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1. Summary

1.1 Current economic conditions

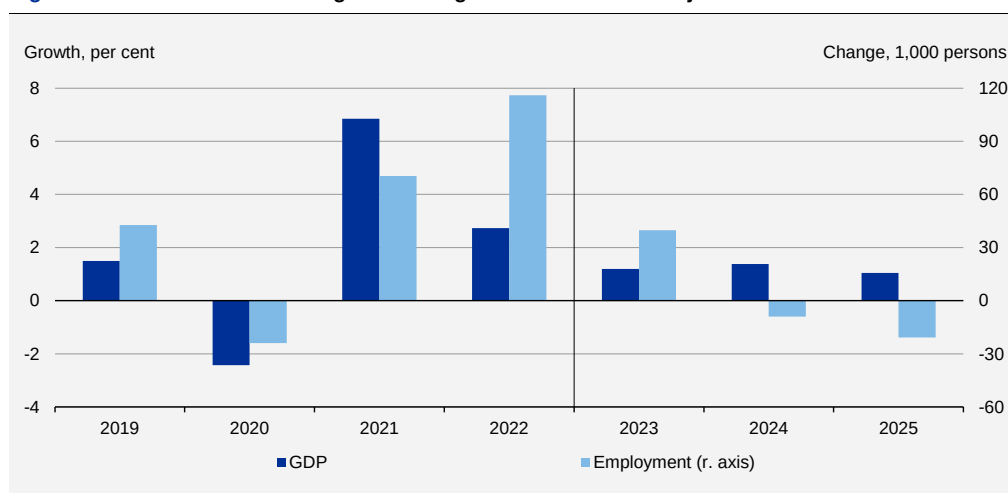
The Danish economy has entered a new stage of the business cycle with more subdued growth as price increases and higher interest rates have impacted consumption and housing investment. However, activity has been fuelled by a strong pharmaceutical industry, which has led to a large increase in exports.

Inflation has slowed rapidly in 2023 and lower inflation, along with expected wage increases, will significantly boost household purchasing power in the coming years. In addition to income growth, household consumption is also supported by the stabilisation of the housing market during 2023, following the fall in house prices through 2022.

The labour market has so far been resilient to a lower domestic demand. However, the slow-down in large parts of the economy - reflected in lower per-hour productivity in several industries - means that many companies will likely need to adjust their capacity and headcount in the coming period. This would reduce pressure on the labour market and dampen the overall increase in disposable incomes. At the same time, the prospect of lower employment dampen back consumer spending. As a result, growth in private consumption is expected to be modest.

The absence of clear imbalances in the Danish economy supports the prospect of a soft landing and minimises the risk of a more abrupt fall in employment. GDP is estimated to have increased by 1.2 per cent this year and is expected to grow by 1.4 per cent in 2024 and 1.0 per cent in 2025, *cf. figure 1.1*. Employment is expected to decline by 30,000 persons from 2023 to 2025, but remain relatively high.

Figure 1.1 More moderate GDP growth alongside labour market adjustment



Note: Development in real GDP and employment including persons on leave.
Source: Statistics Denmark and own calculations.

Outlook for the Danish economy

Overall, the Danish economy has performed well in recent years despite external factors that have had a strong impact on demand and production. However, a slowdown in growth has been underway for some time. Large parts of the Danish economy slowed down already in 2022 as a result of rising inflation, rising interest rates and stagnation abroad, which affected some exports.

The slowdown in the Danish economy has become more evident in 2023 with a decline in GDP in both the 2nd and 3rd quarters. However, the decline has been from a high level and employment has continued to rise. The period of weaker growth is expected to extend into 2024 and 2025. This should be seen in light of higher interest rates and the expected decline in employment, which will limit household income growth.

The period of weaker growth is expected to bring output and employment closer to structural levels, but activity in 2025 is still estimated to be above normal capacity utilisation levels and unemployment is expected to remain relatively low. The period of slowdown should therefore also be viewed as a natural adjustment from a situation of high capacity pressure in the economy.

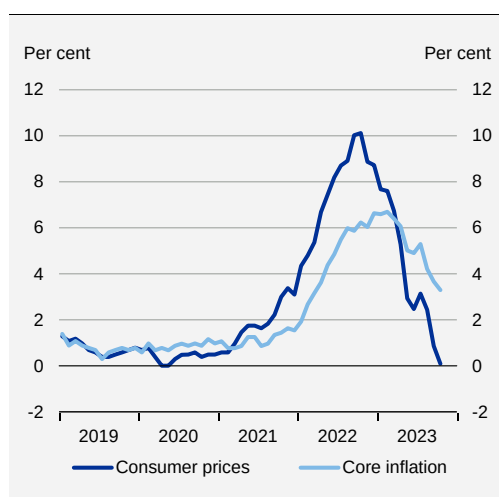
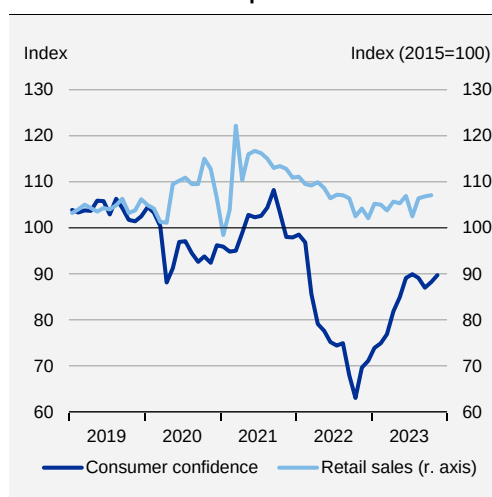
From a historical perspective, the expected slowdown is relatively mild. In previous cyclical downturns, the slowdown has typically been more severe, and employment has sometimes fallen quite significantly in such situations. The current turnaround has been gradual and, among other things, the fall in inflation will favour a soft landing.

