

1. Summary

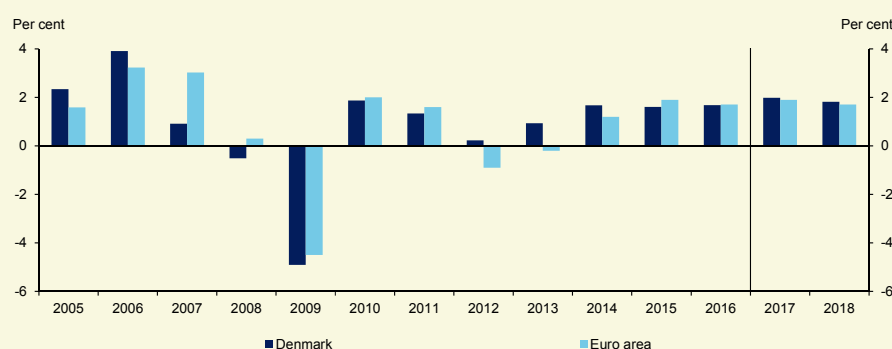
1.1 The current economic outlook

The upturn in the Danish economy has continued in 2017. GDP has grown at a high pace with growth rates up to ¾ per cent each quarter since the beginning of 2016. Simultaneously, the outlook for economic growth in neighbouring countries has strengthened, *cf. figure 1.1*. GDP growth is expected to reach the highest pace since 2006 with growth rates estimated at 2 per cent this year and 1.8 per cent next year.

The positive developments imply that the Danish economy has entered a new phase. Unemployment is low, while employment has increased steeply for several years. Hence, more people have the opportunity to enter the labour market, including those who previously struggled to do so. On the other hand, pressures on the available productive resources are mounting, even though the labour force has never been larger. At present there are no signs of price and wage pressures, but capacity pressures are increasing, in particular in the cyclically sensitive construction sector.

In order to ensure a stable economic development, an economic policy that counteracts unnecessary increases in capacity pressures is required. Reforms contribute to expanding the labour supply, thus creating room for further increases in employment. However, employment is not expected to continue to expand at the same pace. Thus, new initiatives that increase labour supply can strengthen and prolong the upturn in the Danish economy.

Figure 1.1
High GDP-growth in Denmark and the euro area



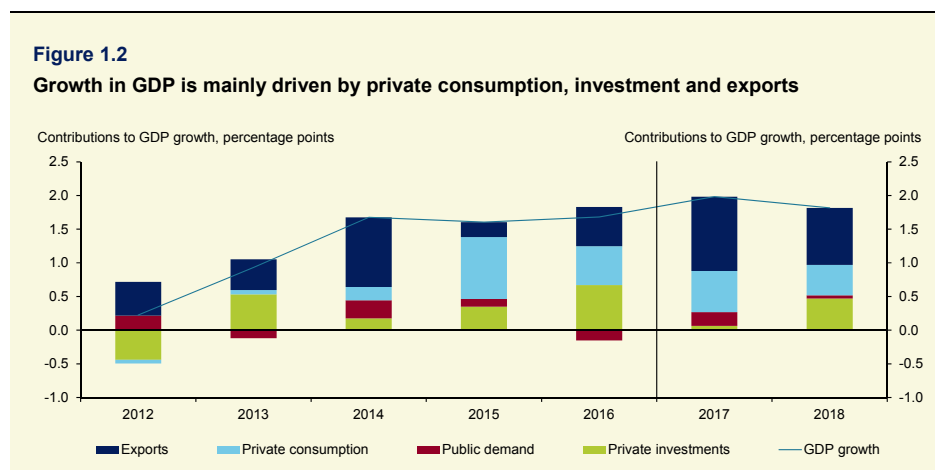
Source: Statistics Denmark, Eurostat, IMF, *World Economic Outlook Update*, July 2017 and own calculations.

Broad-based growth

Over the past three years, GDP has increased by approximately 1.7 per cent annually. In 2017, GDP is expected to grow by 2.0 per cent – the steepest increase since 2006.

In 2018, growth is expected to slow slightly to 1.8 per cent, but remain greater than potential growth. Against this background, capacity pressures are estimated to increase over the forecast period.

The economic progress is broad-based. The largest contributions to growth are expected to come from private consumption and exports, while investments will become a significant contributor in 2018 in line with greater investment needs caused by higher capacity utilisation, *cf. figure 1.2*.



Note: Contributions to GDP-growth have been corrected for imports.

Source: Statistics Denmark and own calculations.

Private consumption – a key driver of growth for the Danish economy – has increased strongly since 2014. Higher private consumption should be viewed in the context of employment gains and rising incomes, larger housing wealth and generally positive expectations.

Furthermore, subdued price development ensures solid increases in real wages, although nominal wage rises are moderate. Also, the option to have early retirement contributions reimbursed tax-free in 2018 will boost private consumption as well. Finally, household consumption is underpinned by parts of the reserves on the budget proposal for 2018, which are allocated to increase household disposable income inter alia through the tax cuts in JobReform phase II as well as the proposed new business and entrepreneurial initiatives.

Exports are expected to continue to grow at a high pace; in particular, growth in 2017 is projected to be the highest since 2011. This is based on stronger demand from export markets. The upturn in the euro area appears to have firmed, due to declining unemployment among other factors. In general, there is evidence of a strengthened global economy, which is reflected in increasing world trade. This development benefits Danish exporters as well, and

exports rose sharply during the second half of 2016. Overall, Danish firms appear competitive on global markets. In particular this applies to Danish industrial firms, and industrial exports are expected to grow strongly in 2017. The pace of growth in 2018 is projected to diminish somewhat, in light of slower export market growth.

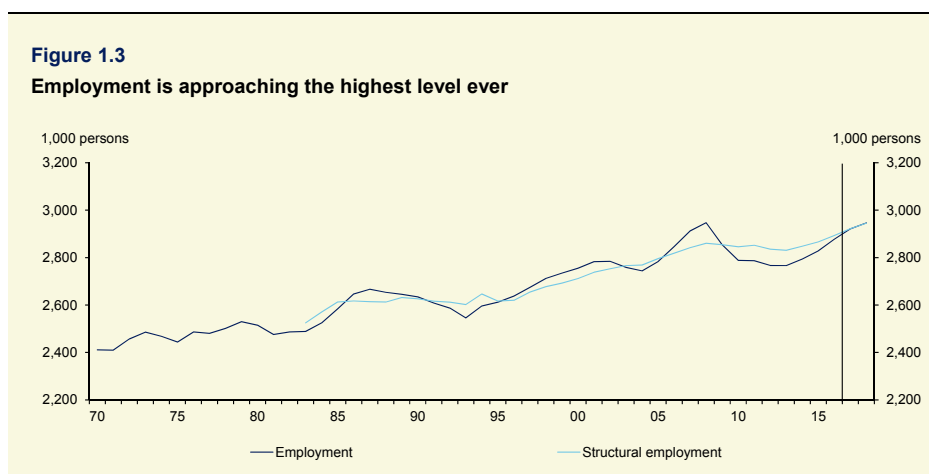
Rising capacity utilisation is expected to heighten the need for new productive capital over the coming years, and private investment is expected to increase in the forecast period. Housing investment is already growing quite strongly as a consequence of new construction activity fuelled by rising housing prices. Construction of new housing is expected to remain high in the forecast period.

Public demand is forecast to increase at a relatively subdued rate in line with the government's priorities. Also, at the current stage of the economic cycle, where firms report of increasing labour shortages, public demand should be planned in order to diminish capacity pressures. Fiscal policy dampens demand in 2017-2018, thus contributing to a sustainable upturn.

In sum, a more subdued public demand, along with a mildly diminished contribution to growth from exports point to slightly lower GDP growth in 2018 relative to 2017.

Larger labour supply has created room for significant employment gains

Since 2013, employment has risen by about 150,000 persons, and last year alone almost 50,000 persons found a job. The trend in employment is expected to continue, so that total employment will reach nearly 3 million persons by the end of the forecast period. Thereby, employment will approach its highest level ever, *cf. figure 1.3*.



Note: Structural employment has not been computed for years prior to 1983.

Source: Statistics Denmark and own calculations.

Increases in employment over the past years imply that there are fewer available resources in the labour market. Unemployment is already low and is expected to remain low during the

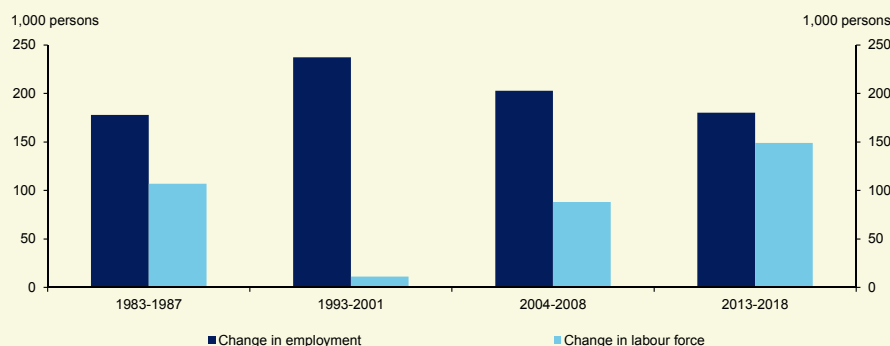
forecast period. Hence, a sustainable increase in employment is conditional upon a larger labour force.

