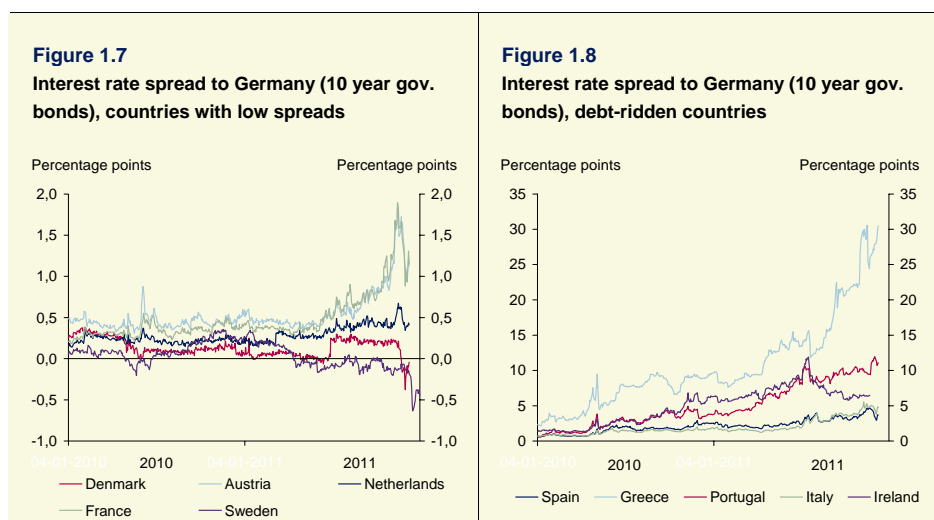
	2010	2011	2012	2013
<b>Real growth, per cent</b>				
Private consumption	1.9	-0.8	0.8	2.0
Public consumption	0.3	-0.1	0.6	0.3
Public investment	8.5	6.6	13.9	-23.6
Residential construction	-7.4	9.9	1.0	3.0
Fixed business investments	-4.6	-5.1	2.6	6.6
Stock building (contribution to GDP growth)	1.0	0.5	0.0	0.0
Exports of goods and services	3.2	7.1	1.9	3.2
Imports of goods and services	3.5	5.7	2.5	3.5
Gross domestic product (GDP)	1.3	1.0	1.0	1.4
<b>Level, per cent of GDP</b>				
Fiscal balance	-2.7	-4.0	-5.5	-2.6
Current account	5.5	5.9	5.3	5.1
<b>Level, 1,000 persons</b>				
Gross unemployment	164	163	172	163
Net unemployment	114	109	122	126
Employment	2,751	2,737	2,734	2,738
Labour force	2,865	2,847	2,855	2,864
<b>Growth, per cent</b>				
Price index (single-family homes)	2.7	-2.3	-2.3	1.9
Consumer price index	2.3	2.8	1.9	1.6
Hourly wages, private sector	2.7	2.3	2.1	2.3

Denmark has a relatively good fiscal starting point compared to other EU countries. The net public debt is close to zero, and the gross debt (EMU definition) will, even with a small increase to 44 per cent of GDP in 2013, remain well below the limit in the Stability and

Growth Pact of 60 per cent of GDP. Denmark also has a significant current account surplus and net claims vis-à-vis other countries, and the foreign-exchange reserve has increased to over 25 per cent of GDP.

The economic policy is based on a reform agenda ensuring the sustainability and credibility of public finances. The confidence in Danish fiscal policy implies that Danish government bonds are currently regarded as a safe asset. The rating agencies have placed Denmark's creditworthiness at the highest level (AAA), with a stable outlook.

It is crucial to maintain confidence in the fiscal policy. The current international debt crisis clearly illustrates how the market can quickly demand higher risk premiums, even in countries where public finances normally are regarded to be healthy. A number of countries are experiencing increasing interest rate spreads on government bonds vis-à-vis Germany. Yields on Danish government bonds have declined more than in Germany and are currently marginally below German interest rates, *cf. figure 1.7 and figure 1.8.*

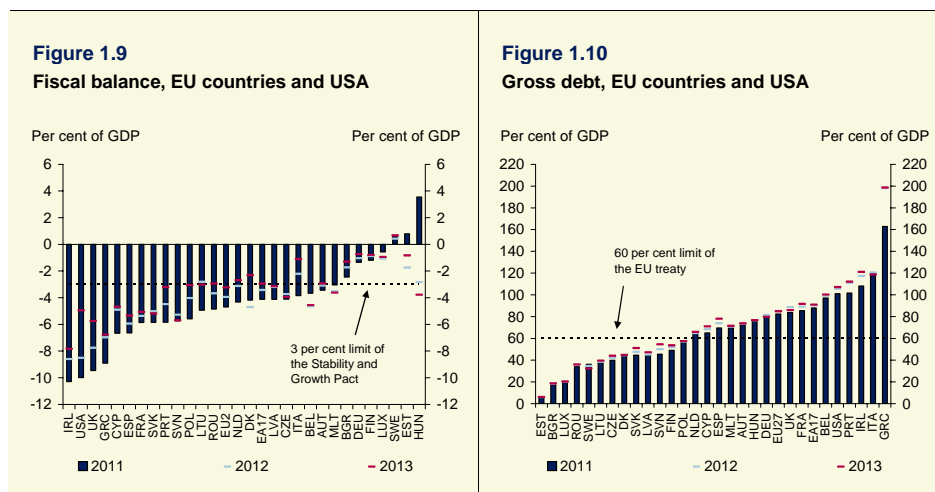


Source: Reuters Ecowin.

## 1.2 The handling of the debt crisis

The European debt crisis has particularly affected countries with weak public finances and large consolidation and reform needs. The financial crisis in 2008/09 and the following economic crisis worsened public finances in most countries. For a number of euro area countries, which already had substantial deficits and high public debt, fiscal credibility declined, interest rates on government debt increased, thereby aggravating the countries' problems. Virtually all EU countries are in the excessive deficit procedure under the EU Treaty and have received recommendations to reduce the deficit. In many European countries public debt is very high and exceeds the EU Treaty requirements. The US also has

large deficits and debt and will have to implement budget improving measures, *cf. figure 1.9 and 1.10.*



Source: European Commission, Autumn Forecast, November 2011.

Since 2010, government bond yields have risen sharply in the most debt-burdened countries, reflecting rising risk premiums on government bonds in order to compensate for the increased risk of losses. In addition to raising interest rate expenditures and thereby increasing the risk that countries can not finance their debt, this has also reduced the solvency of banks. This is due to the decline in market value of government bonds held by the banks as liquid reserves. Hence, banks need to strengthen their solvency, which increases the risk that they reduce lending. Lending surveys indicate that banks in the euro area and also in Denmark have already tightened their credit standards. Tighter credit standards may contribute to a further reduction of economic activity and thereby prolong the economic crisis.

Against this background, and to address the banks' funding difficulties, the ECB has made extraordinary liquidity instruments available to banks and has along with the central banks in the USA, United Kingdom, Switzerland, Japan and Canada implemented coordinated actions that allow banks access to liquidity in any of these countries' currencies, especially in US dollars. On 8 December the ECB extended maturities of long-term refinancing operations to three years and increased the collateral availability. The ECB also reduced its policy rate from 1.25 per cent to 1 per cent. On the same day, Danmarks Nationalbank reduced its lending rate by 0.4 percentage points to 0.8 per cent and introduced the possibility to obtain 3-year loans in order to temporarily increase banks' and mortgage institutions' access to longer-term funding. Danmarks Nationalbank reduced its lending rate by a further 0.1 percentage points to 0.7 per cent on 15 December.

A number of initiatives have been implemented to contain the debt crisis and efforts are made to extend these in order to avoid an escalation of the crisis, which would put the European economy and banking sector under even greater pressure. The handling of the debt crisis

consists partly of initiatives to strengthen confidence in fiscal policy in the short term and longer term, and partly of initiatives aimed at financial stability. The European crisis initiatives are described in box 1.1.

At the European Council on 9 December 2011 an agreement was reached on a number of measures to strengthen the Economic and Monetary Union. The new agreement (the "fiscal compact") is an instrument that aims to strengthen fiscal discipline and ensure the credibility of the Stability and Growth Pact by committing euro area countries to automatic adjustments when the Compact's provisions are violated. The strengthened rules for the euro area may set a new standard for credible national fiscal frameworks. Parts of the agreement will also be open to countries that are not part of the euro area. Implementation of the agreement should strengthen the credibility of economic policy in the participating countries and may thereby reduce the risk premium on a number of European government bonds.

#### **Box 1.1**

##### **European initiatives to handle the debt crisis**

Following the escalation of the debt crisis since the summer of 2011, EU countries have continuously strengthened their commitments to implement fiscal consolidation and economic reforms, particularly in the most vulnerable countries. Due to the continued uncertainty, a number of significant measures to alleviate the debt crisis were adopted at the EU27 and euro summits on 23 and 26 October, including a plan for recapitalisation of banks, a strengthening of the euro area safety net EFSF, a reduction of the Greek debt, and a further strengthening of the economic cooperation:

- The EU27 measures included, on the basis of a mark to market valuation of bank's holdings of government bonds and a required core capital ratio of 9 per cent, a decision on recapitalisation of up to EUR 115 billion via private markets or, if necessary, through government recapitalisation (or via EFSF for euro countries).
- The euro area countries announced a strengthening of the EFSF, by making it possible to use EFSF-resources either as a partial insurance to investors who buy bonds from vulnerable countries or as deposit in special investment funds, which together with other investors will buy government bonds. EFSF-resources would therefore take the first losses for private investors on bonds from vulnerable countries and private investors are thus given greater incentives to invest in these assets.
- As regards Greece, the euro countries agreed on a new model for bond exchange, where the private creditors' holdings of Greek government bonds are exchanged for new bonds with lower interest rates and longer maturities. Based on negotiations with the banking sector, the summit concluded that a voluntary arrangement can be established, cutting the nominal value of outstanding Greek debt in half, which will imply that the Greek gross debt (EMU definition) will reach 120 per cent of GDP in 2020. Against this background, the size of the total new loan program to Greece for the period up to 2014, is now estimated to EUR 130 billion compared to the previous EUR 109 billion. Of these, EUR 30 billion is reserved as incentives for the before mentioned bond exchange, and at the same time Greece has committed to spend EUR 15 billion from its privatisation program to pay off debt to the EFSF in order to strengthen EFSF's lending capacity. Recently, the Eurogroup approved the next Greek loan tranche of EUR 8 billion.