Inflation has slowed rapidly through 2023, and consumer price increases totalled just 0.1 per cent year-on-year in October. Inflation has been largely pushed down by the fall in energy prices, which is reflected, among other things, in the fact that core inflation - which excludes unprocessed food and energy - is still relatively high, *cf. figure 1.2*. Consumer price increases are expected to pick up again in the first half of 2024, when energy price developments are no longer expected to push inflation down. Thus, inflation is expected to rise temporarily to above 3 per cent again in 2024, and for the year as a whole, inflation is estimated to be just under 3 per cent, *cf. table 1.1*. Inflation is not expected to reach around 2 per cent before 2025, which is the level that is compatible with the fixed exchange rate policy and the medium-term inflation target for the euro area, which, according to the ECB, is also expected to have an inflation rate of around 2 per cent in 2025.

Table 1.1 Key figures of the projection

	2023	2024	2025
GDP growth, per cent	1.2	1.4	1.0
Inflation, per cent	3.4	2.8	2.1
House prices, per cent	-2.0	1.2	1.9
Employment, change in 1,000 persons	40	-9	-21
Gross unemployment, per cent of labour force	2.6	2.9	3.1

Source: Statistics Denmark and own calculations.

Figure 1.2 Inflation has come down fast**Figure 1.3** Consumer confidence has improved and household consumption has stabilised

Note: In figure 1.2, the annual change in consumer prices is shown. In figure 1.3, consumer confidence (net total) is added to 100, such that a value below 100 indicates a decline. Retail sales are in volume and seasonally adjusted.
Source: Statistics Denmark and own calculations.

Wage growth in the private sector accelerated significantly in the second half of 2023 and is now at its highest level since 2008. Based on the results of the spring collective bargaining in the private sector, the significant wage growth is expected to continue in 2024 and subsequently fall back to a more normal level in 2025. Combined with the expected development in consumer prices, household purchasing power as measured by real wages is already estimated to be higher in 2024 than in 2021 before inflation picked up, and the improvement in purchasing power is expected to continue in 2025.

Consumer confidence has improved significantly in tandem with decreasing inflation, and the development is also reflected in household consumption. This can be seen, for example, in retail consumption, which has increased slightly after declining through 2022, *cf. figure 1.3*. The increase in real wages will support the potential for consumption growth, and it is expected that consumption in 2024 and 2025 will grow in line with the estimated increase in income. Overall, households are expected to maintain their consumption as a share of disposable income in the coming years, approximately unchanged compared to the consumption ratio in 2022, *cf. chapter 3.1*.

The repayment of property taxes, especially in 2024, will also support consumption, while the expected decline in employment will, in isolation, dampen the overall growth in household income.

The government has presented a proposal for a personal tax reform that, according to the forecast, will increase households' disposable incomes and thus their consumption opportunities from 2025. At the same time, the reform will make employment more favourable, *cf. box 1.1*.

Box 1.1 The government's proposal for a personal tax reform *Mere attraktivt at arbejde*

The government's proposal for a personal tax reform *More attractive to work* will increase the benefits of working. This will ensure that more persons enter the labour market instead of relying on public benefits, and that more persons choose to work a little more than they do today. The reform contains tax cuts totalling DKK 6¾ billion after backflow and behaviour (2023 level), including the implementation of a reserve of DKK ½ billion up to 2030, which can be used for socially balanced tax cuts. The proposal envisages phasing in the reform from 2025, and from 2026 the majority of the reform will be phased in.

The reform consists of three key elements:

The ordinary employment allowance is increased (DKK 4.8bn)

- The ordinary employment allowance is increased from 10.65 per cent to 12.75 per cent.
- At the same time, the maximum allowance is increased from DKK 44,800 to DKK 56,200 (2023 level).

The additional employment allowance for single parents is increased (DKK 0.3bn)

- The additional employment deduction for single parents is increased from 6.25 per cent to 11.5 per cent.
- At the same time, the maximum allowance is increased from DKK 24,400 to DKK 44,900.

Reduction of the top-bracket tax (DKK 1.1bn)

- New intermediate tax of 7.5 per cent, halving the tax rate for income in the income range from DKK 618,400 to DKK 750,000 (corresponding to DKK 568,900 to DKK 690,000 after labour market contribution).
- New top-bracket tax rate of 7.5 per cent, so that a rate of 15 per cent is still paid on income above DKK 750,000 (corresponding to DKK 690,000 after labour market contribution).
- Additional top-bracket tax of an additional 5 per cent paid on income above DKK 2.5 million (equivalent to DKK 2.3 million after labour market contribution).