The labour force has already grown significantly over the past years and is currently estimated to be at an all-time high. This largely reflects previous reforms that in the coming years will contribute to further sustainable employment growth, in particular the 2006 Welfare Reform and the 2011 Early Retirement Reform. Structural employment is estimated to increase by about 50,000 persons in 2017 and 2018.

Foreign labour has also added to the labour force to a large extent. Over the past four and a half years, the number of foreign citizens that have found employment in Denmark has increased by about 65,000 persons. In total, foreign employees in Denmark amount to roughly 240,000. The increase corresponds to more than 40 per cent of the total increase in employment since 2013. Many foreign employees work in the cleaning industry, in hotels and restaurants as well as in farming. There has also been a relative large increase within the construction sector.

The overall employment increase from 2013 to 2018 is expected to be roughly the same size as in previous upturns, *cf. figure 1.4*. Over the same period, however, the increase in the labour force is projected to exceed previous experiences.

Figure 1.4
Historically large increase in the labour force supports sustainable employment growth



Note: The labour force includes all employed persons, unemployed persons, who are deemed capable of employment, unemployed in active labour market schemes and people on leave of absence from employment. 2013-2018 shows the forecasted development.

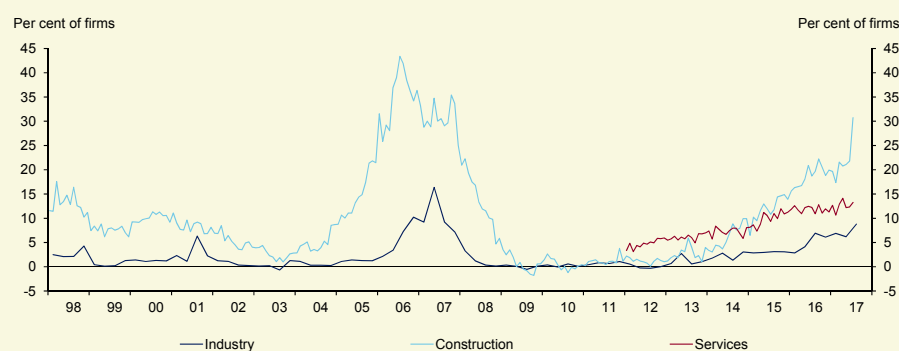
Source: Statistics Denmark and own calculations.

It is the expected expansion of the labour force during the forecast period, which makes a sustainable increase in employment possible. Employment is expected to the structural level in 2018, but only slightly. By comparison, employment exceeded the structural level by 52,000 and 86,000 persons at the economic upturns in 1987 and 2008 respectively.

The experience from previous upturns is that a situation, where actual employment exceeds structural employment by a large margin, may arise relatively fast. Two years before the business cycle peaks in 1987 and 2008, actual employment was close to its structural level as well.

In some areas of the labour market, there are signs of mounting capacity pressures. This is particularly evident in construction, where firms increasingly report of labour shortages as a constraint for production, *cf. figure 1.5*. This implies that an increasing number of firms may have to forgo new orders.

Figure 1.5
Intensifying shortage of labour, especially in construction



Note: Figure 1.5 shows the share of firms (weighted by employment), which reports of labour shortages as a production constraint.

Source: Statistics Denmark and own calculations.

New phase in the economic cycle

Past years' progress has brought the Danish economy back to a neutral business cycle stance. This is not a lasting state, but expresses that the Danish economy has gone from producing less than potential to a situation with a neutral or positive output gap, or the beginning of an economic boom.

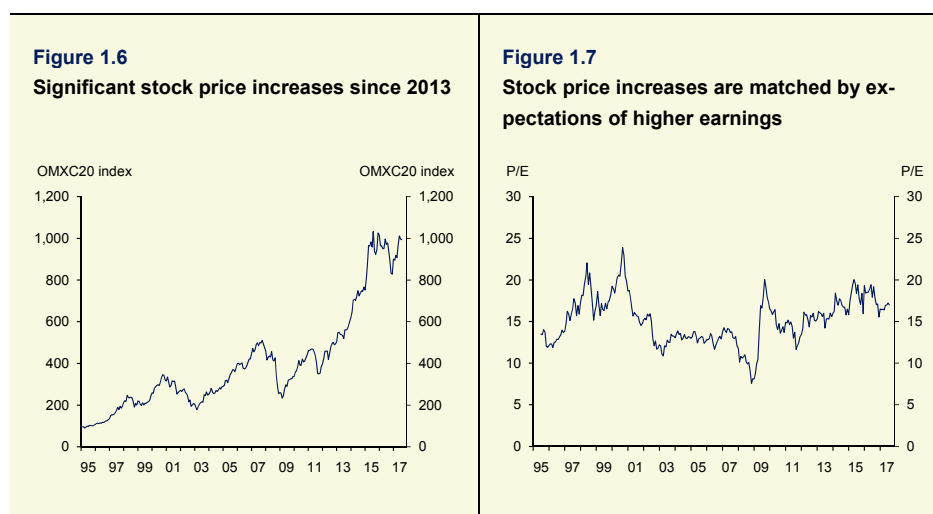
It is also during this period that new imbalances may start building up – imbalances that can eventually bring an end to the upturn and aggravate the subsequent downturn. Unsustainably high growth and lack of resources can translate into price and wage pressures and gradually deteriorating competitiveness. Overoptimistic expectations and belief that the good times will last have previously led to excessive lending, risk taking and unsustainable borrowing.

The Danish economy is fundamentally sound, and there are no signs of imbalances at present. Households have consolidated their economies for several years, the public finances are sustainable, firms are competitive, and increases in prices and wages remain subdued.

Nonetheless, the upturn has affected other areas of the economy, which call for attention. Housing prices have been rising for some time, especially in the Greater Copenhagen area,

and this upward trend has continued in 2017. Recently, credit conditions appear to have been relaxed slightly as well, although on aggregate lending remains relatively subdued.

Stock prices have risen relatively quickly since 2013, *cf. figure 1.6*. Normally, there is a link between real economic developments and the financial markets, in the sense that large increases in stock prices tend to follow upturns. This has also been the case during the current upturn. However, rising stock prices largely reflect greater expectations to future corporate earnings, *cf. figure 1.7*.



Note: Figures 1.6 and 1.7 show the Danish stock price development based on OMXC20. In figure 1.7, the P/E-ratio denotes the ratio of stock prices to expected corporate earnings, as estimated by analyst forecasts via Thomson Reuters' Institutional Brokers' Estimate System.

Source: Thomson Reuters Datastream.

Low interest rates are also a driving factor behind the rising stock prices. As bond yields are modest; investors' search for yield elsewhere, including by investing in stocks. This increases the risk of a price adjustment on stocks and other investment assets, when interest rates rise.

Interest rates are expected to remain low during the forecast period, but the era of extraordinarily low interest rates will eventually come to an end. Stronger economic impetus in the euro area points towards a conclusion of ECB's asset purchase programme by 2018 and over the medium term gradually rising policy rates. In the United States, where the upturn is more mature, the Federal Reserve has begun a gradual normalisation of the policy interest rate. In Denmark, 10-year government bond yields are inching upwards, and a modest increase in the long term interest rate is expected during the forecast period.

Higher interest rates will dampen increases in housing prices and stock prices as well as stimulate savings over consumption. Higher rates will be appropriate for an economic upturn, where capacity pressures are building.

Danish interest rates largely follow those of the euro area. This has benefited the Danish economy during the downturn, where rates have been exceptionally low. However, as the Danish upturn continues there is a risk that interest rates may become too low relative to the Danish business cycle and thus may exacerbate capacity pressures. This increases the need for structural policies that expand the labour supply etc.

Both upside and downside risks

The premises for stable growth are judged to be present, but uncertainty remains regarding the economic development both domestically and abroad.

In Denmark, demand especially from private consumption has risen strongly during the past 18 months. However, consumption and investment ratios are still low seen in a historical perspective. This implies a potential for an even stronger increase in private demand. If the pace of growth accelerates, and the increased demand is met by higher production, GDP might exceed forecast estimates.

Labour shortages could, however, dampen the upturn in the Danish economy. There is a risk that production might go beyond what is compatible with stable price and wage developments. In the longer term, this could feed into accelerating prices and wages and ultimately cause overheating of the labour market, as happened in 2006-2007.

Internationally, risks appear more balanced than previously. There is still uncertainty regarding the British exit from the EU. The long-term consequences of Brexit might well take years to materialise and will depend on future agreements between the United Kingdom and the EU. Furthermore, there is uncertainty regarding economic policy in the United States, geopolitical tensions, China's economic transition and the health of European banks.

Recent key figures for the international economy appear generally good, however, and global economic growth could turn out stronger than assumed. Progress is also reflected in the fact that several central banks are beginning to wind down the extraordinary monetary policy measures. In general, the prospect of an end to the period of extraordinarily low rates is a sign of soundness for the global economy.

Box 1.1**Changes since the latest forecast and assumptions underlying the projection**

The forecast is based on information from the national accounts up to and including the 1st quarter of 2017 and a number of economic indicators, which reach into 2nd quarter.