**Box 1.1 (continued)**

The EU countries have decided on a reform agreement (the "six-pack") for strengthened cooperation, including stronger rules and sanctions in the Stability and Growth Pact and a new cooperation on macroeconomic imbalances, which will be implemented from 2012. The euro countries also agreed on a further strengthening of the euro by introducing commitments to implement balanced budget rules, to base national budgets on independent growth forecasts, to consult each other before adopting major economic measures, and generally to comply with recommendations from the EU. Moreover, an agreement was made giving the Commission and the Eurogroup the opportunity (before adoption) to examine and comment on National Budgets for euro countries that are in the excessive deficit procedure (EDP), partly to allow for increased surveillance of countries with a loan program if the implementation slips. It was also agreed to hold regular euro summits.

On 23 November the European Commission presented two proposals for regulations to implement the summit decisions on strengthened coordination of fiscal policy etc.

At the European Council meeting on 9 December the euro countries agreed on a series of measures to strengthen the Economic and Monetary Union by stronger fiscal rules and coordination of economic policy. Some of these measures will be implemented through a new international agreement, which will be open to participation by countries that are not a part of the euro area. The central element at the meeting on 9 December were strengthened fiscal rules ("fiscal compact") consisting of:

- participating countries are required to adopt rules on balanced budgets into national legislation at a constitutional level (or equivalent) as well as an automatic adjustment mechanism, which comes into force by deviations from the rule. The rule is considered adhered to if the structural deficit does not exceed ½ per cent of GDP.
- for the euro area countries, decisions – especially on sanctions – in the Stability and Growth Pact's excessive deficit procedure will be made subject to a larger degree of automatisisation (the 3 per cent rule).
- countries in the excessive deficit procedure must submit detailed plans for structural reforms and budget plans to ensure a sustainable deficit reduction.
- a quick ratification of the Commission's proposal of 23 November on strengthened budget control and strengthened surveillance for euro countries, and
- an advance notification of the countries' plans for public debt issuance, etc.

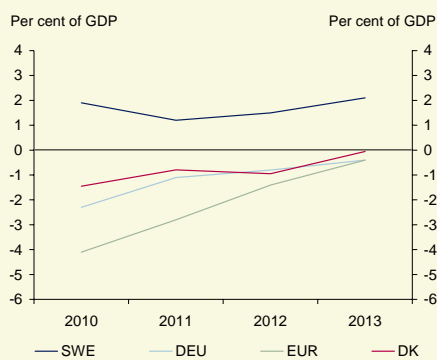
At the summit, an agreement was reached on a more efficient lending facility, ESM, which is moved forward to July 2012, ensuring an effective lending capacity of EUR 500 billion for EFSF and ESM combined. The possibility of debt restructuring, which implies involvement of private investors as part of a loan from the ESM, is limited in line with current IMF practices. ESM loans must be approved by 85 per cent of the euro area countries' weighted votes, instead of unanimity as today. Finally, an agreement was made which implies that the euro countries and other EU countries will aim to deliver an additional EUR 200 billion to the IMF in the form of bilateral loans, while contributions from the IMF from the rest of the worlds are encouraged.

### 1.3 Public finances and fiscal challenges in Denmark

The key requirement for fiscal policy is to maintain a credible and responsible course that ensures continued confidence in the Danish economy. With the considerable uncertainty that characterises both financial markets and the economic outlook, confidence in fiscal policy is crucial to avoid rising interest rates. The Danish economy is highly interest sensitive to changing interest rates, and continued low interest rates supports the housing market, private consumption and investments and thereby employment and the financial system. Fiscal policy is planned to underpin activity and employment in 2012 - while the structural deficit is reduced from 2010 to 2013 in accordance with the EU recommendation.

The implementation of the kick-start package and the reimbursement of VERP-contributions, as well as the Fiscal Bill for 2012, underpin economic activity while fiscal credibility is maintained. This reflects the bringing-forward of public investments and the implementation of the pension reform. Thus, Denmark is one of few countries where fiscal policy supports growth in 2012. The euro area as a whole is planning fiscal tightening that improves the structural balance by up to 1½ per cent of GDP in 2012, while countries such as Sweden and Germany are planning a broadly neutral fiscal policy, as the two countries' structural balance is strengthened by some ¼ per cent of GDP in 2012, according to OECD estimates, *cf. figure 1.11*.

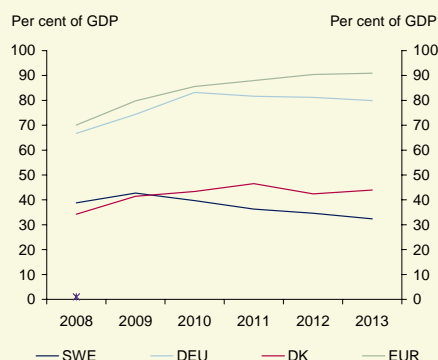
**Figure 1.11**  
Structural balance in Denmark, Germany, Sweden and the euro area, 2010-13



Note: Own estimate for the structural balance in Denmark and OECD's estimate for "Underlying fiscal balance" in the other countries.

Source: OECD Economic Outlook, 90, Nov. 2011.

**Figure 1.12**  
Expected development in gross debt in Denmark, Germany, Sweden and the euro area



Note: Own estimate for Denmark and estimate from the European Commission on debt in the other countries.

Source: European Commission and own estimates for Denmark.

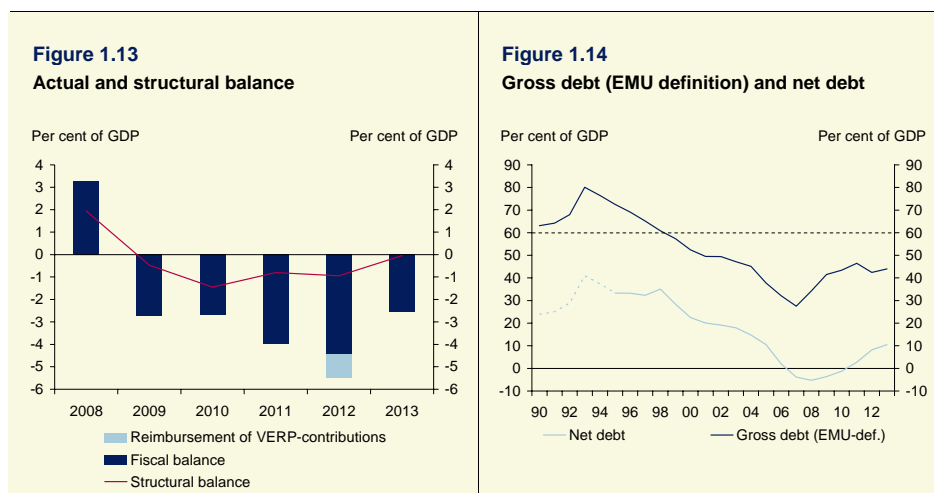
In the euro area, fiscal consolidation has contributed to a reduction in the average budget deficit since 2009, but this has not been enough to prevent an increase in already high debt

levels. In Denmark, the fiscal deficit will be reduced from 2012 to 2013. The gross debt ratio is roughly stable at a level corresponding to approximately half that of Germany and the euro area, *cf. figure 1.12*.

In 2012, the budget deficit is projected at 5½ per cent of GDP or just over DKK 100 billion. The deficit should be viewed in light of the weak cyclical position and low revenues from the pension yield tax (which fluctuates significantly from year to year). In addition, the reimbursement of VERP-contributions is expected to lead to a one-off weakening of public finances of approx. 1 per cent of GDP in 2012.

In 2013, the deficit is expected to decline to close to DKK 50 billion which corresponds to 2.6 per cent of GDP. The EU recommendation's requirement of a fiscal deficit lower than 3 per cent of GDP is thus adhered to. The halving of the deficit from 2012 to 2013 reflects the non-recurrence of the reimbursement of VERP-contributions, an expected improvement of cyclical conditions and more normal revenues from the pension yield tax. In addition, the planned fiscal policy contributes to an improvement in the structural balance of approx. 1 per cent of GDP from 2012 to 2013, *cf. figure 1.13*.

The expected development in the fiscal balance implies that the net public debt is estimated to increase from the current level of just under 3 per cent of GDP to 10 per cent of GDP at the end of 2013, which is still moderate in a historical perspective. The net public debt is the relevant measure when assessing the public sector's solvency and fiscal sustainability. The gross debt is estimated to be fairly stable at approx. 45 per cent of GDP in 2011-13, partly by drawing on the government's large deposit in Danmarks Nationalbank. The debt level is well below the EU limit of 60 per cent of GDP, *cf. figure 1.14*.



Source: Statistics Denmark and own estimates.

Source: Statistics Denmark and own estimates.

The estimated structural deficit is reduced from 1½ per cent of GDP in 2010 to approx. 0.8 per cent of GDP in 2011. With the planned fiscal policy, the structural balance is estimated to

improve to close to balance in 2013. Measured from 2010 to 2013 the structural balance is improved by 1.5 per cent of GDP, which is in line with the recommendation from the EU, *cf. box 1.2.*

### Box 1.2

#### Compliance with the EU-recommendation of an improvement of the structural balance up to 2013

According to the EU-recommendation, Denmark shall improve the structural balance by 1½ per cent of GDP in 2011-2013 and reduce the actual fiscal deficit to below 3 per cent of GDP in 2013.

Based on the assessment of the economic outlook and the public finances, including the Budget Bill for 2012, the fiscal policy is expected to comply with the main requirements of the EU-recommendation. The structural balance is estimated to be reduced from a deficit of approx. 1½ per cent of GDP in 2010 to balance in 2013.

The estimated structural balance has been lifted by 0.2 per cent of GDP in 2010 compared to the August Survey, mainly due to lower expenditures according to Statistics Denmark's November-version of accounts for public finances. The structural improvement in 2010 has a certain impact in following years. Furthermore, the structural net interest expenditures are lower than previously expected up to 2013, partly due to very low yields on the sovereign debt.

The consolidation of public finances in 2011-2013 reflects improvements in the structural balance in 2011 and 2013, while including the kick-start package and decreasing structural North Sea revenues, public finances are estimated to weaken slightly in 2012 by approx. 0.1 percentage points.

The structural balance improves by just less than 1 per cent of GDP from 2012 to 2013, partly because public investments in the kick-start primarily relate to 2012 and thus expire in 2013.

The actual fiscal deficit is estimated to approx. 2.6 per cent of GDP in 2013. This is lower than the required 3 per cent of GDP under the Stability and Growth Pact.