In isolation, the personal tax reform will contribute to increasing disposable incomes in the population by more than DKK 10 billion when the reform is fully phased in, equivalent to the immediate effect before backflow and behaviour. The effect on disposable income in 2025 will be approximately DKK 4.9bn. The increased purchasing power is expected to be realised through higher private consumption. Overall, the reform entails a tax reduction for persons with incomes up to approx. DKK 2.76 million (equivalent to DKK 2.54 million after labour market contribution), while taxes will increase for persons with incomes above this as a result of the extra top tax rate.

The personal tax reform is estimated to increase the labour supply by 5,150 full-time equivalents when the main elements are fully phased in by 2026. Of this, ¾ of the impact can be attributed to increased working hours among employed persons and ¼ to increased labour market participation. Depending on the implementation of the DKK ½ billion reserve, the labour supply impact of the final reform may be larger. The reform will increase employment, growth and capacity in the economy.

According to standard practice, the effects of the personal tax reform are not included in the forecast, as a political agreement has not yet been reached.

Based on the government's proposal, the reform is estimated to contribute to reducing the capacity pressure measured by the output gap by almost 0.1 percentage points in 2025. This is partly due to increased capacity in the economy as a result of higher structural employment and partly because the reform will reduce demand in the short term. This reflects the fact that the reform is financed by the fiscal space, which is technically included as public consumption in the forecasts and projections of the Ministry of Economic Affairs and the Ministry of Finance. Public consumption leads to increased demand as soon as the funds are spent, while tax cuts only partially impact private demand in the short term. In addition, the import content is higher in private demand. Based on the government's proposal, the reform is estimated to reduce the highest possible public consumption growth by 0.6 percentage points and mechanically reduce public employment growth by 4,000 persons in 2025.

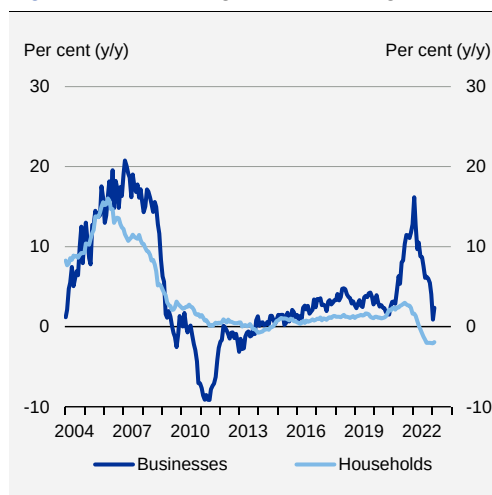
Source: The Government (2023): *Mere attraktivt at arbejde* and own calculations.

Finally, increased interest costs on housing loans, among other things, will reduce disposable incomes. The effect of higher interest rates has not yet fully materialised, but will do so as mortgage borrowers with floating-rate loans have their interest rates re-set. The European Central Bank last raised its key policy rate in September, signalling that interest rates will remain at current levels for some time. Market expectations indicate that the next interest rate change in the euro area will be in a downward direction, *cf. chapter 7.1*. On this basis, interest rates are assumed not to rise further in the forecast period, but to fall slightly in 2025. Thus, interest rates will remain somewhat higher than in the post-financial crisis period up to 2021, *cf. figure 1.4*.

Figure 1.4 Interest rates seem to have peaked



Figure 1.5 Subdued growth in lending



Note: In figure 1.4, bond yields reported by Finance Denmark are shown as the effective interest rate received by investors buying newly issued mortgage bonds. In figure 1.5, personally owned companies are included in households.

Source: Finance Denmark, Danmarks Nationalbank and own calculations.

The higher interest rate level is also reflected in subdued growth in bank and mortgage credit institution lending to households and businesses, *cf. figure 1.5*. At the same time, credit terms have generally been tightened, including as a result of new guidelines on the financing of rental properties and real estate projects. The higher interest rates have led to a decline in housing investments in particular, and a further decline is expected in the forecast period, *cf. chapter 3.3*.

On the surface, business investments show no signs of being affected by higher interest rates and remain at a high level. In the coming years, business investments are expected to be supported by a need to expand production capacity in the pharmaceutical industry and investments in the green transition, *cf. chapter 4.2*. However, other parts of industry and the rest of the business sector are expected to react to the tighter financial conditions and the outlook for weak demand from abroad.

In particular, the outlook for the key export markets of Sweden and Germany is relatively weak. In both countries, GDP is expected to have contracted in 2023 and limited growth is expected in 2024. In addition, the current recovery in the US is expected to slow down, *cf. chapter 7.1*. As

real incomes recover and monetary policy interest rates are lowered, foreign demand is expected to improve during 2025.