In the revised, but still preliminary, national accounts for 1st quarter, GDP growth for 2016 was revised up by 0.4 percentage points to 1.7 per cent, which gives a better starting point for growth in 2017. At the same time, 1st quarter growth was equally strong, such that over the past five quarters, the economy grew by roughly 0.7 per cent. Key macro figures support the impression that the upturn continues. Based on this and other factors, the forecast for GDP has been revised up by 0.3 percentage points to 2.0 per cent in 2017 and by 0.1 percentage points to 1.8 per cent in 2018, relative to *Economic Survey*, May 2017.

The upwards revision of GDP growth also reflects expected gains in employment, such that the current projection points to an increase of 44,000 persons in 2017 against 37,000 in May. For 2018, the projection for employment has been revised up by 2,000 persons to 25,000. The stronger-than-expected increase in employment implies that the employment gap will close in 2017 and become slightly positive in 2018.

The forecast was finalised on August 4th 2017. Since then, Statistics Denmark has released the GDP indicator for the 2nd quarter on August 15th 2017. According to the indicator, GDP rose by 0.5 per cent in 2nd quarter and by 2.5 per cent relative to 2nd quarter 2016. The progress from 1st quarter thus appears to continue, which is in accordance with underlying assumptions in the projection. The uncertainty for the GDP indicator is greater than the usual +/- 0.5 percentage points.

1.2 Fiscal policy and public finances

With *Growth and prosperity 2025*, the Government put forward the ambitions and priorities of the economic policy in the coming years, cf. *figure 1.8*. It is among other things important for the Government that the private sector constitutes a larger part of the economy, and that the total public expenditures over the years are to pose a smaller part of the economy. The Government also wants to streamline and prioritise the existing public expenditures, such that central areas can be strengthened further.

Together with the August projections, the Government presents its budget proposal for 2018, which e.g. strengthens core welfare areas and lift security and safety in Denmark.

The Government's proposed second phase of the JobReform supports that it is worthwhile to take a job. Further, the Government has presented a number of initiatives targeted businesses and entrepreneurship, which among other things shall make it easier and more attractive to run and start a business in Denmark.

Figure 1.8
A stronger Denmark towards 2025

Strengthened growth and prosperity ...

- The growth of Denmark can be increased by DKK 80 bn. (through higher employment and productivity.
- Public sector dependency must be lowered and more people must join the work force.
- We must support a dynamic business sector that invests in Denmark.
- Increased growth will contribute widely to the society.
- By increasing the fiscal space we can allocate more resources to develop Denmark.

... and a balanced economy

- The economic policy must strengthen and maintain the upturn on a high level by increasing labour supply and investments.
- A good balance between the private and public sector must be ensured.
- The public sector must constitute a smaller part of the total economy.
- It must be beneficial to work and the families must keep more of their hard earned wage.
- We must support that the future generations get better opportunities than we have had.

Source: Growth and prosperity 2025.

The fiscal policy of 2018 is designed with offset in a structural budget balance of -0.3 per cent of GDP, and the distance to the budget laws' maximum allowed deficit is thereby gradually increased. The consolidation of the fiscal policy, such that the structural deficits gradually decrease, is in line with the 2025 plan and the cyclical improvement.

The pace of the economic upswing is higher than it was in the spring review. The employment gap is projected to be approx. closed this year, based on the updated basis. This places demands in designing the economic policy.

It is appropriate to have a withholding fiscal policy in a situation with high employment, to limit risks of overheating. The Government is among other things planning with a dampened public consumption expenditure growth in the coming years, which in itself will dampen the capacity pressures. Reforms that increase labour supply and free resources will make it possible to allocate new funds to high priority areas without increasing economic pressures.

The planned fiscal consolidation in the coming years will, together with an ongoing reform agenda, contribute in maintaining and prolonging a continued and balanced economic upswing.

Table 1.1
Main components of the projection relating to fiscal policy

	2015	2016	2017	2018
Structural balance, per cent of structural GDP	-0.6	-0.2 ¹⁾	-0.5	-0.3
Actual fiscal balance, per cent of GDP	-1.8	-0.6	-1.4	-1.2
EMU debt, per cent of GDP	39.6	37.7	36.3	35.4
Public consumption growth, per cent	0.6	0.4	0.8	0.5 ²⁾
Multiannual fiscal effect, effect on GDP growth ³⁾	-0.3	-0.4	-0.2	-0.1
Output gap, per cent ³⁾	-0.9	-0.8	-0.2	0.0
Employment gap, 1,000 persons ³⁾	-37	-16	-1	1

- 1) At the time of the budget bill of 2016, the structural deficit for 2016 was projected to be 0.4 per cent of GDP. The improvement of the structural budget balance in 2016 reflects e.g. lower than planned operational costs in state and municipalities. It is presumed that the operational costs of 2018 correspond to the current expenditure ceilings.
- 2) It is noted that the estimated public consumption growth in 2018, in addition to a basic real growth of 0.3 per cent, also reflects a contribution from the Government and negotiation reserves of the budget bill proposal, which e.g. can be allocated to an increase in the security and safety of the Danish people. The planned public consumption growth of 2018 will among other things depend on the specific allocation of the reserves with the fall's agreements on the budget bill etc.
- 3) Calculated measure of how demand and GDP growth are influenced by changes in fiscal policy since 2014. The definition of neutral fiscal policy takes among other things its offset in a constant ratio between respectively taxes and expenditures and structural GDP, *cf. Economic Survey, May 2017*.
- 4) Calculated measure of how far production and employment are from structural levels. When gaps are approx. zero it corresponds to a situation where there is no available resources in the economy in a normal situation.

Source: Statistics Denmark and own calculations.

Following the cyclical assessment, an updated medium term projection towards 2025 has been made, which forms the foundation for the proposed bill on expenditure ceilings for the new fourth year 2021. The updated medium term projections and the expenditure ceilings for 2021 are described in details in *Opdateret 2025-forløb, august 2017* and *Dokumentation for fastsættelse af udgiftslofter for 2021* at www.fm.dk (only available in Danish).

Budget proposal for 2018 and an economy with higher gains from taking a job and investments

With the budget proposal for 2018, the Government put forward a number of initiatives, which e.g. shall contribute to strengthen welfare and to lift security and safety in the everyday lives of the Danish people, *cf. box 1.2*.

Box 1.2**Main elements of the budget proposal for 2018: A safe and coherent Denmark**

- **Strengthened welfare** – the Government wants to allocate DKK 0.5 bn. annually to lift core welfare e.g. on health care and elderly care. This lift comes in addition to the extra funds allocated to welfare in the agreements with the municipalities and regions and funds targeted vulnerable groups.
- **A safe and secure Denmark** – the Government wants to prioritise funds to ensure safety and security with e.g. a strengthening of the police, and a new agreement on the prison and probation service. Furthermore, the Government prioritises DKK 260 M annually in the period 2018-2021 to tighten the penalties for gross violence, breaking and entering etc. and a further DKK 60 M annually to a strengthening of the effort against criminal gangs.
- **Better infrastructure** – the Government wants to prioritise approx. DKK 410 M in the period 2018-2021 to a number of road projects etc., which shall better the conditions for motorists all over Denmark.
- **Education and research** – the Government wants to prioritise DKK 70 M annually to a strengthening of conditions for private elementary schools. At the same time, the appropriation to publicly financed research is raised by DKK 0.4 bn. from 2017 to 2018. Thereby, public research expenditures amount to DKK 22 bn. in 2018, corresponding to 1.0 per cent of GDP.
- **Significant strengthening of the tax administration** – the Government wants to allocate DKK 0.5 bn. in 2018 and a total of DKK 5.5 bn. in the period 2018-2021 to the effort on rebuilding and strengthen the tax administration, including a strengthening of the control and guidance system.
- **A continued tax deduction on services** – the Government wants to prolong and target the tax deductions on services in own homes, such that it is made permanent and is focused on service provision. There is prioritised DKK 180 M annually from 2018 and onwards.
- **A Denmark in better balance** – the Government wants to allocate DKK 150 M in 2018 to relocation of state jobs.

As mentioned, the fiscal policy of 2018 is designed from a structural deficit 0.3 per cent of GDP. The economic policy in the coming years is planned so that the deficits are decreased further, to make progress towards the Government's fiscal guideposts presented in *Growth and prosperity 2025*, which include a target of a structural deficit of 0.1 per cent of GDP in 2020 and a goal of structural balance in 2025.

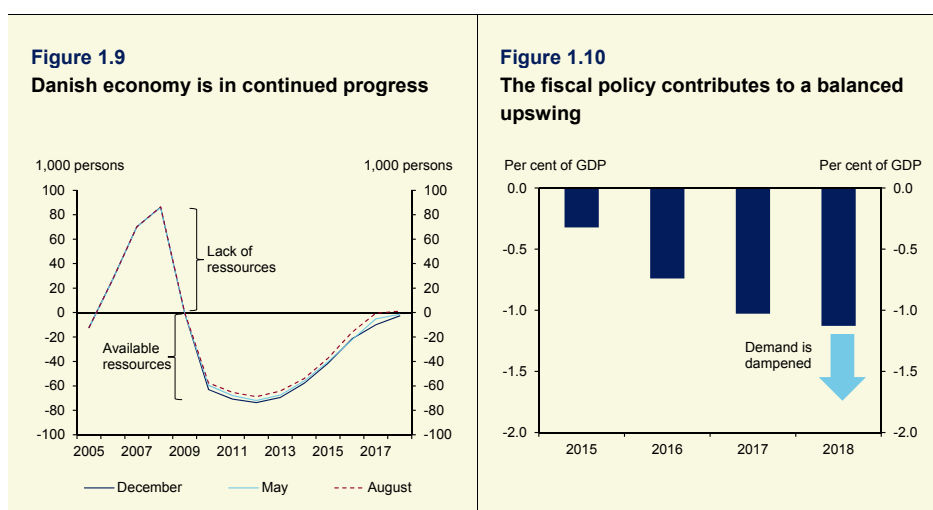
At the same time, the Government's proposed JobReform's second phase, which among others will contain income tax reductions, means that Danes get disposition over more of their own incomes. Furthermore, the Government's proposal *Together for the businesses of the future*, which contains a number of initiatives targeted business and entrepreneurship, will make it easier to run a business in Denmark.