**Table a.**

#### Actual and structural balance, 2010-2013

Per cent of GDP	2010	2011	2012	2013
Actual balance	-2.7	-4.0	-5.5	-2.6
Structural balance	-1.5	-0.8	-0.9	0.0

Source: Own estimates and calculations.

The low debt and the continued implementation of economic reforms within the medium term fiscal framework have contributed to a high degree of confidence in fiscal policy. The high credibility has contributed to Denmark's status as a "safe haven" among financial investors during the sovereign debt crisis in Europe. Recently, the yield on 10-year Danish government bonds have been at the same level or below the yield on German government bonds, and

capital has flowed into Denmark. Rating agencies have placed Denmark in the category with the highest credit rating (AAA), and the outlook for the Danish credit rating is stable.

### Box 1.3

#### Medium term policy targets

In the Government Platform the Government has set nine goals for the Danish economy in the longer term:

- The structural budget must be at least in balance by 2020.
- Compliance with the EU Stability and Growth Pact and the EU's recommendation of a structural improvement of the budget balance by 1½ per cent of GDP in 2011-2013.
- The Sustainability Indicator must always be positive.
- The public gross debt must keep a wide safety distance to the requirements set out in the EU Stability and Growth Pact.
- Productivity must be increased so as to ensure Denmark rises towards the top among the OECD countries.
- Denmark must improve its wage competitiveness vis-à-vis other countries.
- Investments in research and education.
- The labour supply is to be increased structurally by 135,000 persons by 2020.
- The Government wishes to be measured on its ability to reduce poverty and ensure genuine equal opportunities.

The medium term targets will be included in the coming 2020 plan, which will be presented in 2012.

The already adopted pension reform and unemployment benefit reform increases labour supply by 80,000 persons. According to the Government Platform, new reforms shall increase the structural labour supply further by 55,000 persons towards 2020. The permanent increase in direct and indirect taxes of approx. DKK 5 billion and the improvement of welfare and social assistance included in the Budget Bill 2012 contributes in total to a strengthening of public finances, but are estimated to weaken labour supply in the longer term by just over 4,000 persons. Thus a strengthening of the labour supply by approx. 59,000 persons via new initiatives is required in order to reach the target in the Government Platform.

The reforms will include a tripartite agreement (with employers and employees) on increased labour supply, a fully financed tax reform that lowers taxes on labour income significantly, and reforms of the activation programme, cash benefits, the flexi-job scheme, disability pension, international recruitment, education and training, prevention, integration, etc. According to the Government Platform, the reforms will strengthen public finances by approx. DKK 14 billion, of which 4 billion must come from the tripartite agreement, 3 billion from tax reform and 7 billion from other reforms. On top of this comes the increased reform requirement from the before-mentioned 4,000 persons.

The precautionary principle, implying that expenditures cannot be raised before there is a majority in Parliament for concrete initiatives securing the necessary financing, supports the responsible fiscal course. It is essential that public expenditures do not grow more than what is planned and agreed upon. In 2012, the Budget Bill will strengthen the expenditure frameworks by introducing expenditure ceilings.

Source: "*A Denmark that stands together*", Government Platform, October 2011.

In order to maintain international confidence that Denmark will implement the necessary steps to restore balance in public finances, clear medium-term fiscal targets have been

established. Denmark has also, to a larger degree than most other countries, decided upon the concrete measures in order to achieve structural balance.

Fiscal policy aims to maintain the structural balance close to zero towards 2020 in a period when demographics and declining North Sea revenues etc. put public finances under pressure. In 2020, the key objective is at least structural balance. A new 2020 plan, a budget proposal and further concrete reform proposals to achieve the targets will be presented in 2012, *cf. box 1.3*.

### Effect on activity from the planned fiscal policy in 2012 and 2013

With the kick-start package, the reimbursement of VERP-contributions and the Budget Bill for 2012 the fiscal policy for 2012 has been temporarily eased, supporting growth and employment in the short term. Fiscal policy is planned so that the structural balance is improved from 2010 to 2013 in accordance with the EU recommendation. The kick-start package includes moving forward and launching public and private investments for DKK 10½ billion in 2012 and 8 billion in 2013. The kick-start is estimated to increase GDP growth by 0.4 per cent in 2012 and 0.1 per cent in 2013. The kick-start thus increases the GDP level in 2013 by 0.5 per cent, *cf. box 1.4*.

In 2012, the economy is supported by the reimbursement of VERP-contributions. The reimbursement is expected to increase activity by approx. ¼ per cent. The fiscal policy in 2012 (including the reimbursement of VERP-contributions) will increase activity by 0.4 per cent, measured by the first-year fiscal effect. Adding to these are the investments that are registered as private investments in the national accounts, *cf. figure 1.15*.

In addition, there are still positive effects on GDP from the expansionary measures in 2009 and 2010 and from the historically low interest rates. In total, the expansionary fiscal policy, since the financial crisis escalated in 2008, increases activity in 2012 with approx. 2¼ per cent, *cf. figure 1.16*.

Assumptions regarding fiscal policy in 2013 are currently based on technical assumptions and are partly based on the Budget agreement for 2012 and the 2020-projection. The first-year fiscal effect is estimated to -0.9 per cent of GDP. This reflects an assumed normalisation of public investments, the extraordinarily high expenditures the previous year due to the reimbursement of VERP-contributions and the rise in taxes as part of the financing measures in the Spring Package 2.0, the Fiscal Consolidation Agreement and the Fiscal Bill for 2012. The estimated fiscal effect in 2013 does not include the positive effects of the increased investments that is part of the kick-start and carried out by the Social Housing Fund and private entities. These investments increase growth by approx. 0.2 per cent of GDP in 2013.

**Box 1.4****Effects from the 2012 kick-start of the Danish economy**

With the Budget Bill 2012, the kick-start of the Danish economy is implemented in 2012 and 2013. The kick-start is particularly supporting growth in 2012 when growth prospects excluding the kick-start package amounts to approx. 0.6 per cent, *cf. figure b*. The package is estimated to increase employment by 9,000 persons in 2012 and 12,000 persons in 2013, *cf. Amended budget proposal 2012*, November 2011.

The kick-start contains the following elements:

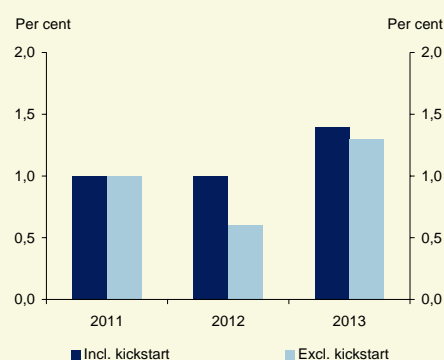
- Bringing forward investments for DKK 18¼ billion in 2012 and 2013, *cf. table a*.
- Increased number of traineeships.
- The so-called "Get Started Loans" to entrepreneurs are strengthened by DKK 150 million in 2012.

The investments are financed by reductions in the investment level in the coming years and by future agreements on energy and a toll ring. The kick-start includes public investments for DKK 7½ billion. Other investments are carried out by The Social Housing Fund and private sector entities pursuant to upcoming agreements on the establishment of a toll ring around Copenhagen and in the energy area. These other investments are not accounted as public finances. The kick-start is estimated to weaken the fiscal balance by just under 0.4 per cent of GDP in 2012, while the effect is neutral in 2013.

**Table a**  
Moving forward and initiating investments in 2012 and 2013

Bn. DKK	2012	2013
Public investments etc.	7.3	0.2
Renovation of social housing	2.1	1.6
Investments from energy agreement	1.3	5.4
Investments from agreement on toll ring	-	0.8
<b>Total</b>	<b>10.7</b>	<b>8.0</b>

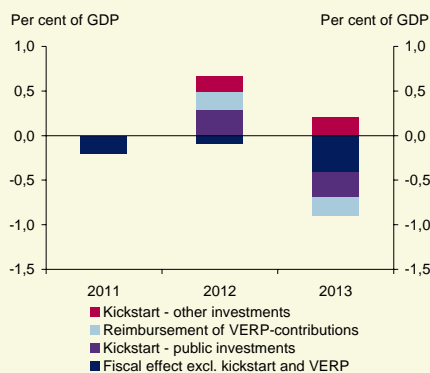
**Figure a**  
Effect from kick-start on GDP growth



Note: Investments in railways of DKK ½ bn., carried out by Banedanmark, is included in the public investments.

Source: Amended Budget Proposal 2012 and own estimates.

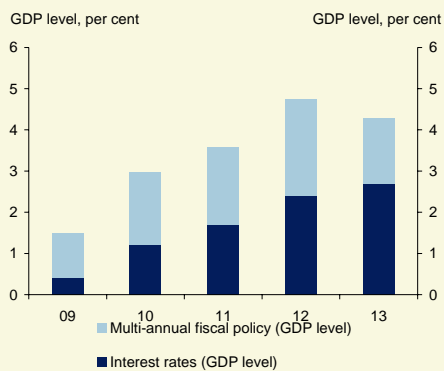
**Figure 1.15**  
Contribution to GDP growth from kick-start reimbursement of VERP-contributions and other fiscal policy (first year effects)



Note: First year fiscal effects and effects estimated on the ADAM model.

Source: Own estimates.

**Figure 1.16**  
Effect on activity level from monetary and fiscal easing etc. since 2008



Note: The fiscal effect calculation etc. is based on the ADAM version December 2009.

Source: Own estimates.

The fiscal consolidation reflects the need to fulfil the EU recommendation, *cf. box 1.2*, and to ensure continued low interest rates. Interest rate developments are, as mentioned, crucial for the activity level in Denmark. The low interest rates compared to the level in 2008 is expected to have an increasing impact on the GDP-level up to 2013, where the contribution to the activity level amounts to up to 3 per cent of GDP, *cf. figure 1.16*.

When 2012 and 2013 are taken together, fiscal policy is estimated to support employment by 9,000 persons in 2012 and to have a neutral effect on employment in 2013 (as measured by the multi-annual fiscal effects). In addition, investment in social housing and energy, etc. in the kick-start is estimated to support employment in both 2012 and 2013.

## 1.4 Risk scenario in case of a deeper European debt crisis

The economic outlook is based on the assumption that the EU and each country's handling of the debt crisis will gradually reduce the uncertainty among investors, households and businesses, and that a certain normalisation of cyclical conditions takes place during the second half of 2012.

However, there is a risk of a different development, where the effects on the Danish economy from the debt crisis could be more severe and protracted, especially if efforts to contain the turmoil fails. This section outlines possible consequences of a deeper European debt crisis

for the Danish economy based on a risk scenario for the international economy described in the OECD's *Economic Outlook, No. 90*.