Despite headwinds from abroad, exports have developed very favourably over the past few years. This is due to the sharp increase in the pharmaceutical industry's activities, which is also reflected in exports, *cf. chapter 6.1*. Without the increase in the pharmaceutical industry's value added, which is mainly due to Novo Nordisk, total value creation would have been significantly lower already in 2022, *cf. figure 1.6*. The pharmaceutical industry is expected to continue to expand its activities in the coming years, but at a somewhat slower pace compared to recent years. GVA in the rest of the economy excluding the pharmaceutical industry is estimated to have fallen slightly this year.¹

Figure 1.6 The pharmaceutical industry has increased overall value added

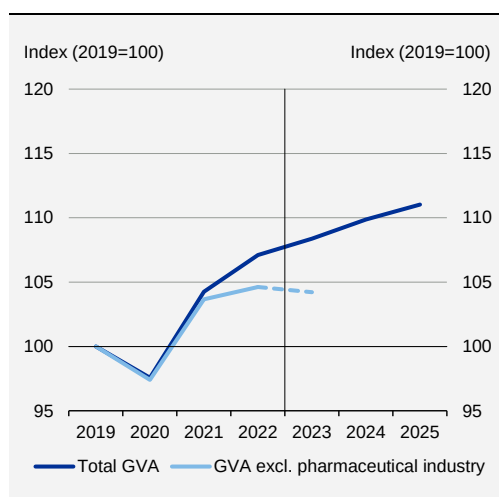
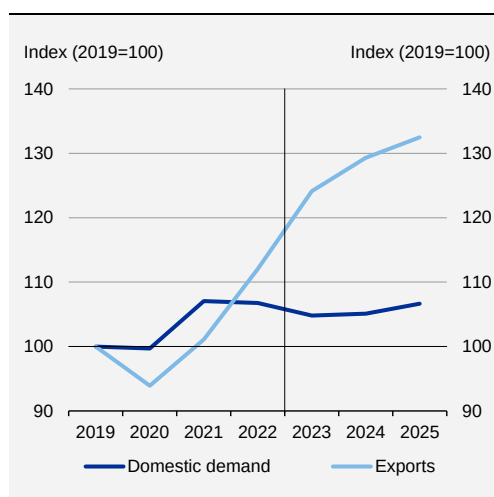


Figure 1.7 Activity is fuelled by exports



Note: The pharmaceutical industry's GVA for 2021 and 2022, which forms the basis for figure 1.6, is a special extraction of unpublished figures from Statistics Denmark and is therefore subject to greater uncertainty. The dotted line indicates an estimated trajectory.

Source: Statistics Denmark and own calculations.

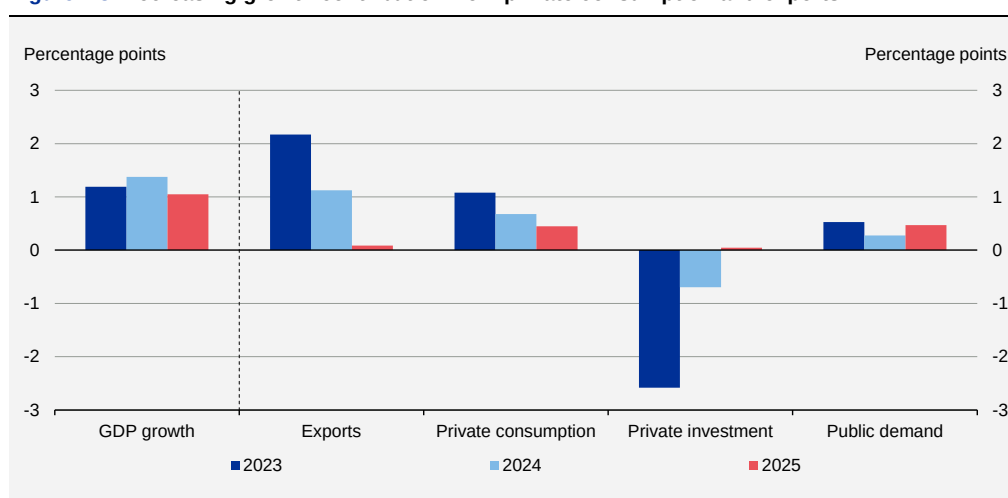
Overall, the forecast implies weak growth in domestic demand, while on the other hand, exports are expected to continue to grow significantly due to the special role played by the pharmaceutical industry, *cf. figure 1.7*. Thus, it is still expected that the growth in the Danish economy will reflect a bifurcated economy.

This year, exports have made a significant contribution to GDP growth. This is also expected to be the case to some extent in 2024, although the contribution is expected to be somewhat smaller, *cf. figure 1.8*. The reopening of the Tyra field in the North Sea is estimated to result in both higher exports and lower imports of energy, and the increased production of raw materials is estimated to increase GDP growth in 2024 by around 0.5 percentage points.

¹ Based on an assumption of 45 per cent real growth in the pharmaceutical industry's GVA in 2023. The 45 per cent is based on industrial production data and an assumption of zero growth in the pharmaceutical industry's activities from October to December.

Private consumption - when the import content is taken into account - is expected to contribute to GDP growth to a decreasing extent in the forecast years, partly due to an unchanged consumption ratio and more uniform growth in both goods and services consumption. The larger contribution to growth in 2023 is mainly due to the fact that the increase in private consumption was mainly driven by services consumption, which is less import-intensive than goods. Private investment as a whole is expected to drag down growth in 2024 in light of the impact of tighter financial conditions, including higher interest rates. In isolation, inventory investment is a relatively large drag on growth, especially in 2023 - but also in 2024 - after having been at a historically high level in 2022.²

Figure 1.8 Decreasing growth contribution from private consumption and exports



Note: Import-adjusted growth contributions.
Source: Statistics Denmark and own calculations.