In the current assessment, which is based on the agreements with municipalities and regions and the budget proposal for 2018, it is presumed that the public consumption growth will amount to 0.5 per cent in 2018. It is noted that the public consumption expenditure growth, in addition to a basic real growth of 0.3 per cent, also reflects a contribution from the budget

proposal's government and negotiation reserves, which can be allocated to safety and security lift etc. The planned consumption growth in 2018 will among other things depend on the specific allocation of the reserves in the falls' political agreements, including the budget bill for 2018 etc. Later on the fall, the Government will present the lines to a new defence agreement within the framework of the budget proposal of 2018.

An ambitious reform agenda can support a sustainable upswing

In the current situation, where Danish economy is in an upswing, it is appropriate that the fiscal policy is gradually made less lenient to maintain a balanced progress in the Danish economy. It is now projected, that the employment gap is closed in 2017, *cf. figure 1.9*.



Note: Figure 1.9 shows the employment gap. Figure 1.10 shows the multi-annual fiscal policy effect on the GDP level measured with offset in 2014, which was lenient in light of the previous years' economic crisis. The definition of neutral fiscal policy takes e.g. its offset in that taxes and expenditures amounts to a constant share of structural GDP, *cf. Economic Survey, May 2017*.

Source: Statistics Denmark and own calculations.

The fiscal policy was lenient during the economic crisis to support activity in the Danish economy. Among other things, the public consumption and investment expenditures was high in comparison to a historic average. Fiscal policy has been gradually normalised in recent years, relative to the lenient reference point. The consolidation means that fiscal policy in recent years have had a dampening effect on the demand increase relative to the lenient reference point in 2014, *cf. figure 1.10* and *chapter 4* (only available in Danish).

With technical assumptions, the presumed fiscal policy since 2014 contributes to a dampening of approx. 1 per cent of the GDP level in 2017 and 2018.

It is the Government's goal that reforms shall contribute to a lift in employment and productivity in the coming years. Tax reductions and a moderate public consumption growth can, together with other reforms, contribute to a sustainable and balanced growth in the Danish economy, *cf. box 1.3*.

Box 1.3**Tax reductions rather than public consumption can dampen capacity pressures**

With continued progress in the Danish economy risks are that imbalances and beginning capacity pressures can arise. In a situation with already high employment, it is adequate with fiscal and structural policies that contribute in ensuring a resilient upswing and limit risks of overheating.

The fiscal policy is designed within the framework and line of sights for the structural budget balance in the 2025 plan. The gradual reduction of the structural deficits contributes in ensuring a fiscal policy that does not push unnecessarily on capacity pressures. If tax reductions that increase labour supply are prioritised within this framework, while public consumption growth is kept on a low level, it will further contribute to a lasting upswing.

If labour supply is increased through an allocation of the fiscal space towards lowered income taxes instead of increased public consumption growth, it will thus have a positive effect in dampening cyclical pressures. The effect is two sided. Firstly, an increased labour supply through reduced income taxes contributes to a capacity increase in the economy. Secondly, lower income taxes rather than increased public consumption leads to a dampening of the total short term demand. Lower income taxes increase private demand, but this effect will be reflected in total demand at a slower pace compared to public consumption

In *table a* an illustrative example, where DKK 5 bn. (after dynamic effects) is allocated to an increase in the earned income tax credit and an equivalent dampening of the public consumption expenditures growth. In an illustrative model calculation, capacity pressures are reduced in the first year by approx. 5,000 full-time persons, *cf. table a*. In the following years, the effect is reduced as the reduced public demand is replaced by an increased private demand. The dampened effect on capacity pressures are approx. gone after five years.

Table a**Effect on capacity pressures of calculated priorities**

	Year 1	Year 2	Year 3	Year 4	Year 5
1,000 full-time pressures					
Effect on capacity pressures (labour demand minus labour supply)	-4.9	-3.9	-2.9	-1.5	-0.5
Effect on labour demand	-4.1	-2.3	-0.6	0.8	1.9
- of which private demand	0.7	2.4	4.0	5.3	6.3
- of which public demand	-4.9	-4.8	-4.6	-4.6	-4.5

Note: Effect on capacity pressures on the labour market is measured as the difference between labour demand and labour supply measured in full-time persons. If the difference is positive, labour demand is increasing faster than labour supply thus increasing the probability of labour market bottlenecks. The structural effect on the labour supply is estimated to be 2,300 full-time persons and is presumed to be gradually reflected in increased actual labour supply over 3 years. The pace of which labour supply from reforms is reflected in actual labour supply is uncertain. A higher short term marginal rate of consumption than ADAM's general short term effect is assumed (approx. 60 per cent in the first year) as the tax reduction is permanent.

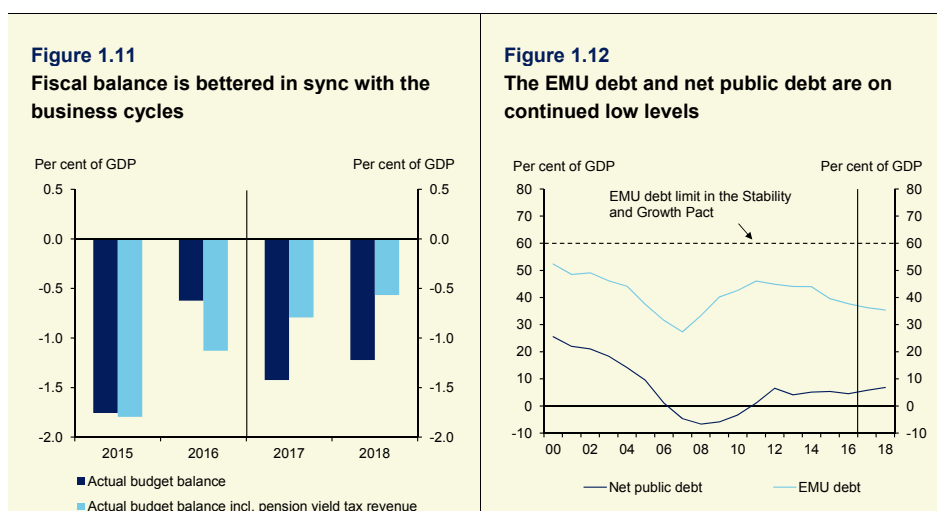
Source: Own calculations.

Fiscal deficit and EMU debt is reduced in 2018

For 2016 the fiscal deficit amounts to 0.6 per cent of GDP. In 2017 and 2018 it is estimated that the fiscal deficits amount to 1.4 per cent of GDP and 1.2 per cent of GDP, respectively.

The weakening of the public budget balance from 2016 to 2017-2018 is specifically due to the volatile revenues from pension yield taxation, which is assumed to decrease by approx. 1½ per cent of GDP from 2016 to 2018. This should be seen in light of the expected normalisation of the long term interest rate levels in the coming years, after a number of years with unusually low interest rates. When the fiscal deficit is adjusted for the volatile revenue from the pension yield taxation, the deficit is reduced by approx. ½ per cent of GDP from 2016 to 2018, cf. figure 1.11. This is primarily due to the progress in the Danish economy.

In 2018 the fiscal deficit is isolated increased due to an early retirement contribution refund of an estimated DKK 5 bn. corresponding to ¼ per cent of GDP in 2018 as a consequence of the *Agreement on more years on the labour market*. The agreement makes it among other things possible to get a tax-free refund of early retirement contribution payments in 2018, if one renounces the right of early retirement.



Note: In figure 1.11 the fiscal deficit is adjusted for the estimated deviation in the volatile pension yield taxation from the structural levels, which is included in the calculation of the structural budget balance.

Source: Statistics Denmark and own calculations.

In 2018 the net public debt is estimated on a continued low level of approx. 7 per cent of GDP, while the EMU debt is estimated to approx. 35 per cent, *cf. figure 1.12*. The public debt in Denmark is thus substantially under the limit of 60 per cent of GDP in the Stability and Growth Pact.

1.3 Globalisation and the Danish economy

Globalisation is not a new phenomenon. Trade, investment and migration across borders have taken place over several millenia. However, it is only recently that it has become so important as it is.