The main scenario of the OECD's Economic Outlook is roughly in line with the external assumptions of this forecast. In the OECD's risk scenario, however, the debt crisis spreads and the situation in the financial markets deteriorates similarly to the situation during the financial crisis of 2008/09, and the most debt-burdened countries must tighten fiscal policy further. It is assumed that the turmoil will cause a significant increase in interest rates on government debt in the most indebted euro countries, tighter credit conditions and rising risk premiums. At the same time, global equity markets are expected to fall significantly, causing a marked decline in private wealth.

The OECD calculations suggest that an escalation of the debt crisis could lead to a decline in GDP in the euro area of 1.9 percentage points in 2012 and 2.3 percentage points in 2013. For the US, growth could be -0.1 and -0.3 per cent respectively, cf. *table 1.2*.

**Table 1.2**  
OECD's growth rates in GDP and world trade in the main scenario and the risk scenario

	Economic Outlook No. 90		Negative scenario	
	2012	2013	2012	2013
Euro area	0.2	1.4	-1.9	-2.3
USA	2.0	2.5	-0.1	-0.3
OECD-countries	1.6	2.3	-0.4	-0.8
World economy	3.4	4.3	2.1	2.2
World trade	4.8	7.1	0.6	1.8

Note: Growth in the world economy is weighed GDP growth rates adjusted for purchasing power.  
Source: OECD Economic Outlook No. 90.

This adverse international environment would have strong effects on the Danish economy through two channels. *Firstly*, the international setback would lead to a fall in demand in key export markets. Based on the OECD's estimate for the decline in GDP abroad, Danish exports could fall by 1-2 per cent per year in both 2012 and 2013.

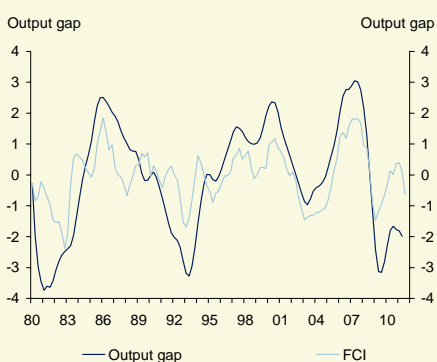
*Secondly*, a continued deepening of the debt crisis would worsen financial conditions also in Denmark. This would weaken consumption and investment via tighter credit conditions, downward pressure on house prices and further wealth losses due to falling equity prices, etc. The impact from the financial markets to domestic demand can be summarised roughly in an overall measure of the *Financial Conditions Index, FCI*. Similar to the negative risk scenario from the OECD it is assumed that if the FCI index reaches the same level in 2012 as during the financial crisis in 2008/09, private consumption may fall by up to ½ per cent in 2012 and stagnate in 2013. Business investments falls by 1½ -2 per cent a year in this scenario.

**Box 1.5****Negative scenario with escalating financial turmoil in 2012**

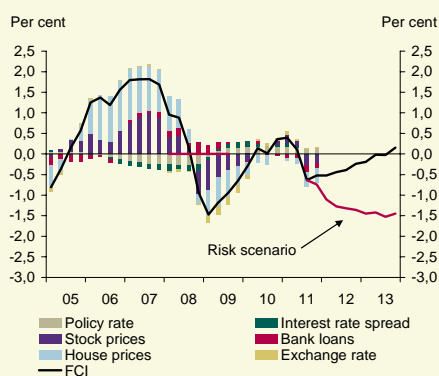
There is a risk of a significantly more negative growth trajectory than assumed in the main scenario, if the various initiatives fail to contain the debt crisis. In Denmark, this would lead to lower exports and lower domestic demand.

In this risk scenario, the fall in Danish export market growth is broadly based on the OECD estimates for the development in the global economy. The estimated effect on domestic demand in Denmark is based on the impact of the weakening of the financial conditions (Financial Conditions Index, FCI), on which the negative OECD-scenario for the euro area is based. Historically, there is a relatively close correlation between financial and real economic development, with the output gap, which measures the difference between actual output and potential output, moving in the same direction as the FCI, cf. figure a. In the past six months, there has been a significant deterioration of the calculated FCI due to international developments. The deterioration is partly due to a decline in bank lending, falling stock prices and house prices, cf. figure b. The deterioration that has already taken place is reflected in the economic forecast's main scenario, in which the growth estimate has been reduced significantly compared to the forecast in the *Economic Survey, August 2011*. The further deterioration in the risk scenario corresponds to a fall in the FCI to approximately the same level as in 2008.

**Figure a**  
Financial conditions index (FCI) and output gap



**Figure b**  
Financial conditions index (FCI) in the main scenario and in the risk scenario



Note: The Financial Condition Index (FCI) weighs financial data to an index illustrating whether the financial sector has an expansionary or contractive effect on economic activity, cf. box 4.1 in the *Economic Survey, December 2010*. Last observation in both figures is for the 3rd quarter of 2011.  
Source: Statistics Denmark, Reuters Ecwin, Danmarks Nationalbank and own estimates.

Source: Own estimates at the ADAM model etc.

In the risk scenario, domestic demand is estimated to decline by 1 per cent up to 2013, compared to an increase of approx. 2½ per cent for 2012 and 2013 in the main scenario. It is assumed that confidence in the Danish economy is not weakened, and that Danish interest

rates do not rise. Rising interest rates would weaken demand further and increase interest rate expenditures on the public debt, *cf. box 1.5*.

The more negative development in both exports and domestic demand in the risk scenario would reduce the GDP growth to approx. -0.3 per cent in 2012 and -0.8 per cent in 2013. Unemployment would correspondingly be 15,000 persons higher than in the main scenario in 2012 and 45,000 persons higher in 2013. This constructed negative scenario would imply a budget deficit of 6.6 per cent of GDP in 2012 and 4.7 per cent of GDP in 2013.

**The risk scenario therefore implies a severe downturn, but not of the same magnitude as the fall in GDP during the financial crisis in 2008/09. This is partly due to a smaller deterioration of world trade and also that the starting point for the Danish economy today is different. The financial crisis broke out at the peak of a cyclical boom, where capacity utilisation was high. The large fall in GDP in 2008 and 2009 of approx. 6 per cent partly reflects a quick reduction of an unsustainable high capacity utilisation, including declines in private consumption and investments from a high level. Production is now lower than the normal level, and the starting point for the financial conditions index is also lower than in 2008, when the financial crisis escalated.**

**Tabel 1.3**  
Key figures for the main scenario and a constructed negative scenario

	December 2011		Negative scenario	
	2012	2013	2012	2013
Growth in real GDP (per cent)	1.0	1.4	-0.3	-0.8
Gross unemployment (1,000 persons)	172	163	187	208
Fiscal balance (per cent of GDP)	-5.5	-2.6	-6.6	-4.7
Fiscal balance (bn. DKK)	-101	-48	-119	-85

Source: Own calculations on the ADAM model etc.

The risk scenario implies a severe international economic downturn, with negative growth rates for the whole OECD area, and that the downturn is less severe in Denmark than in the euro area. In this situation, the primary objective of the Danish fiscal policy is to ensure the credibility of the fixed exchange rate regime and to maintain low interest rates. Low interest rates will be crucial to limit the downturn in domestic demand. In this situation, the requirements and scope for action in fiscal policy will partly depend on the fiscal policy responses in other EU countries.

The short-term outlook is characterised by an extraordinary large degree of uncertainty. There is also a certain potential for higher growth in the course of 2012 than assumed in the main scenario, especially if countries succeed in quickly restoring confidence in fiscal policy by implementing reforms to strengthen the growth potential and public finances. In this situation, a more positive development would be supported by the currently large savings

surplus in the private sector, reflecting the consolidation among households and businesses since the beginning of the crisis.

The OECD has also outlined the possibility of such a scenario in *Economic Outlook 90*. The positive scenario requires a certain normalisation of the interest rate spread on government bonds for a number of South European countries and involves reduced uncertainty in financial markets. This implies a GDP growth in the euro area that is 1.1 percentage points higher in 2012 and 1.9 percentage points higher in 2013, compared to the main scenario, and GDP growth in the rest of the world also increases, but to a smaller extent. Under similar assumptions, the positive scenario may imply that Danish GDP growth in 2012 will be approximately as expected in the August Survey.

## 1.5 Summary of the forecast

### Growth prospects

Following a moderate expansion since the spring of 2010 GDP fell by  $\frac{3}{4}$  per cent in real terms from the second to the third quarter according to the preliminary national accounts. However, due to the moderate growth in the preceding period GDP in the first three quarters of 2011 was up by  $1\frac{1}{4}$  per cent when compared to the same period last year.

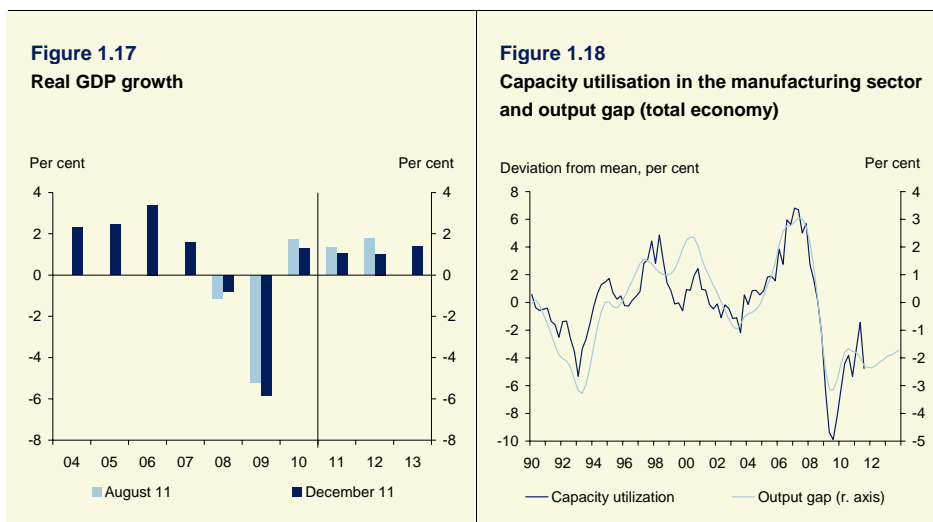
The decline in GDP in the third quarter reflects a fall in public and private consumption while investments and exports grew moderately. At the same time imports increased relatively strongly and aggregate demand only declined by  $\frac{1}{4}$  per cent.