The slowdown in domestic demand has so far only been reflected to a limited extent in the development of employment. Wage-earning employment continued to rise in September, and compared to the same month last year, there were just over 34,000 more employees. This is a relatively broad-based increase, with more employees in knowledge services and transport, while in the public sector, there was a particular increase in defence and tax administration. Of the total increase in employee employment over the past year, foreign nationals account for 25,000 persons, which has contributed to increasing the total labour force, *cf. chapter 5*.

The improvement in the labour market has been stronger than the growth in total value creation. This is reflected in a weak development in hourly productivity, especially for the private sector excluding manufacturing, *cf. figure 1.9*. Falling per-hour productivity is often observed at the start of an economic downturn, when companies are reluctant to lay off employees despite declining demand. However, productivity is expected to rise in the coming years. Based on the current lower productivity, rising wages and the prospect of a period of more moderate growth,

² Inventory investments in 2021 and 2022 were extraordinarily high in a historical perspective. In conjunction with the publication of the national accounts on 30 June 2023, Statistics Denmark highlighted that the national accounts are generally more uncertain than normal - especially for 2022 - and that there have been larger imbalances in the reconciliation of the production and demand side than usual.

companies are expected to adjust the number of employees. This will increase productivity, although the lower per-hour productivity to a certain extent reflects a change in industry composition.

Figure 1.9 Per-hour productivity expected to rise again after weak development in non-manufacturing

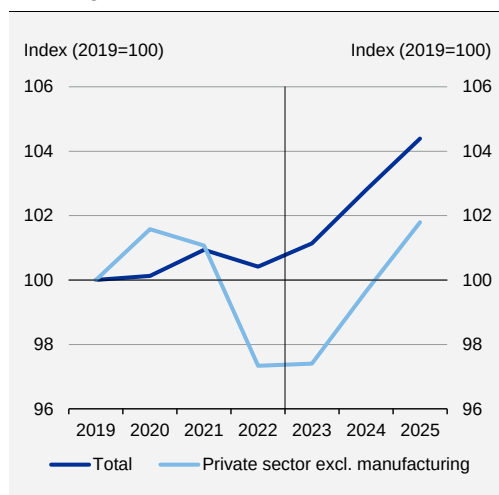
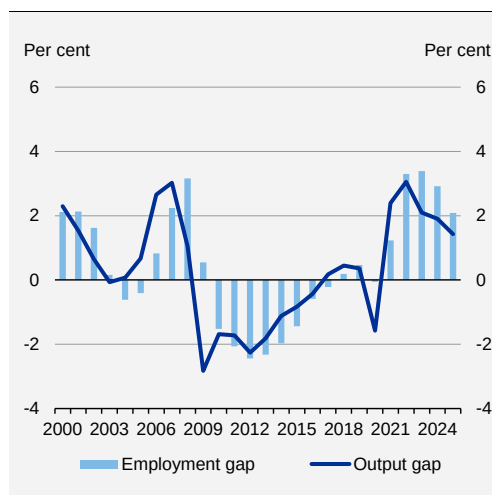


Figure 1.10 Output and employment gaps remain positive



Note: In figure 1.9, per hour productivity is real GVA per hour worked. The output gap in figure 1.10 is in per cent of structural GVA excl. mining and quarrying, while the employment gap is in per cent of structural employment excl. persons on leave. Source: Statistics Denmark and own calculations.

The underlying structural development also means weaker opportunities for employment growth in the coming years. For many years, reforms and demographic developments have contributed to a rapid increase in the structural labour force, but in 2024 and 2025, the overall outlook is for limited growth. This means that, all else being equal, the growth potential from available labour is smaller. The development in labour supply is bolstered by the abolition of Store Bededag as a public holiday, however, on the other hand, it is assumed in the forecast that the number of displaced persons from Ukraine will decrease when the Special Act expires in 2025.

The expectation of continued subdued activity growth implies a gradual easing of capacity pressures, which is reflected in the narrowing of the output gap from 2.1 per cent in 2023 to 1.4 per cent in 2025, cf. figure 1.10. The positive output gap is particularly a reflection of the fact that employment is significantly above the estimated structural level. The continued positive gaps at the end of the forecast period imply continued pressure on the economy's available resources and thus a deviation from the levels deemed compatible with a stable price and wage development in the medium term.

Moderate cyclical turnaround in the absence of imbalances

The expectation of a soft landing must be seen in the context of the absence of significant imbalances in the form of, for example, weakened competitiveness or excessive borrowing, which would require adjustment in the economy. The boom in the 2000s led to overheating after great pressures on the labour market as well as unsustainable lending and a price bubble on the housing market. The setback in 2008 and 2009 in the wake of the global financial crisis was

large, and the subsequent slowdown lasted until 2012. The experience at that time showed that the combination of several and large imbalances, an approximately simultaneous turnaround in the housing market with the rest of the economy and the setback in the global economy in connection with the financial crisis led to a large and long-lasting economic downturn.