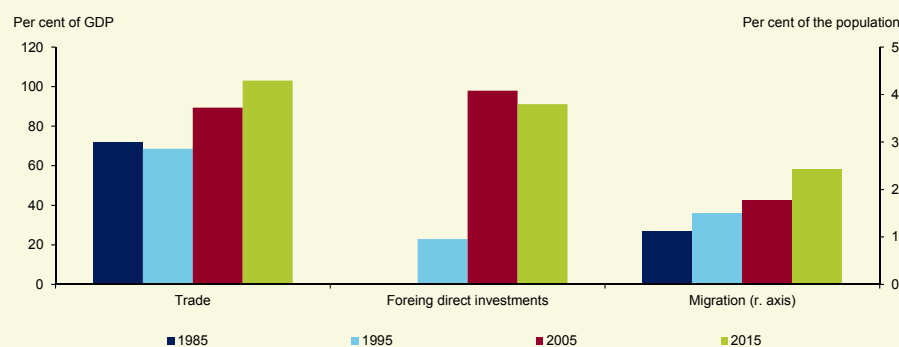
The process of globalisation should also be seen in the light of ongoing technological progress. Advances in transportation and communication have meant that goods and services, capital and labour now can move across borders in a way that is much freer than during earlier decades. The development of the internet and electronic communication has had a large role in the increase the international division of labour over recent decades.

The removal of barriers of trade in goods and services has also been instrumental in the increase in international economic activity. International economic cooperation has led to lower tariffs and fewer technical trade barriers, especially due to agreements under the aegis of the World Trade Organization (WTO). From a Danish perspective, European cooperation has also had a very significant role, especially with the creation of the Internal Market in 1993 and the enlargement of the EU in 2004.

Also important has been the complete removal of restrictions on cross-border capital flows in advanced economies since the 1980's and liberalization of capital flows in many emerging market economies. This has made it very easy to transfer funds across borders. Furthermore, an important development has also been the adoption of a market-based economy in many emerging markets, in which property rights are respected. This has given Danish companies the liberty to invest in almost all of the countries in the world thereby enabling them to source production where it is most efficient. Similarly, foreign companies have the opportunity to invest in Denmark.

The increased international interconnectedness of the Danish economy is seen clearly through the significant increase in international trade, *cf. figure 1.13*. At the same time the extent of foreign direct investment and cross-border migration, has also taken off over the last 20 years.

Figure 1.13
Globalisation has intensified during recent decades



Note: *Trade* is calculated as the sum of Danish exports and imports relative to Danish GDP. *Foreign Direct Investment* is measured as the stock of Danish Foreign Direct Investment (FDI) abroad and FDI of international companies in Denmark relative to GDP. FDI is defined as investment in ownership share of more than 10 per cent in a foreign company. Data is not available for 1985. *Migration* is calculated as total emigration and immigration during the years in question between Denmark and the rest of the world, excl. a number of countries from which mostly refugees have arrived.

Source: Thomson Reuters, Statistics Denmark, OECD and own calculations.

Denmark has historically been able to take advantage of the opportunities that the process of globalisation has brought. Danish companies have been successful in adapting to international competition. Furthermore the labour market is dynamic and the labour force has continually adapted to new conditions. This has meant that Denmark has been able to reap the benefits from globalisation without permanent scars from the transition. Thus, on the whole, there have been no adverse effects of increased international competition on the ability of different population groups to find jobs or on their wages.

In the future, globalisation and technological change will continue to bring new opportunities and challenges. It is important to find solutions, so that Denmark may continue to reap the benefits in the future, in a way where all persons have the best possible opportunities to benefit from change.

Clear benefits from globalisation

It is difficult to measure the total effects from globalisation, which affects a large number of structural economic factors. However, there is no doubt that the gains from globalisation for the Danish economy are significant.

Globalisation is closely linked to technological change, which has increased overall productivity. This can be seen *inter alia* through increased automation in manufacturing and lower costs of transportation. Technological progress and globalisation has taken place concurrently and it is difficult to separate the effects.

Below some of the different channels through which globalisation has impacted the Danish economy are analyzed.

Benefits for households through greater selection and cheaper goods

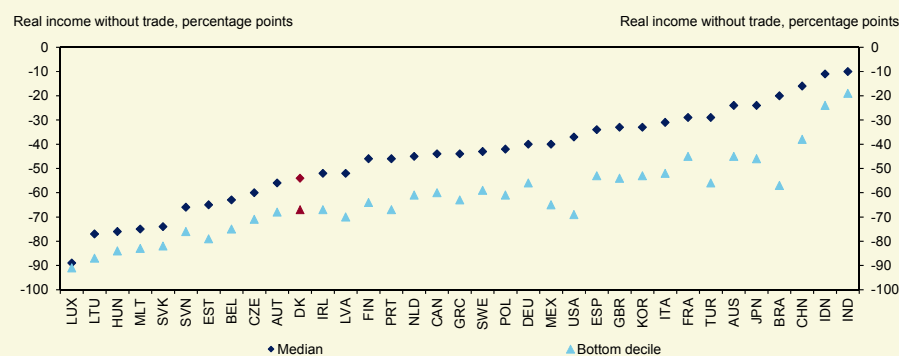
Globalisation leads to an income gain for households, and benefits are widely distributed across society. An important channel through which these gains occur, are lower prices. The most productive companies can produce and distribute their goods at the lowest prices, and trade gives people in other countries access to these goods. Trade also increases the level of competition in markets, because previously only domestic agents could take part in the market.

As an example new research indicates that real incomes would be significantly lower, if countries did not engage in trade, *cf. figure 1.14*. The effect is largest for households with relatively low incomes.

In the case of Denmark, the study indicates that the median-income group would experience a 54 per cent real income drop in a scenario without trade, while the income loss is estimated at 67 per cent for the lowest income decile group. The difference is among other things due to the fact that households with relatively low income spend a larger share of their income on internationally traded goods, while high income groups spend a larger share on services, which are internationally traded to a significantly lower extent. Households with relatively low incomes thereby achieve greater gains from trade.

Figure 1.14

Trade benefits consumers in all countries and income groups

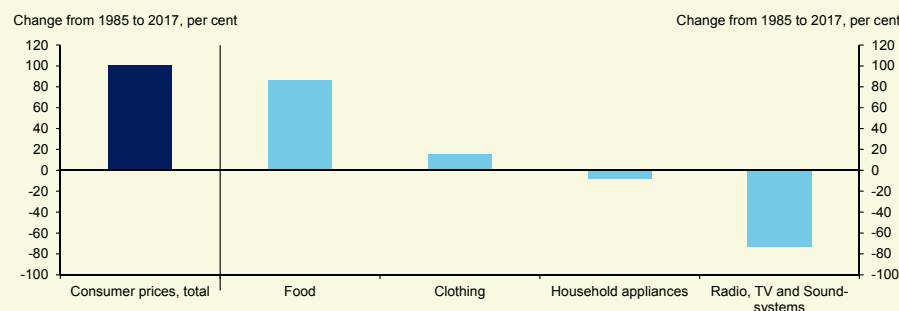


Source: Fajgelbaum and Kandhelwal (2016), *Measuring the Unequal Gains from Trade*, Quarterly Journal of Economics shown in *OECD Economic Outlook* 101, June 2017.

The result shows that consumers in all countries benefit from trade. Looking across countries, the gains from trade are typically larger for small, open economies, like Denmark, due to a transition from a small domestic market to a global market.

In Denmark, the price of traded goods, such as e.g. household appliances and electronic goods, have fallen since the mid-1980's. Over the same period of time the level of consumer prices have doubled, *cf. figure 1.15*.

Figure 1.15
Imported goods have typically experienced price declines



Note: Household appliances include e.g. washing machines, vacuum cleaners, coffee makers, small electrical kitchen appliances, etc. There is a data-break in 2000-2001. Before 2001, the category of goods *Radio, TV and Sound-systems* is merely Radio and TV apparatuses. Personal computers and mobile telephones, which have experienced large price declines is not part of this category.

Source: Statistics Denmark and own calculations.

Clothing is another example of how lower prices of goods through trade acts to increase household consumption. If the price of clothing had developed as consumer prices in general since the beginning of the 2000's, household consumption would be about 1½ per cent lower (assuming a constant consumption share).

Apart from lower prices consumers have at the same time also gained access to a markedly broader and more diverse selection of goods and services. In Denmark the increased international integration has resulted in an increased in the number of different types of imported goods. In 1999 54,325 different types of goods were imported into Denmark, and by 2008 this had increased to 74,268 different types of goods.¹

Globalisation means higher productivity

Part of the globalisation gain for consumers from lower prices also reflects the fact that the productivity of Danish companies rises. Over time, wages are linked to productivity, and higher productivity has historically been the main force behind the increasing standard of living in Denmark and abroad.

Using a number of technical assumptions the productivity gain resulting from only the increase in Denmark's international trade since the 1980's can be calculated to around 8 per cent of GDP in 2016, or roughly DKK 29,000 per person, cf. *table 1.2* Thus, a substantial part of the increases in living standards since the 1980's stem from rising productivity resulting from increased international trade.

¹ Mohler, L. and M. Seitz, *The gains from variety in the European Union*, Review of World Economics, 2012.