The fall in private consumption should be seen in light of weakened consumer confidence about future economic conditions, partly as a result of the European debt crisis. In addition, the housing market continues to be weak, wealth has declined, and households' real disposable income has been reduced.

Available indicators for the Danish and international economy indicate that the weak demand growth has continued in the fourth quarter and will continue into 2012. During the course of 2012 a renewed moderate growth in the Danish economy is expected as a result of among other things increases in real incomes and reimbursements of contributions to the voluntary early retirement scheme. A large increase in public investments etc. due to the kick-start package as well very low interest rates will also support growth.

GDP is expected to grow by 1 per cent in 2011 and 2012 after an increase of  $1\frac{1}{4}$  per cent in 2010. In 2013 growth is expected to become more self-sustaining reflecting increased growth in private consumption and business investments, and GDP growth is estimated at just below  $1\frac{1}{2}$  per cent in 2013, *cf. figure 1.17*.

In the forecast it is assumed that a gradual recovery will start in the second half of 2012 and that the uncertainty among investors, households and firms will gradually decline. This presupposes that the European debt crisis is contained through EU initiatives and fiscal consolidation in indebted EU countries.



Source: Statistics Denmark and own calculations.

Compared to the *Economic Survey*, August 2011, the estimates for GDP growth in 2011 and 2012 have been adjusted downwards by 0.3 and 0.8 percentage points respectively, cf. table 1.4. This is primarily due to lower growth in private consumption and business investments. Moreover export growth has been revised down in 2012 in light of the weak international growth prospects, while export growth during the first three quarters of 2011 has actually been so high that the estimate has been revised up somewhat. The forecast includes 2013 for the first time.

The downward revisions to the growth forecast should also be seen in light of revised national accounts for 2010, which revealed that GDP growth in 2010 was 0.4 percentage points lower compared to the data on which the August survey was based. The downward revision relates to both private and public consumption, fixed business investments and exports.

It is estimated that the output gap (the difference between actual and potential GDP) was closed in mid-2008 and that it bottomed out in mid-2009, cf. figure 1.18. The output gap is expected to narrow during the forecast period but production will remain below potential. Uncertainty remains, however, on how much spare capacity is available since production potential has been weakened during the crisis.

**Table 1.4**  
Key figures compared to the August survey

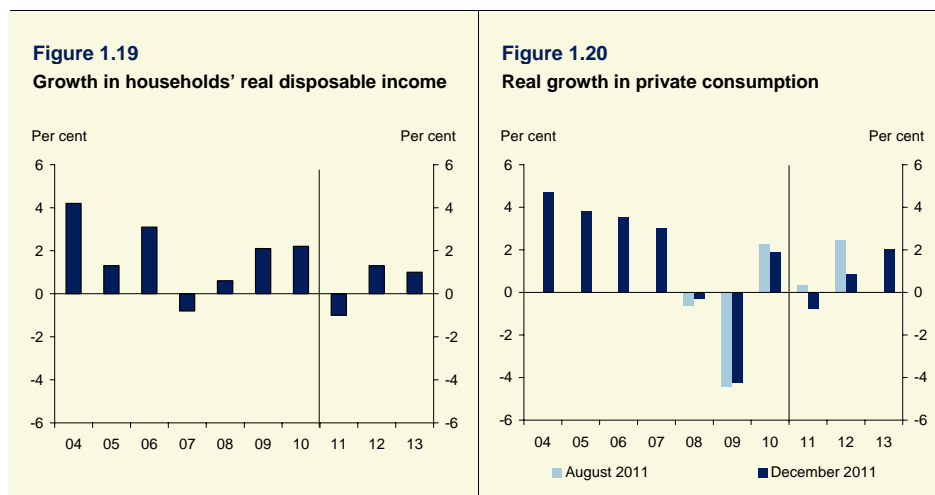
	2011		2012		2013
	August	December	August	December	December
<b>Percentage change from previous year</b>					
GDP	1.3	1.0	1.8	1.0	1.4
Private consumption	0.3	-0.8	2.4	0.8	2.0
Public consumption	0.1	-0.1	0.4	0.6	0.3
Market growth for Danish manufactures	6.3	6.3	5.8	3.3	4.9
<b>Per cent of GDP</b>					
Government budget balance	-3.8	-4.0	-4.6	-5.5	-2.6
Current account balance	4.7	5.9	4.1	5.3	5.1
<b>1,000 persons</b>					
Change in employment	-2	-14	7	-4	4
Net unemployment, level	108	109	107	122	126
Gross unemployment, level	162	163	161	172	163
<b>Percentage increase</b>					
House prices, single-family houses	-1.0	-2.3	0.3	-2.3	1.9
Consumer prices	2.8	2.8	1.8	1.9	1.6
Hourly compensation, private sector	2.5	2.3	2.8	2.1	2.3
<b>External assumptions</b>					
Interest rate, 1-year adjustable rate loan	1.7	1.4	2.6	1.4	2.4
10-year government bonds	3.2	2.8	3.6	2.9	3.5
Oil price, \$ per barrel	112.9	111.3	113.2	108.8	111.3
Exchange rate, DKK per \$	5.3	5.3	5.2	5.5	5.5
Oil price, DKK per barrel	594.2	595.3	589.4	602.3	616.2

## Domestic demand

Households' real disposable incomes are expected to decline by 1 per cent in 2011 following a substantial increase in 2010 of 2¼ per cent, *cf. figure 1.19*. The estimate for 2011 has been revised down significantly compared to the August survey as a result of, among other things, lower employment.

In both 2012 and 2013 a renewed increase in households' real disposable income of around 1 per cent is expected, due to the projected turnaround in the labour market and rising real wages. Including the reimbursements of contributions to the early retirement scheme the

increase in 2012 is projected at 2¾ per cent. In all three years there is a moderate increase in taxation due to the May 2010 fiscal consolidation agreement and the Budget Bill for 2012.



Note: In 2012 the increase in households' real disposable income amounts to 2.8 per cent when including reimbursements of contributions to the voluntary early retirement scheme.

Source: Statistics Denmark and own calculations.

Private consumption is estimated to decline by ¾ per cent in 2011 on the basis of among other things the development in the first three quarters of 2011, *cf. figure 1.20*. Thus private consumption growth has been adjusted downwards by over 1 percentage point compared to the August survey. The downward adjustment reflects the reduced estimate on income growth and the sharp drop in consumer confidence in recent months, presumably largely in response to the international debt crisis. The depressed housing market and declining wealth also contribute to weak growth in private consumption.

A turnaround in private consumption is expected in the course of 2012 due to renewed income expansion, also as a result of the reimbursement of early retirement contribution, and resumed, moderate growth in wealth. However, as a result of the low level of private consumption at the end of this year, real private consumption growth is only expected to amount to ¾ per cent in 2012.

Consumption growth is expected to continue in 2013 where the increase is estimated at 2 per cent, reflecting a small decline in the savings rate from the current historically high level.

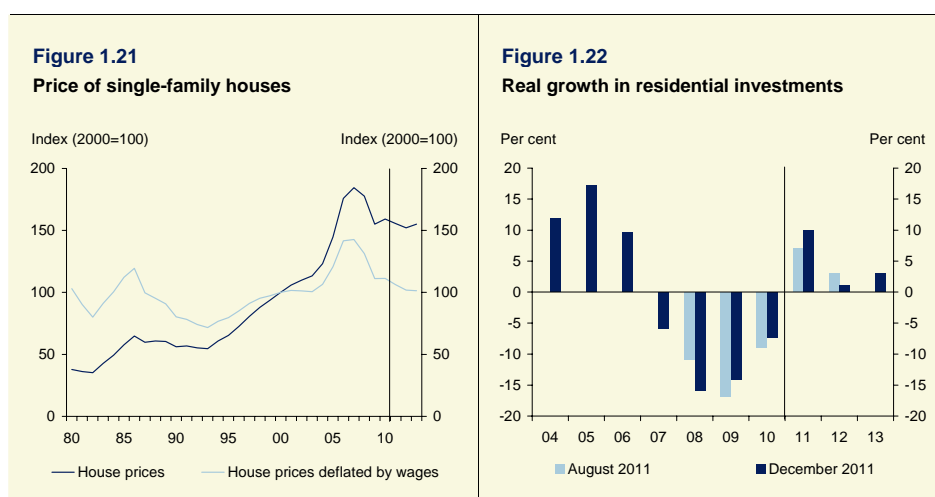
Households' net assets are estimated to drop by about 8 per cent in real terms through 2011 reflecting decreases in house prices and stock prices. Renewed growth in households' net assets amounting to around 3 per cent is expected in both 2012 and 2013.

Although in an international perspective Danes have a relatively high gross debt, on average families are quite well consolidated since they own considerable assets such as properties, shares and pension assets. The average "directly owned" net asset wealth per family is

expected to amount to almost DKK 900,000 by the end of 2011. Including pension savings the average net wealth amounts to close to DKK 1.3 million. Due to the mix of assets and liabilities, however, households' net wealth is quite sensitive to changes in property prices, equity prices and interest rates. The figures mask a significant spread in the size of individual families' net wealth.

The housing market is depressed, and the nominal price of single-family houses is expected to fall by 2¼ per cent in 2011, *cf. figure 1.21*. The new estimate for 2011 is a downward revision of 1½ percentage points compared to the August survey. From mid-2012 and into 2013 a small increase in house prices is expected as a result of increases in income and the very low interest rate. However, because of the low house price level at the beginning of the year, a decrease in house prices equivalent to the one in 2011 is expected in 2012. In 2013 house prices are estimated to rise by almost 2 per cent.

As a result real house prices are expected to decline in 2011 and 2012 and then stabilise in 2013. Since the turning point in the housing market in early 2007, real house prices nationwide have dropped by nearly 25 per cent. It is estimated that by the end of the forecast period real house prices will have returned to a level not far (in either direction) from an estimated equilibrium.