In the current economic situation, several factors contribute to a soft landing. On the housing market, the adjustment after the house price increases during the corona pandemic and the higher interest rates seems to have taken place. Housing prices and sales have thus been increasing since the spring, *cf. figure 1.11*. It is expected that house prices will continue to grow in 2024 and 2025, but at a slower pace than in the latter half of 2023. Some home purchases may have been brought forward – as a result of the restructuring of housing taxation which takes effect on January 1 2024 – which could have contributed to boost the prices of single-family homes in the second half of 2023.

Higher interest rates have contributed to dampening house price developments. At the same time, more restrictive lending rules, which were introduced after the financial crisis, have helped to avoid an unsustainable debt build-up and the risk of a house price bubble. Furthermore, households have continuously built up wealth. Households saved an extraordinary amount during the corona pandemic, when consumption options were more limited (when home purchases are disregarded), which was reflected in a relatively large increase in wealth, *cf. figure 1.12*. All in all, households thus seem to be well-consolidated after a number of years of consolidation after the financial crisis.

Figure 1.11 Housing market is again on the up

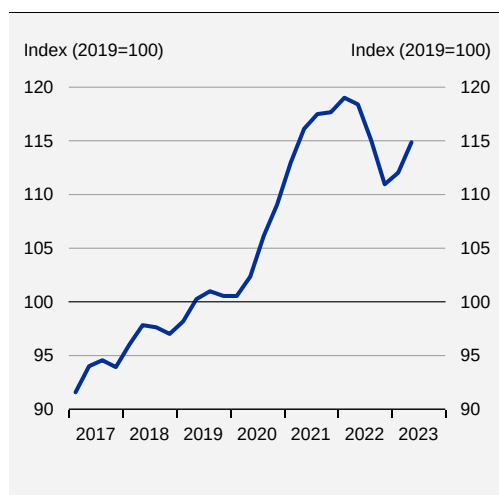
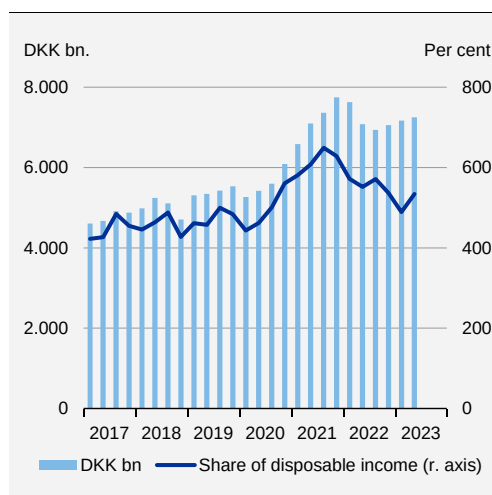


Figure 1.12 Households have significant net financial wealth



Note: The price of single family house is shown in figure 1.11. The net assets in figure 1.12 are the households' financial assets, incl. pension, minus liabilities.

Source: Statistics Denmark and own calculations.

Household savings are also part of the explanation for the trend towards increasing surpluses balance of payments surpluses since 1999. The balance of payments can be calculated as a country's savings minus total investments. Among other things, the expansion of collective agreement-based labour market pensions has contributed to increased household savings. The

balance of payments surplus can also be attributed to high net lending of non-financial companies, which are especially large multinational companies, *cf. figure 1.13*.

In recent years, the balance of payments surplus has grown extraordinarily much to around 12 per cent of GDP. This increase must be seen in the context of a strong export development linked to sea transport in connection with the corona pandemic and, most recently, the extraordinary growth in the pharmaceutical industry.

Figure 1.13 Large current account surplus generally supported by non-financial companies

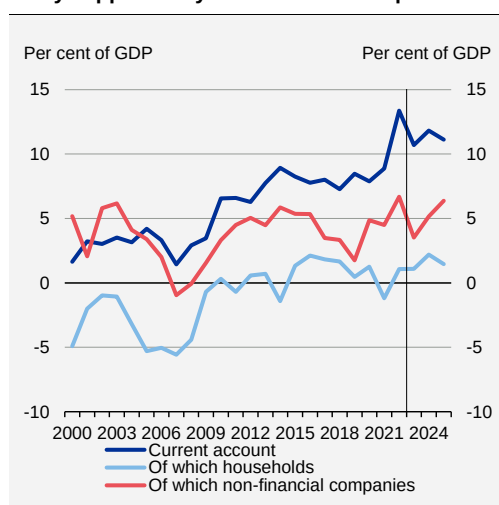
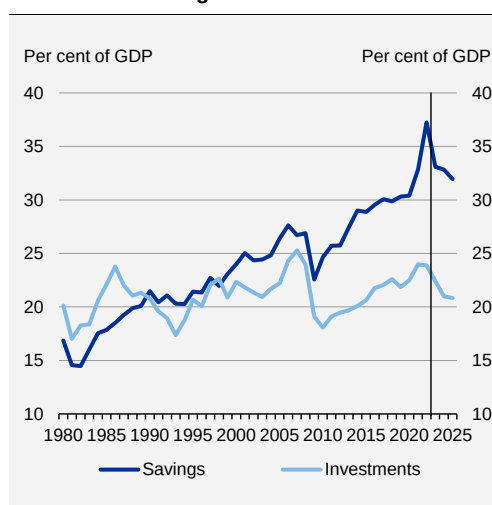


Figure 1.14 The current account surplus is due to increased savings



Note: In figure 1.13 the current account surplus is shown along with net lending of respectively households and non-financial companies.