Table 1.2
The effect on GDP from increased international trade since the 1980's

	Effect, per cent
Estimated effect from increased international trade on the level of GDP, 2016	8
Estimated annual contribution to GDP-growth from increased trade (percentage points)	0.2
Memo: average annual GDP-growth, 1985-2016	1.7

Note: The calculation is based on a productivity multiplier on trade intensity (total exports and imports as a percentage share of GDP) of 0.25. This elasticity is comparable to what can be found in the economic literature, and has also been the basis for the recent study of the effect of the EU Internal Market and the Danish economy (*Det indre markeds økonomiske betydning for Danmark*, Højbjerg Brauer Schulz, Commissioned by the Danish Business Authority, 2017). OECD, *Economic Outlook*, 2016, indirectly implies an elasticity of around 0.23 in the calculation showing that if growth in trade intensity is raised to the average from 1986-2007, productivity growth will increase by 0.18 percentage points, cf. figure 1.26. Another recent study, Pak H. Mo, *Trade intensity, net export and economic growth*, Review of Development Economics, 2010, finds an elasticity of 0.29. 8 per cent higher GDP corresponds in 2016-prices to approximately DKK 29,000 per person.

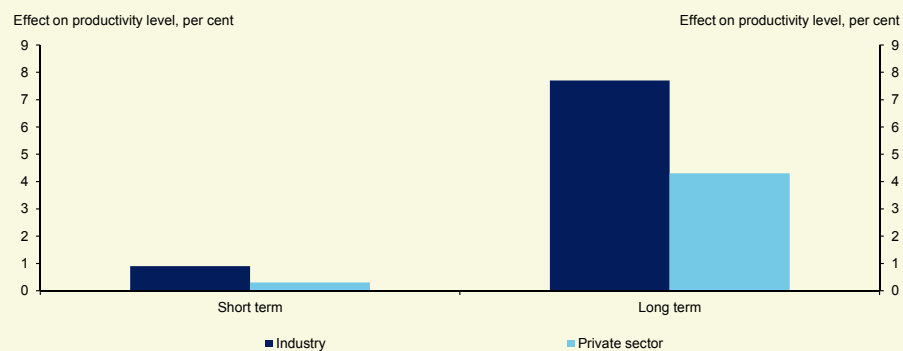
Source: Højbjerg Brauer Schultz, *Det indre markeds økonomiske betydning for Danmark*, Commissioned by the Danish Business Authority 2017, and own calculations.

Part of the productivity gains from globalisation stem from the fact that exporters now produce to a larger global market. Companies typically achieve returns to scale by producing larger quantities. And perhaps even more importantly, increased competition means that companies continually have to work to become more efficient.

Productivity is also enhanced through a more effective international division of labour, where countries specialised in areas where they have comparative advantages. This is also seen in the greater number of different steps in production, and that foreign trade now to an increasing extent is intermediate parts.

Companies that export are generally more productive than companies that do not, cf. figure 1.16. This is e.g. due to the experiences companies gain from exporting and the higher demands of international competition. In Denmark, this especially applies to manufacturing companies, but there are also significant gains for services companies.

Figure 1.16
Exporting increases the productivity of companies



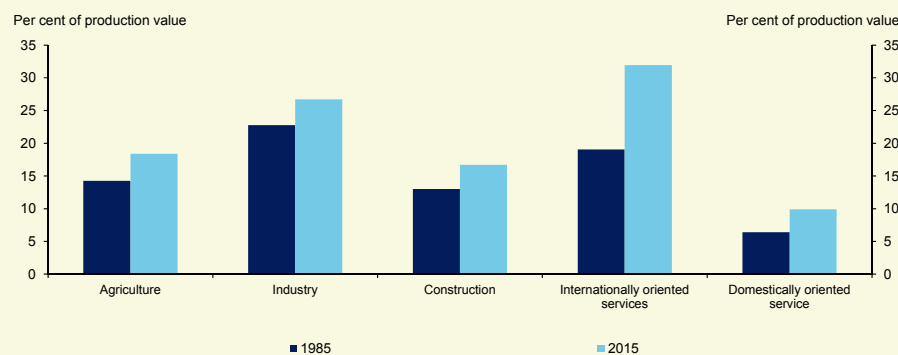
Note: The chart shows the effect of "learning-by-exporting". The estimation controls for selection issues (e.g. the most productive companies are also those that export) by assuming that the expected productivity level depends on past productivity and if companies are exporting or not. The future productivity level of a company may then be influenced by their exporting status, while at the same time controlling for their current productivity level.

Source: *Økonomisk analyse: Produktivitet og konkurrence*, Danish Ministry of Finance, January 2016.

Active participation in global value chains can be important for having competitive, exporting companies. This means that companies alone contribute to the stages of production where they are most productive and import input where foreign companies can produce more efficiently.

Danish companies are to an increasing extent importing inputs to the production of goods and services, cf. figure 1.17. The share of imported inputs is especially high in manufacturing and parts of services that are exposed to international competition, which have also had higher productivity growth. On the other hand, the share of imported inputs is lower in e.g. the domestically oriented services, which have had relatively low productivity growth.

Figure 1.17
Imported input account for a greater share of production



Note: The split on internationally and domestically oriented services follows the split made by the Productivity Commission.

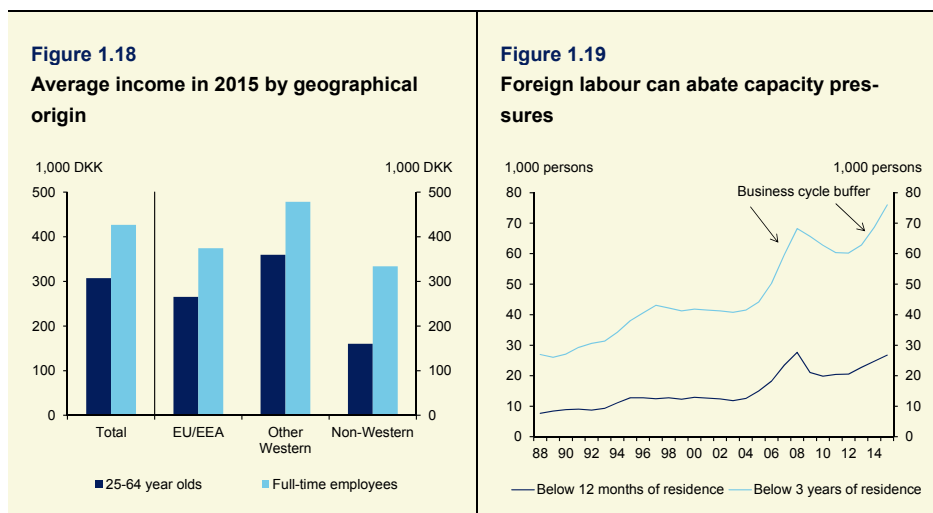
Source: Statistics Denmark and own calculations.

International labour force benefits the economy

Globalisation gives Danish citizens the opportunity to gain experience and skills abroad. At the same time, Danish companies gain access to workers from abroad, ranging from seasonal workers to specialists.

Foreign labour contributes with new skills and add to the labour force. As pointed out by the Productivity Commission corporate productivity has been increased by access to highly-specialized foreign workers. And foreign workers can also contribute to opening new foreign markets for companies.

The inflowing foreign labour to Denmark typically originates in other western countries, especially the rest of the EU-countries. Immigrants from the EU/EEA that are full-time employed had an average annual income of almost DKK 400,000 in 2015, which is a little lower than the average for all full-time employed persons in Denmark. *cf. figure 1.18*. On the other hand, full-time employed persons from other western countries had a somewhat higher average annual wage, which indicates that many are highly specialized workers.



Note: The definition of income used in figure 1.18 is the tax basis for labour market contributions (*arbejdsmarkedsbidrag*). For figure 1.19 the category *below 3 years stay* includes all persons which have been in Denmark for less than three years, i.e. it also includes the category *below 12 months stay*. It does not include shorter periods of stay abroad – or in Denmark – which happen during a calendar year. Immigrants comprise all persons regardless of origin, thereby also including Danish citizens, which return to Denmark.

Source: Statistics Denmark and own calculations.

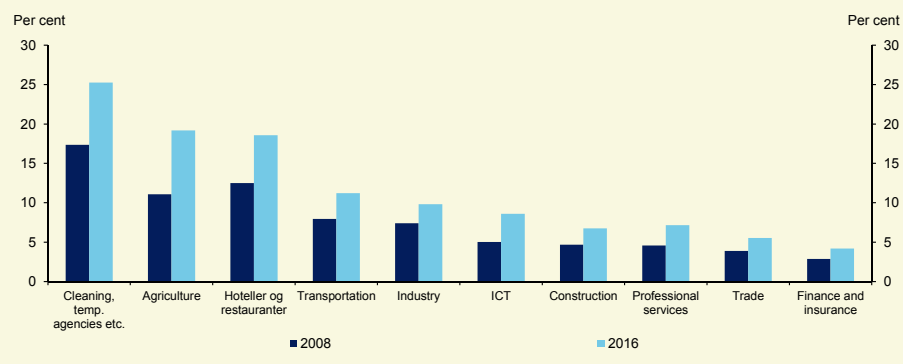
Immigration from non-western countries is to a larger extent due to humanitarian reasons. On average these immigrants on average participate less in the labour market and have lower incomes for those that are employed. However, workers from non-western countries that are full-time employed have an average annual income which is relatively close to the income level for full-time employed persons from the EU.

Influx of foreign workers can contribute to reduce labour market pressures during a business cycle upswing. The number of employed recent immigrants rose considerably during the years before the overheating of the Danish economy in the 2000's, cf. figure 1.19. With a positive labour market development in recent years, the number of employed recent immigrants has started increasing.