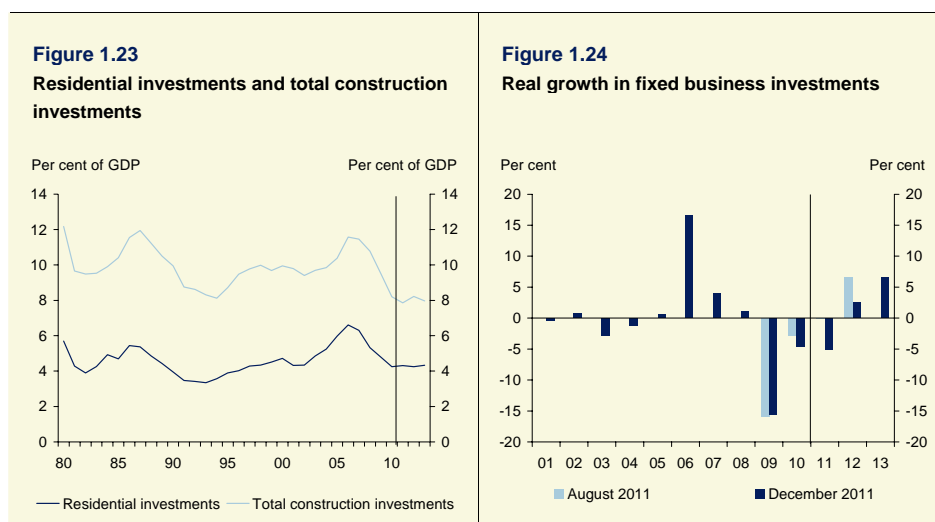


Source: Statistics Denmark and own calculations.

Residential investments have increased slightly faster than expected, and for 2011 a real increase of 10 per cent is estimated, partly due to an increase in construction of social housing and the HousingJobPlan, *cf. figure 1.22*. In 2012 and 2013 continued, albeit considerably more subdued, growth in residential investments is expected, at 1 and 3 per cent respectively.

Residential investments were at a historical high in 2006 of 6½ per cent of GDP. The subsequent sharp decline until 2010 has decreased the ratio of residential investments to GDP to 4½ per cent of GDP corresponding to the level in the mid-1990s, *cf. figure 1.23*. In

2010 repairs and improvements to housing has been at a higher level than in the mid-1990s, while new construction of housing, which is particularly sensitive to business cycle fluctuations and house prices, has been at a low level historically. During the forecast period no major changes in the housing investment to GDP ratio is projected.



Source: Statistics Denmark and own calculations.

According to the preliminary national accounts, fixed business investments were weaker than expected. In 2011 fixed business investments are estimated to decrease by 5 per cent, *cf. figure 1.24*. This is a downward adjustment, mainly relating to construction, of just over 5 percentage points compared to the August survey. The export of a drilling rig in the first quarter also pulls the level of investments down since it reduces Danish capital stock.

Looking forward the projected increase in production is expected to lead to stronger growth in fixed business investments of 2½ and 6½ per cent in 2012 and 2013 respectively. The high growth rate in 2013 should be seen in light of the currently relatively low level of business investments. The forecast implies an increase in the investment ratio for machinery and transport equipment etc., while the investment ratio for commercial buildings etc. is expected to remain unchanged. The fixed business investment ratio still remains low.

A number of publicly administered investment projects, including the fixed link across Fehmarn Belt, the expansion of the Copenhagen metro and railway investments, are for technical reasons recorded as business investments in the national accounts and contribute considerably to investments in 2011-13.

Following large reductions in inventories after the financial crisis, the adjustment is now expected to have come to an end. Inventories are projected to increase by ½ per cent of GDP in 2011 and remain unchanged in 2012 and 2013.

**Table 1.5**  
Demand, import and production

	2010	2008	2009	2010	2011	2012	2013
	Billion DKK	Percentage change from previous year					
Private consumption	850.9	-0.3	-4.2	1.9	-0.8	0.8	2.0
Public consumption	510.2	1.9	2.5	0.3	-0.1	0.6	0.3
Public investments	37.3	-2.5	4.7	8.5	6.6	13.9	-23.6
Residential investments	74.5	-15.8	-14.0	-7.4	9.9	1.0	3.0
Fixed business investments	193.0	1.1	-15.6	-4.6	-5.1	2.6	6.6
Stock building (cont. to GDP growth)	-4.0	-0.3	-2.3	1.0	0.5	0.0	0.0
<b>Domestic demand</b>	1,662.3	-0.9	-6.7	1.3	0.0	1.3	1.4
Exports of goods and services	883.0	3.3	-9.8	3.2	7.1	1.9	3.2
- of which manufactures	347.2	1.4	-12.7	5.6	8.9	3.0	3.9
<b>Total domestic demand</b>	2,545.3	0.6	-7.8	2.0	2.5	1.5	2.1
Imports of goods and services	790.7	3.3	-11.6	3.5	5.7	2.5	3.5
- of which goods	502.7	1.6	-13.5	3.9	6.5	2.4	2.9
<b>GDP</b>	1,754.6	-0.8	-5.8	1.3	1.0	1.0	1.4
Gross value added	1,510.4	-0.4	-5.5	1.0	0.9	0.9	1.4
- of which private, non-agr. sector	932.7	-0.2	-8.8	1.2	2.4	1.5	2.3
GDP per inhabitant (DKK 1,000)	316.3	-1.4	-6.3	0.8	0.6	0.7	1.0

Based on the Budget Bill for 2011, the ministerial review of central government expenditures, the budgets for regions and municipalities as well as development in the first three quarters of 2011, public consumption is expected to fall slightly by 0.1 per cent in 2011. This is a downward adjustment of 0.2 percentage points compared to the August survey.

In 2012 public consumption is expected to increase by 0.6 per cent based on the agreements on the 2012 Budget Bill and the budgets for regions and municipalities. This is an upward adjustment of 0.2 percentage points compared to the August survey. In 2013 an increase of 0.3 per cent is projected.

Public investments are estimated to grow by 6½ per cent in 2011. As part of the agreement on the 2012 Budget Bill a significant increase in public investments of 14 per cent is implemented in 2012 (the "kick-start"). In 2013 a return to a more normal level of public investments is assumed. The effect of this is mitigated somewhat by other investments in the kick-start package, which are considered private sector investments in the national accounts. Added to this are increases in investments connected to the link across Fehmarn Belt, the metro and other large infrastructure projects.

The above estimates imply that domestic demand will remain stagnant in 2011 and increase by 1¼ and 1½ per cent in 2012 and 2013 respectively.

## Foreign trade and balance of payments

Market growth for Danish manufactures is expected at 6¼ per cent in 2011 and 3¼ per cent in 2012. The export market growth for 2012 has been revised downwards by 2½ percentage points compared to the August survey, largely reflecting recent developments in the international economy and financial markets. The reduced export market growth applies among other countries to important and nearby markets such as Germany, Sweden, and United Kingdom.

In 2013 market growth for Danish manufactures is expected to increase to 5 per cent reflecting increased growth in the world economy.

Wage growth in Denmark is expected to be in line with or slightly below wage growth abroad in 2011-13, in continuation of the development in 2010. At the same time a slight decrease in the effective exchange rate is expected. This implies a slight improvement in wage competitiveness.

In almost the entire period from 2001 to 2009 Danish wage increases have been markedly higher than abroad. At the same time Danish productivity performance has been weaker than abroad during most of the period. This has put Danish competitiveness under pressure. In 2008-10 productivity growth has been relatively high compared to other countries after the weak development in the preceding years. However, the improvement is largely cyclical and a sustained period of Danish wage moderation and/or higher productivity growth than abroad is required to regain the loss of wage competitiveness.

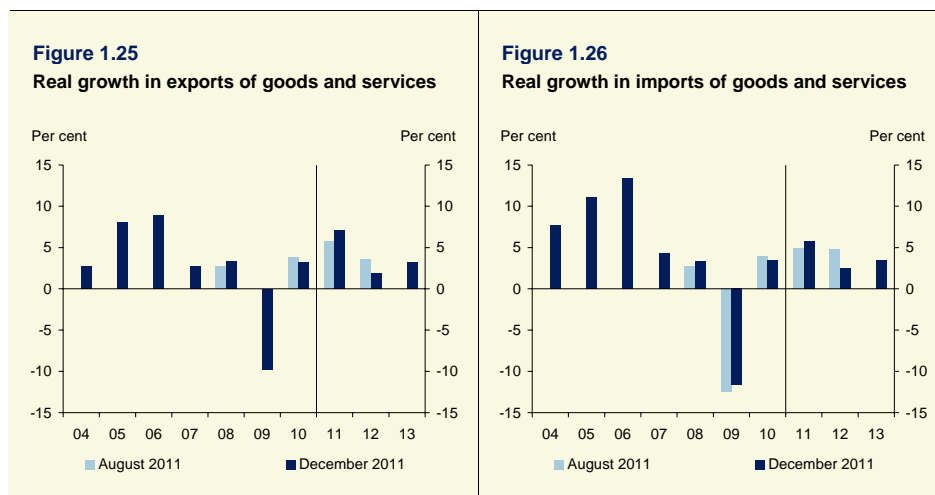
Based on the development in export market growth and competitiveness as well as available data manufacturing exports are projected to increase by 9 per cent in real terms in 2011 and by 3 per cent in 2012. A drilling rig exported in the first quarter also contributes to the significant increase in 2011. In 2013 manufacturing export growth is expected to amount to 4 per cent boosted by a renewed increase in export market growth.

Exports of services and agricultural goods are expected to grow steadily through 2011-13. However, energy exports are expected to fall by 5 per cent in real terms each year continuing the development in 2008-10 with declining energy production in the North Sea.

Total exports of goods and services are estimated to grow by 7 per cent in 2011, 2 per cent in 2012 and 3¼ per cent in 2013 in real terms, *cf. figure 1.25*. Compared to the August survey the estimate for 2011 has been revised up by 1½ percentage points, while the 2012-estimate has been revised down by 1¾ percentage points.

Growth in total demand is estimated at 2½ per cent in 2011, 1½ per cent in 2012 and just above 2 per cent in 2013. The estimate for 2012 has been revised down by 1¼ percentage points.

Based on growth in demand as well as available indicators imports of goods and services are expected to increase by 5¼ per cent in real terms in 2011. More subdued demand growth in 2012 is expected to lead to a rise in imports of 2½ per cent, while import growth in 2013 is estimated at 3½ per cent, *cf. figure 1.26*. This reflects the usual trend that imports expand faster than total demand.



Source: Statistics Denmark and own calculations.

Terms of trade (for goods and services) is estimated to deteriorate by 1½ per cent in 2011 following a significant improvement in 2010 of almost 3 per cent, mainly due a large increase in the price of service exports (shipping). In both 2012 and 2013 terms of trade are projected to deteriorate slightly by ¼ per cent.

The projected development in volumes and prices in foreign trade leads to a historically high surplus on the trade balance for goods and services in 2011 amounting to DKK 99 billion (5½ per cent of GDP), an increase of DKK 6½ billion from 2010. In 2012 and 2013 the surplus is projected to decline slightly to DKK 94 billion and nearly DKK 93 billion, equivalent to the 2010 trade balance surplus.