Source: Statistics Denmark and own calculations.

Overall, the assessment is that within the forecast period there are no signs of imbalances in the Danish economy which could lead to an abrupt turnaround in the economy. At the same time, there are no signs of a downward trend in the scope of investment either, *cf. figure 1.14*.

The labour market does not show signs that the significant capacity pressures over recent years has led to unsustainable wage growth in Denmark and led to weaker wage competitiveness vis-a-vis foreign countries, *cf. section 5.3*. A gradual turnaround in the economy appears to be occurring as a result of more subdued demand. This will contribute to decreasing the pressure in the labour market. As mentioned, the weak productivity development is considered to be particularly an expression of a delayed adjustment on the labour market in connection with the current economic turnaround. Furthermore, industry shifts since the end of 2020 have contributed to a weaker productivity development, but only to a lesser extent, *cf. section 4.1*. The weak productivity development of recent years is not considered to be an expression of a long-term structural problem.

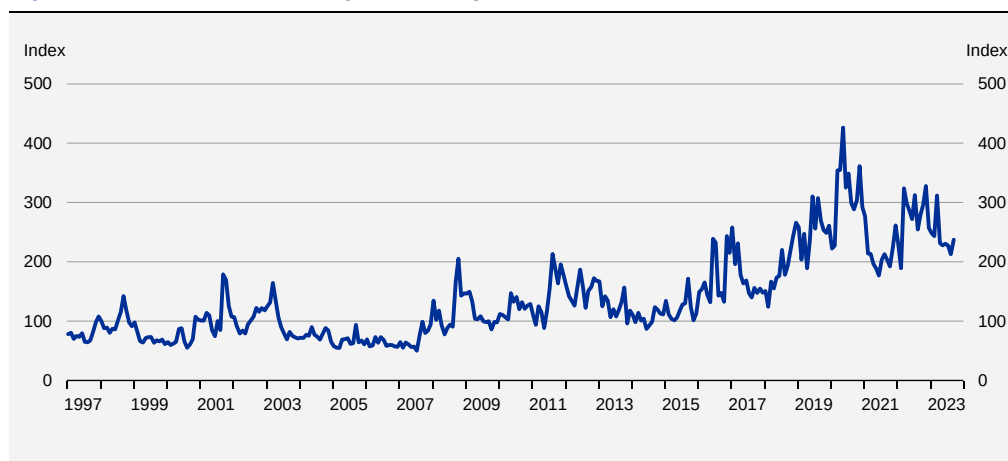
Risks continue to be tilted towards the downside

A good starting point for a soft landing does not exclude the possibility that the Danish economy may be affected by conditions that cause fluctuations in growth and employment.

A number of measures, which have improved the security of the supply of energy, have contributed to the fact that energy prices have fallen in Europe in the past year. According to the Danish Energy Agency's latest status on energy supply, the gas stocks were almost full before the 2023-2024 heating season. In both Denmark and the EU, stocks were over 90 per cent filled at the end of November. The draw on stocks depends, among other things, on the weather, including temperature and rainfall, as well as whether there will be long periods of calm and cloudy weather. If the weather turns cold this winter season there is a certain risk that the stores will be emptied and that there may be a shortage of gas, according to the Danish Energy Agency. This may result in a new increase in energy prices. In 2022 and the beginning of 2023, Europe has largely replaced Russian pipeline gas with liquefied natural gas (LNG), which is shipped from, among others, the United States. The LNG market, like the oil market, is a world market where significant price fluctuations can occur.

Large fluctuations in energy prices can affect consumer prices both directly and through derivative effects. Although energy prices are roughly back to previous levels and inflation has fallen significantly, core inflation remains relatively high in many countries, although it is also falling. The central banks in both the US and the euro area have signaled that they do not expect more interest rate hikes, but new tightening may be necessary if price developments and inflation expectations are not in line with inflation targets. A particular risk is if a price-wage spiral should arise. Relatively large wage increases are expected both this year and next year, which will help to restore the real wage. If price and wage increases continue at the higher levels, they can become mutually reinforcing and lead to a monetary policy reaction.

Uncertainty about inflation and interest rates, as well as the war in Ukraine, the situation in the Middle East and geopolitical tensions between the US and China imply that there is still an elevated degree of uncertainty, although it has decreased slightly since mid-2022, *cf. figure 1.15*. The uncertainty can affect businesses' investment decisions, among other things.

Figure 1.15 Economic uncertainty remains high

Note: The index is based on how many times the conditions regarding economy, politics and uncertainty are mentioned in articles in leading newspapers. See Davis, S. (2016): An Index of Global Economic Policy Uncertainty, *Macroeconomic Review*, October 2016.

Source: Global Economic Policy Uncertainty Index.