In a situation where the demand for labour is increasing, an inflow of workers from abroad is the primary labour reserve in the short-term, if demand is to be accommodated. If the supply of labour is not increased, either through reforms or inflow of workers from abroad, there is a risk of unsustainable labour-market pressures, which can lead to weaker competitiveness and a harder subsequent business cycle downturn..

The share of foreign labour in total employment has generally risen across different industries since 2008. However, there is considerable variation across industries. Especially the cleaning industry, hotels and restaurants as well as agriculture employ many foreign workers, cf. figure 1.20

Figure 1.20
Foreign labour is increasing across industries



Note: Foreign labour is calculated excl. wage earners in the register for foreign serviceproviders (RUT). The share is calculated relative to total employment (incl. persons on leave) in different industries. The industry *Cleaning, temp agencies etc.* comprises *inter alia* travel agencies, housing rental agencies and other operational services.

Source: Jobindsats, Statistics Denmark and own calculations.

Danmark is well equipped to benefit from globalisation

Globalisation has created many economic changes during recent decades, not only in Denmark, but worldwide. The changes have benefited consumers as well as businesses in many countries, but not all countries have been able to adapt just as smoothly. There have been signs that globalisation may have contributed to transitioning difficulties or income shifts in some countries, cf. box 1.4.

In order for an advanced economy to enjoy the gains from globalisation without occurring major transitioning costs it is important to have competitive framework conditions as well as a labour force and private enterprises which is ready to adapt.

Competitive framework conditions comprises among other things a well-qualified labour force and good business conditions, including simple and transparent regulation, good infrastructure and good tax and financing conditions as well as other factors that makes a country attractive to work, invest and operate a business in.

The Danish economy has a relatively high degree of competitiveness. This should also be seen in light of the many initiatives which have been taken to strengthen framework conditions, including labour market and tax reforms as well as investments in education and research.

A high degree of adaptability means that the economy relatively can benefit from new technologies, new knowledge and shifts in global demand. This also comprises a labour force which seeks out industries where new jobs are appearing and engages in upskilling when new skills are required.

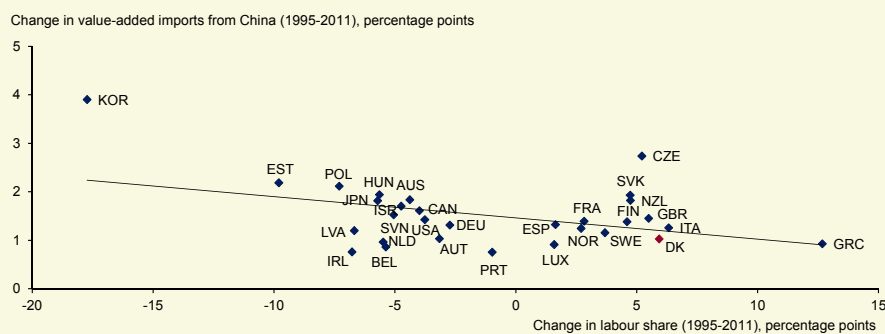
Box 1.4**Globalisation has led to problems in some advanced economies**

Over the last couple of decades emerging market economies have gained market shares in many manufacturing industries, not least because of low wage levels. This development has to some degree been driven by outsourcing of production from businesses originating in advanced economies.

In combination with technological changes globalisation has amplified the trend decline in manufacturing employment in advanced economies. This has created a need for adaption in the countries and regions which have especially relied on these industries. The OECD has e.g. shown that increasing imports from China have in some countries contributed to labour-market weakness and reduced the wage share (the share of total production which is used for remuneration of the work force), *cf. figure a*. In some countries, and especially Korea, this income shift has been very noticeable. However, this does not seem to be the case for Denmark, where the increase in imports from China has been moderate and the wage share has risen.

Several studies for the U.S. also indicate that unemployment in certain regions have been affected negatively more than a decade after the liberalisation of imports from China. However, there is not a strong link, and developments can also reflect other factors than increased international competition, including reduced interregional mobility and technological changes.

Competition from emerging market economies has also been a factor which has contributed to the worsening of imbalances during the financial crisis in the euro area member countries in southern Europe. According to the IMF, among others, competition from east-Asian emerging economies have especially had an impact on these countries traditional export industries, while they did not benefit to a significant extent from especially increased imports in China. On the whole, the economic difficulties in these countries are to a larger extent grounded in insufficient economic reforms, financial sector problems and high public debt.

Figure a**Correlation between falling wage share and rising imports from China**

Source: OECD, *Economic Outlook*, June 2017 and *External Imbalances in the Euro Area*, IMF Working Paper 236, 2012 as well as David H. Autor, et. al., *The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade*, Annual Review of Economics, 2016.

Denmark is characterised by flexible labour and product markets, which means that idle resources relatively quickly transition to new uses. Labour-market flexibility means that businesses are able to adapt employment by hiring more when demand rises and conversely lay off workers during downturns. This also leads to a high degree of turnover in the Danish labour market, *cf. figure 1.21*. This dynamism contributes to making both businesses and workers to adapt to changes in demand more effectively, and allow workers who are laid off to more quickly find a new job compared with workers in many other countries.

Figure 1.21
Labour market turnover is relatively high in Denmark



Note: Total employment was close to 2.9 million persons in 2016 (incl. persons on leave). This roughly corresponds to approx. 20 per cent of employed transition to a new job within a given year.

Source: Statistics Denmark and own calculations.

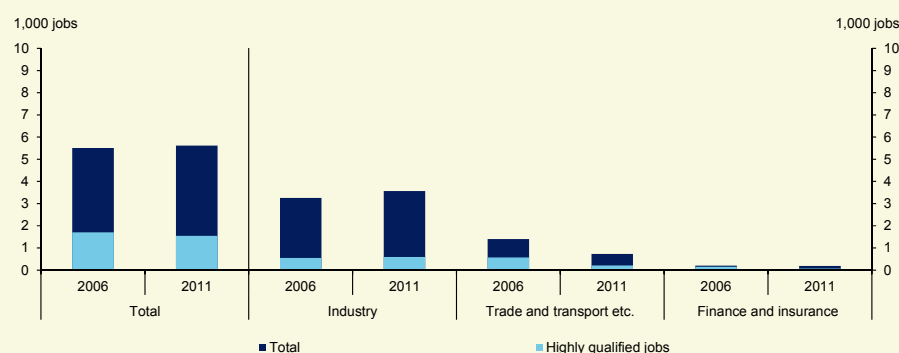
In addition to flexible hiring and firing conditions labour-market turnover is underpinned by active labour-market policies which contribute to a continuing education and upskilling. Furthermore, a relatively high level of income support during periods of unemployment, also contribute to flexible hiring and firing conditions. This is *inter alia* reflected in a relatively low level of long-term unemployment seen in an international perspective.

Even though Denmark has on the whole reaped a number of gains from globalisation, and the economic changes have occurred without major friction, there can be costs at the individual level for workers who e.g. experience job-loss due outsourcing of jobs. Many individuals will relatively quickly find a new job, but there may also be persons, where unemployment may be of longer duration or where there is a need for a great effort to find a new job, either through having to move over greater distances or having to invest significantly in terms of gaining new skills.

There have continually been businesses that have outsourced production which has resulted in job-losses in Denmark. Outsourcing mostly affects manufacturing jobs, *cf. figure 1.22*. However, the number of outsourced manufacturing jobs only amounted to 3 per cent of total employment in the manufacturing sector. Thus, it is a quite moderate change, and it should also be viewed in the light of fact that other factors influence employment in individual companies more than outsourcing, such as e.g. demand shifts, changes in competition or the

introduction of new technology. It is also important to note that new jobs are continually being created, also as a result of the investment in Denmark of companies with foreign ownership and increased demand because of the increase in prosperity which is created by international trade and new technology.

Figure 1.22
Outsourcing has mainly affected manufacturing jobs



Note: Data is the average for respectively 2001-2006 and 2009-2011 on the basis of a questionnaire survey. Only companies with more than 50 employees participated in the survey. *Highly qualified jobs* are jobs that include specialist functions, such as academic jobs, senior positions and technical jobs, which usually require higher education

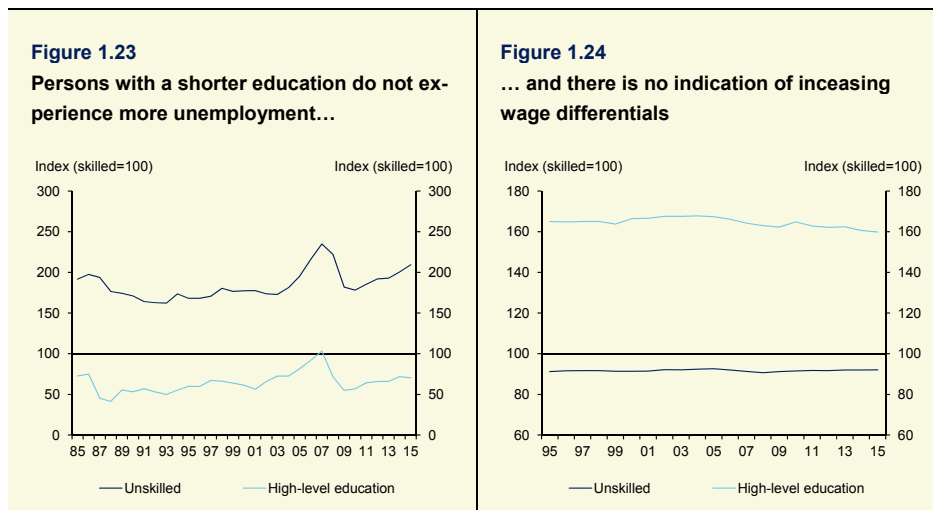
Source: Statistics Denmark.