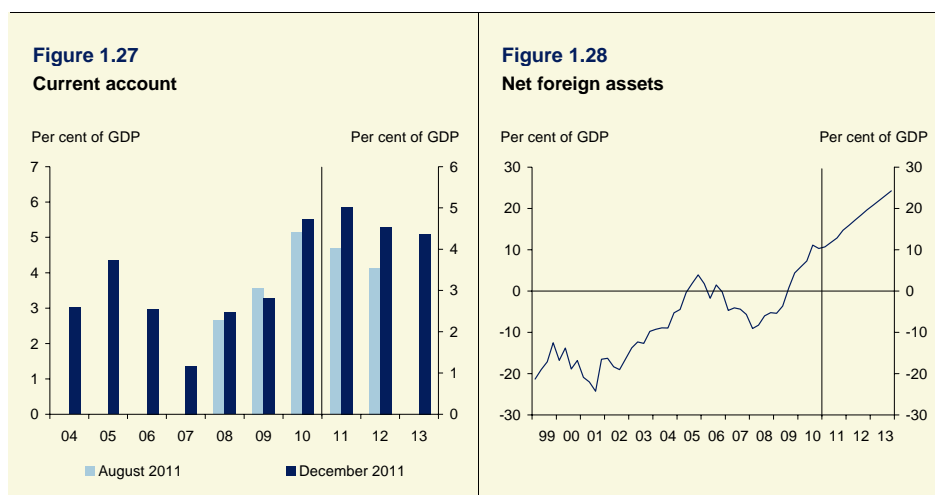
Net foreign asset income has been high in recent years rising from DKK 1½ billion in 2004 to DKK 46½ billion in 2010, partly because net foreign debt has been turned into net foreign assets in the period. Net foreign asset income is projected at DKK 49 billion in each year 2011-13. Other net transfers abroad are expected to increase slightly from DKK 42½ billion in 2010 to DKK 46½ billion in 2013, out of which foreign aid etc. constitutes over DKK 23 billion, EU payments DKK 12 billion and net wage transfers from abroad DKK 11 billion.

The current account surplus is estimated to reach a record high in 2011 of almost DKK 105 billion or 5¾ per cent of GDP. The surplus is then expected to decline slightly to just above DKK 97 billion in 2012 and DKK 96 billion in 2013, roughly equivalent to the 2010 surplus, *cf. figure 1.27*.

Compared to the August survey the projected current account surplus has been revised up by DKK 21 billion in 2011 particularly due to higher expected export growth and net foreign asset income. Revised numbers on the current account surplus from Statistics Denmark now puts the 2010 surplus DKK 7 billion higher than in August.

The large current account surplus reflects very high private financial savings, which more than offset the large public sector savings deficit. The private savings should be seen on the back of a marked fall in private investments and private consumption during the economic downturn as well as a significant rise in net foreign asset income. Therefore the large current account surplus at present should not be seen as a sign of strong competitiveness.

Given the continued and large current account surpluses net foreign assets are estimated to increase to DKK 457 billion or 24 per cent of GDP at the end of 2013 from DKK 181 billion at year-end 2010, *cf. figure 1.28*. The estimate is subject to potential future valuation adjustments.



Source: Statistics Denmark and own calculations.

**Tabel 1.6**  
**Key figures for the Danish economy**

	2008	2009	2010	2011	2012	2013
<b>Percentage change from previous year</b>						
Real GDP	-0.8	-5.8	1.3	1.0	1.0	1.4
Trade-weighted GDP abroad	0.6	-3.8	2.9	2.3	1.3	1.8
Market for Danish manufactures	1.4	-10.0	8.0	6.3	3.3	4.9
International wage competitiveness	-4.0	-4.1	2.9	0.4	0.7	0.0
Exports of manufactures, volume	1.4	-12.7	5.6	8.9	3.0	3.9
Hourly wages	4.6	3.0	2.7	2.3	2.1	2.3
Consumer prices	3.4	1.3	2.3	2.8	1.9	1.6
House prices, single-family houses	-3.7	-12.8	2.7	-2.3	-2.3	1.9
Prices, exports of goods	5.3	-6.2	5.4	5.9	1.5	0.8
Prices, imports of goods	5.0	-10.1	4.8	5.6	1.7	1.0
Terms of trade, goods	0.3	4.3	0.6	0.2	-0.2	-0.2
Productivity in private non-agricultural sector	-2.8	-2.7	5.1	2.6	1.9	2.1
Households' real disposable income <sup>1)</sup>	0.6	2.1 <sup>2)</sup>	2.2	-1.0	1.3	1.0
<b>Labour market</b>						
Labour force (thousands)	2,956	2,913	2,865	2,847	2,855	2,864
Employment (thousands)	2,904	2,815	2,751	2,737	2,734	2,738
- of which private sector	2,092	1,985	1,911	1,906	1,899	1,900
- of which public sector	813	830	840	831	835	838
Total employment (percentage change)	1.5	-3.1	-2.3	-0.5	-0.1	0.1
Gross unemployment (thousands)	74	129	164	163	172	163
Gross unemployment (per cent of labour force)	2.5	4.4	5.7	5.7	6.0	5.7
Net unemployment (thousands)	52	98	114	109	122	126
Net unemployment (per cent of labour force)	1.7	3.4	4.0	3.8	4.3	4.4
Unemployment rate (EU definition)	3.3	6.0	7.4	7.5	7.7	7.6
<b>Long-term bond yields, exchange rate</b>						
10-year government bonds	4.3	3.6	2.9	2.8	2.9	3.5
30-year mortgage credit bond	6.1	5.5	4.7	4.8	4.4	5.0
Effective krone exchange rate (1980=100)	105.8	107.8	104.0	103.7	103.2	103.2

- 1) Adjusted. In 2012 the increase amounts to 2.8 per cent when including the reimbursements of contributions to the voluntary early retirement scheme.
- 2) Including the disbursement of SP-savings, real disposable income grew by 4.0 per cent in 2009.

**Table 1.6 continued**  
**Key figures for the Danish economy**

	2008	2009	2010	2011	2012	2013
<b>Balance of payments</b>						
Goods and services (DKK bn.)	55.6	62.6	92.4	99.1	93.9	92.8
Current account (DKK bn.)	50.5	54.6	96.9	104.8	97.2	96.0
Current account (per cent of GDP)	2.9	3.3	5.5	5.9	5.3	5.1
Net foreign assets (DKK bn.)	-91.5	73.0	181.0	262.8	360.7	457.4
Net foreign assets (per cent of GDP)	-5.2	4.4	10.3	14.7	19.7	24.2
<b>Public finances</b>						
Government net lending (DKK bn.)	57.6	-45.9	-47.4	-71.2	-100.7	-48.2
Government net lending (per cent of GDP)	3.3	-2.7	-2.7	-4.0	-5.5	-2.6
General government gross debt	600.1	691.9	761.6	830.4	788.5	840.4
General government gross debt	34.2	41.5	43.4	46.4	43.0	44.6
Tax burden (per cent of GDP)	47.9	47.8	47.7	46.5	46.6	47.6

## Production, employment, productivity, labour force and unemployment

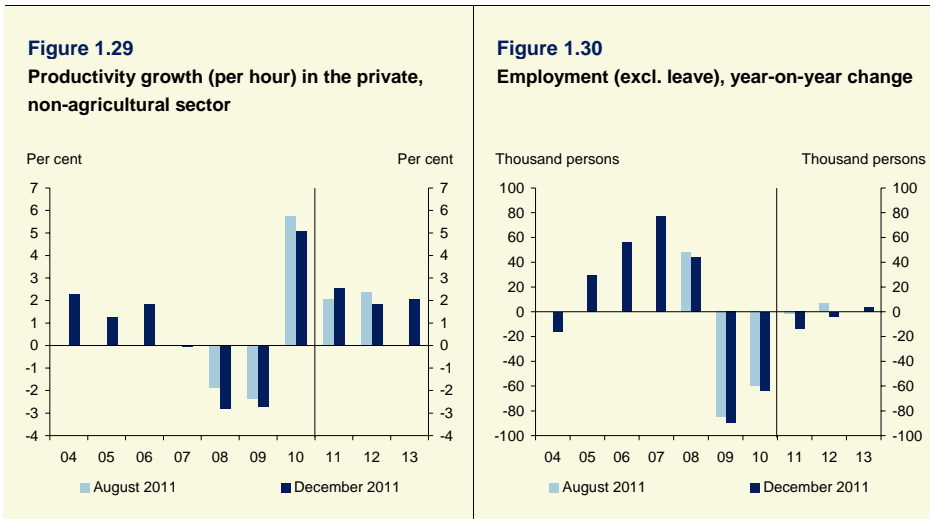
The forecasts for total demand and imports lead to an increase in GDP of 1 per cent in real terms in both 2011 and 2012 and close to 1½ per cent in 2013. This follows an increase in GDP of 1¼ per cent in 2010.

According to the national accounts employment has decreased in the first three quarters of 2011. For 2011 as a whole a decline in employment of 14,000 persons or ½ per cent is projected, composed of a decline in private sector employment of 5,000 persons and public sector employment of 9,000 persons. In 2010 employment fell by 63,000 persons.

The drop in employment in 2011 in the private non-agricultural sector implies, in conjunction with a considerable increase in output in that sector, a productivity increase of 2½ per cent, following a productivity increase in the private non-agricultural sector of 5 per cent in 2010 and a productivity decline in the preceding three years, *cf. figure 1.29*.

In 2012, a continued but moderate decline in private sector employment of 8,000 persons is projected. Public sector employment is estimated to increase by 4,000 persons so that total employment falls by 4,000 persons, *cf. figure 1.30*. The estimate reflects a projected turnaround in employment in the course of 2012. In 2013 slightly higher growth is expected to lead to an increase in total employment of 4,000 persons, composed of an increase in public employment of 3,000 persons and a small increase in private employment of 1,000 persons.