However, there is a tendency for losses of globalisation to be more concentrated, while gains are more spread, among other things because they are reflected through lower prices, higher productivity, etc. Overall, however, the gains are larger than the losses.

If globalisation had permanent effects on the Danish labour market, it would probably have as a consequence that persons with short or no education were increasingly unemployed or that their income fell relatively to others. However, there are no signs of that being the case.

Across education levels, the relative unemployment rate is about constant over the last decades, cf. *Figure 1.23*. In other words, there are no signs of persons with a shorter education are experiencing increasing unemployment as the Danish economy is becoming more globalised. From the beginning of the 1980s to 2015, the unemployment rate for unskilled workers has fallen by approx. 2 percentage points, while it has only fallen slightly for persons with higher education.

Similarly, there is also no indication that the difference between the salary of highly educated persons and persons with a shorter education has grown, cf. *Figure 1.24*. This development should also be seen in the light of an increasing level of education, including an increase in the number of highly educated persons relative to the number of persons with a shorter education.



Note: Figure 1.23 shows unemployment rates for selected education levels measured relatively to the unemployment level for a skilled person. The unemployment rate is calculated on the basis of the register-based labour force statistics (gross unemployment, i.e. including activated). Figure 1.24 shows average annual salary income for selected education levels. *High-level education* refers to master's degree, Ph.d. etc.

Source: Statistics Denmark and own calculations.

The risk is less not more globalisation

Overall, Denmark and Danish citizens have gained a lot from globalisation and are also well equipped to do so in the future. But future opportunities and challenges will not necessarily mean the same changes as before.

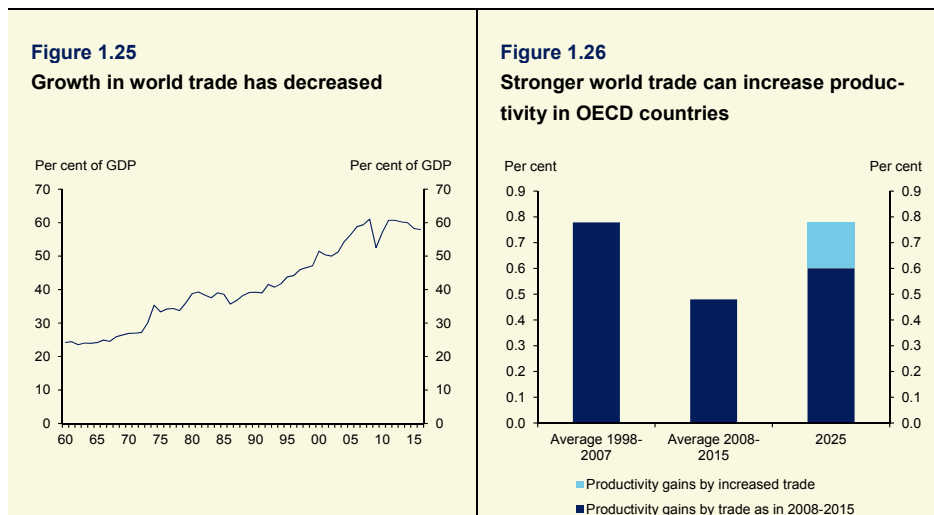
Consequently, the government has set up a Disruption Council. The Council is going to investigate how Denmark will be best equipped to handle future restructuring needs so that it is possible to meet the ambitions:

- Denmark should continue to be one of the richest countries in the world
- Everybody can be winners of the future

It is difficult to predict the pace of future changes. However, there are indications that technological development still can lead to significant changes.

Over decades, world trade has grown about twice as fast as general economic growth, but in recent years developments have been more subdued, cf. *Figure 1.25*. The more moderate pace of world trade can partly be attributed to economic conditions, including weak growth in advanced economies and especially in the EU countries, which are characterized by being relatively more open, cf. *Economic Survey, December 2016*. However, the trend in trade should also be seen in the light of the fact that new free trade agreements no longer reached at the same high frequency as in the previous decades. At the same time, the number of trade-inhibiting initiatives has been increasing. UK's exit from the EU will probably also have

a negative impact on international trade. This will especially hurt Britain's economy, but it will also affect the EU countries.



Note: Figures for 2016 in Figure 1.25 are based on estimates from the IMF

Source: World Bank, IMF, *World Economic Outlook*, April 2017 and *OECD Economic Outlook*, November 2016.

Calculations from the OECD show that if world trade relative to GDP towards 2025 increases at the same rate as in the period 1986-2007, annual productivity growth will be increased by 0.2 percentage point compared to a course in which world trade grows same rate as global GDP, cf. *Figure 1.26*.

The OECD has not made the calculations for individual member countries, but there is reason to believe that the effects will be significant – also in Denmark. Productivity in Denmark has grown by approx. 1 pct. on average a year in the period 1995-2016. Thus, productivity gains from continued globalisation can be significant.

1.4 Annex table

Table 1.3
Key figures compared to *Economic Survey, May 2017*, for 2017 and 2018

	2016	2017		2018	
		May _i	Aug.	May	Aug.
Real change, per cent					
Private consumption	2.1	2.0	2.4	2.0	2.4
Total government demand	0.6	0.5	0.7	0.5	0.3
- of which government consumption	0.4	0.7	0.8	1.0	0.5
- of which government investment	1.8	-0.6	0.1	-2.9	-1.4
Housing investment	11.0	7.0	5.0	8.0	6.0
Business fixed investment	4.4	3.6	3.0	3.9	4.3
Total final domestic demand	2.3	1.8	1.9	2.1	2.2
Inventory investment (per cent of GDP)	-0.2	0.0	-0.1	0.0	0.0
Total domestic demand	2.1	1.8	1.8	2.1	2.2
Exports	2.5	2.9	3.8	2.8	2.9
- of which manufacturing exports	4.4	3.9	4.9	3.4	3.2
Total demand	2.3	2.2	2.5	2.3	2.5
Imports	3.5	3.4	3.7	3.7	3.8
- of which imports of goods	2.2	3.5	4.5	3.7	3.6
GDP	1.7	1.7	2.0	1.7	1.8
GDP according to the output method (technical assumption) ¹⁾	1.7	1.8	2.1	1.8	1.9
Gross value added	1.4	1.9	1.9	1.6	1.7
- of which private non-farm sector	2.2	2.5	2.3	2.0	2.4
Change, 1,000 persons					
Labour force, total	39	42	48	21	23
Employment, total	48	37	44	23	25
- of which private sector	54	36	43	21	25
- of which public sector	-6	1	1	2	0
Gross unemployment	-10	4	3	-3	-3
Cyclical developments, per cent					
Output gap	-0.8	-0.4	-0.2	0.0	0.0
Employment gap	-0.6	-0.2	0.0	0.0	0.0
Unemployment gap	0.3	0.0	-0.1	0.0	-0.2

Table 1.3 (continued)
Key figures compared to *Economic Survey, May 2017*, for 2017 and 2018

	2016	2017		2018	
		May	Aug.	May	Aug.
Change, per cent					
House prices (single family homes)	3.9	3.0	3.5	4.0	3.5
Consumer prices	0.3	1.3	1.1	1.6	1.5
Hourly earnings in the private sector	2.3	2.5	2.5	2.8	2.8
Real disposable income, households	3.1	2.1	1.8	1.2	2.2
Productivity in the private non-farm sector	-0.1	0.7	0.5	0.9	1.2
Per cent per year					
Interest rate, 1-year rate loan	-0.3	-0.5	-0.5	-0.1	-0.2
Interest rate, 10-year government bond	0.4	0.6	0.6	1.0	1.0
Interest rate, 30-year mortgage credit bond	2.6	2.5	2.3	3.0	2.8
Public finances					
Actual public balance (Bn. DKK)	-12.9	-32.8	-30.4	-15.5	-27.1
Actual public balance (per cent of GDP)	-0.6	-1.5	-1.4	-0.7	-1.2
Actual public balance (per cent of GDP)	-0.2	-0.5	-0.5	-0.3	-0.3
Gross debt (per cent of GDP)	37.7	36.8	36.3	35.6	35.4
Labour market					
Labour force, total	2,983	3,025	3,031	3,045	3,054
Employment, total	2,877	2,914	2,921	2,937	2,946
Gross unemployment (yr. avg., 1,000 persons)	113	117	116	114	113
Gross unemployment (per cent of labour force)	3.8	3.9	3.8	3.7	3.7
External assumptions					
Trade-weighted international GDP-growth per cent	2.3	2.3	2.4	2.2	2.2
Export market growth (manufactured goods) per cent	3.0	3.8	4.3	4.1	3.9
Exchange rate (DKK per USD)	6.7	6.9	6.6	6.5	6.4
Oil price, dollars per barrel	43.5	43.1	51.1	52.1	55.9
Balance of payments					
Current account balance (per cent of GDP)	7.9	8.1	8.2	7.9	7.9

- 1) Adjusted for historical extra contributions to GDP-growth resulting from public consumption now being measured using the output method while previously it was measured using the input method.