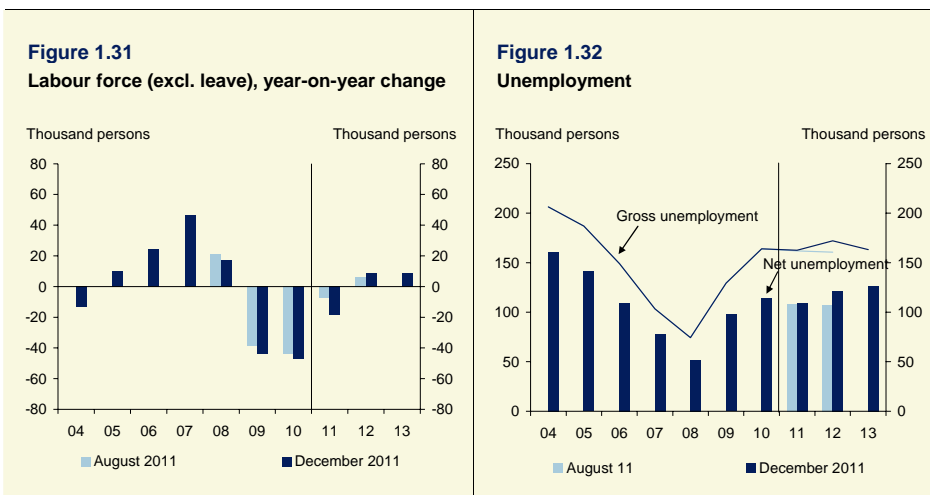
The estimates reflect that productivity growth in the private, non-agricultural sector is expected to approach a more normal level of around 2 per cent in both 2012 and 2013.



Source: Statistics Denmark and own calculations.

Compared to the August survey the estimates on changes in total employment have been revised down by just above 10,000 persons in both 2011 and 2012 based on the latest national accounts for employment and reduced GDP growth estimates.

The labour force is estimated to decline by almost 20,000 persons in 2011 ( $\frac{3}{4}$  per cent) and then grow by almost 10,000 persons in both 2012 and 2013, cf. figure 1.31.



Source: Statistics Denmark and own calculations.

In 2011 a roughly unchanged level of 163,000 persons is estimated for gross unemployment, which includes people in activation measures, based on the projections for employment and

the labour force. Gross unemployment is expected to rise to 172,000 persons in 2012 (6 per cent of the labour force) and then fall again to 163,000 persons in 2013 in part due to a moderate increase in employment, *cf. figure 1.32*.

Net unemployment, which does not include people in activation measures, is projected to fall from 114,000 persons in 2010 to almost 110,000 persons in 2011 (3¾ per cent of the labour force). The following two years a moderate rise in net unemployment is projected reaching 126,000 persons in 2013.

The difference between net and gross unemployment reflects projected changes in the number of people in activation measures, which is estimated at around 50,000 persons in both 2011 and 2012, equivalent to the 2010-level. In 2013 a large reduction in the number of people in activation schemes is projected in part due to the shortening of the unemployment benefit period.

Compared to the August survey estimated net unemployment has been revised up by 1,000 and 14,000 persons in 2011 and 2012 respectively. The upwards revisions to gross unemployment are slightly smaller in both years.

## Wages and prices

The increase in hourly wages in the private sector is estimated at 2.3 per cent in 2011, *cf. figure 1.33*. In 2012 and 2013 the increase is projected at 2.1 and 2.3 per cent respectively. Compared to the August survey the estimates on wage growth have been reduced by 0.2 percentage points in 2011 and 0.7 percentage points in 2012 due to the weak labour market.

As mentioned earlier the estimates imply that wage growth in Denmark will be slightly lower than abroad in the forecast period, whereas in the years before 2010 Danish wage growth has in general been higher than abroad.

Based on the collective agreement for the public sector from this spring public wage increases are expected to imply a budgetary impact of 0.3 per cent in 2011 and 1.8 per cent in 2012. In 2013 where a new collective agreement for the public sector will be made, the budgetary impact is estimated at 1.5 per cent in light of subdued private sector wage growth.

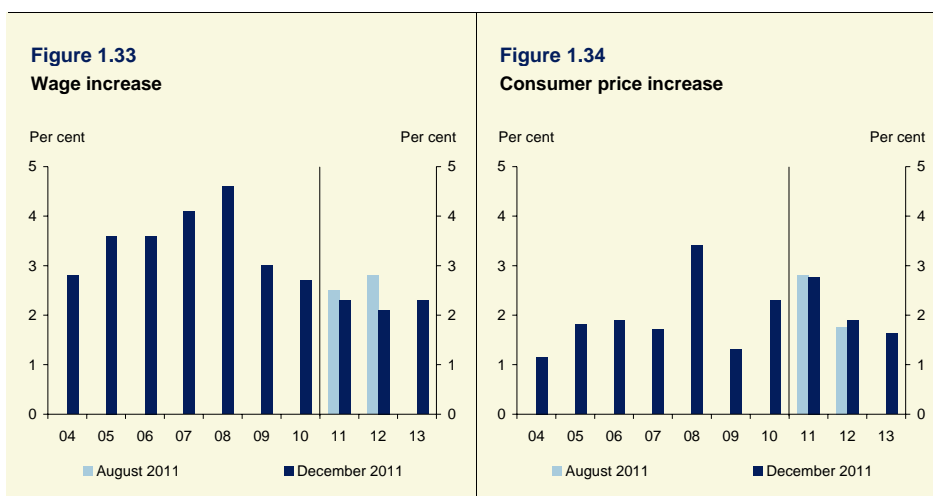
Consumer price inflation increased to 3.1 per cent in May 2011 primarily as a result of rising oil and food prices. Since then inflation has declined reaching 2.6 per cent in November mainly due to a relatively constant oil price since spring and slowing increases in food prices. The introduction of a new duty on saturated fat by 1 October 2011 as agreed upon in the May 2010 fiscal consolidation agreement has, however, pulled in the opposite direction.

On this background consumer price inflation for 2011 as a whole is estimated at 2.8 per cent, unchanged from the estimate in the August survey, *cf. figure 1.34 and table 1.7*.

In 2012 consumer price inflation is projected to slow to 1.9 per cent, up by 0.1 percentage points since the August survey. The estimated contributions to inflation from (especially) energy and food products have been reduced since August, while the contributions from

taxes have been increased. In 2013 inflation is expected to decline further to 1.6 per cent based on a reduced increase in import prices and assumed smaller contributions from tax increases.

In October, the Danish inflation rate was 0.3 percentage points lower than in the euro area (measured by HICP) in continuation of the trend since August. In the period June 2008 to July 2011 the Danish inflation rate was higher than in the euro area. Core inflation (HICP excluding contributions from energy and unprocessed food) in Denmark was 1¾ per cent in October, ¼ percentage points lower than in the euro area.



Source: Dansk Arbejdsgiverforening's Struktur-Statistik and own calculations.

Source: Statistics Denmark and own calculations.

The estimates on wages and prices imply that real wages in the private sector will decline by ½ per cent in 2011, while the real wage will increase again in 2012 and 2013 by ¼ and ¾ per cent respectively.

**Table 1.7**  
Key figures compared to the August survey

	2011		2012		2013
	August	December	August	December	December
<b>Percentage change from previous year</b>					
Private consumption	0.3	-0.8	2.4	0.8	2.0
Total public demand	0.6	0.4	0.0	1.6	-1.7
- of which public consumption	0.1	-0.1	0.4	0.6	0.3
- of which public investments	7.3	6.6	-4.7	13.9	-23.6
Residential investments	7.0	9.9	3.0	1.0	3.0
Fixed business investments	-0.1	-5.1	6.6	2.6	6.6
<b>Total final domestic demand</b>	<b>0.7</b>	<b>-0.4</b>	<b>2.2</b>	<b>1.3</b>	<b>1.4</b>
Stock building (cont. to GDP growth)	0.1	0.5	0.1	0.0	0.0
<b>Total domestic demand</b>	<b>0.7</b>	<b>0.0</b>	<b>2.3</b>	<b>1.3</b>	<b>1.4</b>
Exports of goods and services	5.7	7.1	3.6	1.9	3.2
- of which manufacturing	8.7	8.9	4.7	3.0	3.9
<b>Total demand</b>	<b>2.5</b>	<b>2.5</b>	<b>2.8</b>	<b>1.5</b>	<b>2.1</b>
Imports of goods and services	5.0	5.7	4.8	2.5	3.5
- of which goods	5.5	6.5	4.6	2.4	2.9
<b>GDP</b>	<b>1.3</b>	<b>1.0</b>	<b>1.8</b>	<b>1.0</b>	<b>1.4</b>
Gross value added	1.3	0.9	1.7	0.9	1.4
- of which private, non-agr. sector	2.2	2.4	2.7	1.5	2.3
<b>Change, thousands</b>					
Labour force	-8	-19	6	8	9
Employment	-2	-14	7	-4	4
- of which private sector	1	-5	4	-8	1
- of which public sector	-3	-9	3	4	3
Gross unemployment	-2	-1	-1	9	-9
Net unemployment	-6	-5	-1	12	5

**Table 1.7 (continued)**  
Key figures compared to the August survey

	2011		2012		2013
	August	December	August	December	December
<b>Percentage change from previous year</b>					
Prices, exports of goods	3.6	5.9	1.8	1.5	0.8
Prices, imports of goods	5.1	5.6	1.8	1.7	1.0
Terms of trade, goods	-1.4	0.2	0.0	-0.2	-0.2
House prices, single-family houses	-1.0	-2.3	0.3	-2.3	1.9
Consumer prices	2.8	2.8	1.8	1.9	1.6
Hourly wages	2.5	2.3	2.8	2.1	2.3
Real private sector disposable income	1.3	1.0	2.2	1.1	-0.3
Households' real disposable income <sup>1)</sup>	2.2	-1.0	1.2	1.3	1.0
Productivity in private, non-agr. sector	2.0	2.6	2.4	1.9	2.1
<b>Per cent per year</b>					
Interest rate, 1-year adjustable rate loan	1.7	1.4	2.6	1.4	2.4
10-year government bonds	3.2	2.8	3.6	2.9	3.5
30-year mortgage credit bond	5.1	4.8	5.2	4.2	4.5
<b>Balances</b>					
Current account (DKK bn.)	83.8	104.8	76.8	97.2	96.0
Government net lending	-68.2	-71.2	-84.5	-100.7	-48.2
Gross unemployment (thousands)	162	163	161	172	163
Net unemployment (thousands)	108	109	107	122	126
<b>External assumptions</b>					
Trade-weighted GDP abroad (per cent)	2.3	2.3	2.1	1.3	1.8
Markets for Danish manufactures (per cent)	6.3	6.3	5.8	3.3	4.9
Oil price, \$ per barrel	112.9	111.3	113.2	108.8	111.3
Exchange rate, DKK per \$	5.3	5.3	5.2	5.5	5.5
Oil price, DKK per barrel	594.2	595.3	589.4	602.3	616.2

1) Adjusted. In 2012 the increase amounts to 2.8 per cent when including the reimbursements of contributions to the voluntary early retirement scheme.