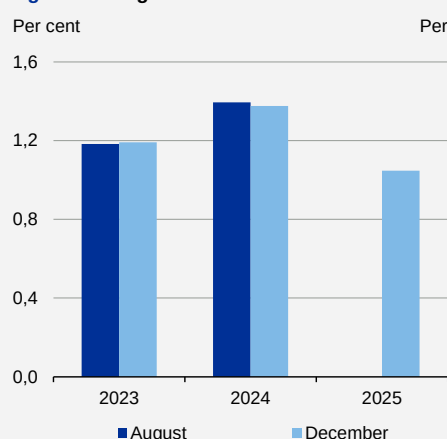
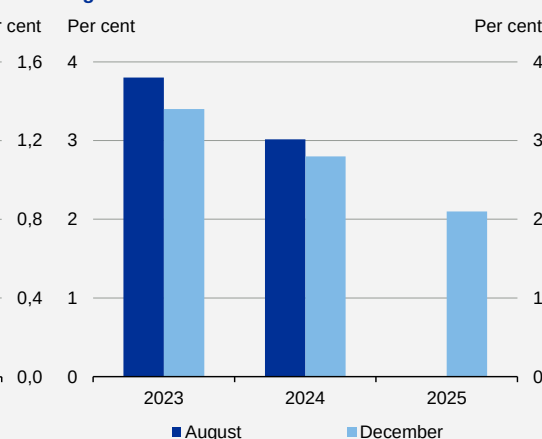
Domestically, the pharmaceutical industry has contributed to unexpectedly high growth and export progress. Immediately, the pharmaceutical industry is less integrated into the rest of the economy, in the form of mutual product and service deliveries, than many other industries. In addition, a large part of the production in the pharmaceutical industry takes place abroad. However, major fluctuations in the pharmaceutical industry could affect the Danish economy in both a positive and negative direction. A decrease in activity in this industry could thus lower e.g. exports and GDP, but the derived effects on the rest of the economy, including employment, would be smaller.

Furthermore, other conditions can pull in the direction of higher growth than assumed. So far, the labour market has fared better than expected. In recent years, the assessment of structural employment has also been adjusted upwards several times, including as a result of an increased influx of international labour and increasing employment among immigrants living here. With continued labour shortages and low unemployment in the forecast years, employment and labour force participation among foreign nationals, for example, could increase further. This will support the potential production in Danish business and create greater demand. In addition, private consumption could also increase more than assumed if, for example, households spend a larger proportion of their income on consumption. Since the financial crisis, households have saved relatively much, which is reflected in a low consumption ratio, *cf. section 3.1*.

Box 1.2 Forecast basis and changes since Economic Survey, August 2023

The forecast is based on the national accounts up to and including the 3rd quarter of 2023 as well as a number of other indicators, the most frequent of which reach into November. The forecast includes, among other things, the effects of agreements entered into up to and including 5 December 2023, including the Finance Act for 2024, the tripartite agreement on improved pay and working conditions for public servants and a new boost to the Ukraine Fund in 2025-2027. The government has presented a proposal for a personal tax reform, which, compared to the forecast, will, among other things, lead to higher households' disposable incomes and thus increased their consumption opportunities from 2025.

Since the assessment in August, there have been, among other things, new figures for economic activity, employment and inflation. The moderation in economic activity, which is reflected in falling GDP in both the 2nd and 3rd quarter of 2023, was already expected in the latest assessment from August, and in light of this, only small changes have been made to estimates for the development in GDP, *cf. figure a*. As regards the composition of growth contributions from the various demand components, the estimates for both exports and imports have been adjusted upwards in both 2023 and 2024. Employment has continued to grow, and the reversal in the form of falling employment is now expected to occur later. Inflation has fallen faster than expected, but it is still expected that inflation will increase again in the first half of 2024, before falling back to around 2 per cent. in 2025, *cf. figure b*.

Figur a GDP growth**Figur b Inflation**

Source: Statistics Denmark and own calculations.

1.2 Fiscal policy and public finances

The economic boom in the Danish economy in recent years has strengthened public finances through higher tax and lower expenditures on transfer incomes. In 2022, there was a surplus in the actual budget balance of DKK 95 bn., equivalent to 3.3 per cent of GDP, while for 2023, a surplus of approximately DKK 75 bn. or 2.7 per cent of GDP is expected, *cf. figure 1.16*. Surpluses are projected to continue with the budget balance estimated at 1.5 per cent of GDP and 0.8 per cent of GDP in 2024 and 2025, respectively.

The Danish economy has entered a new phase of the economic cycle with more subdued growth, but the level of activity is expected to continue to be elevated for the duration of the forecast period. The weighted business cycle gap³ is estimated to narrow from 2.9 per cent of GDP in 2023 to 1.8 per cent of GDP in 2025.

The structural budget balance is estimated to be 0.5 per cent of GDP in 2023, 0.6 per cent of GDP in 2024, and 0.2 per cent of GDP in 2025, *cf. figure 1.17*. Compared to the August assessment, the estimate for the structural balance is unchanged in 2023, increased by 0.2 per cent of GDP in 2024, and decreased by 0.2 per cent of GDP in 2025. Overall, public finances remain sound with public surpluses and low debt. At the same time, fiscal policy is aligned with the expected business cycle situation.

Figure 1.16 Actual budget surpluses decrease with the business cycle

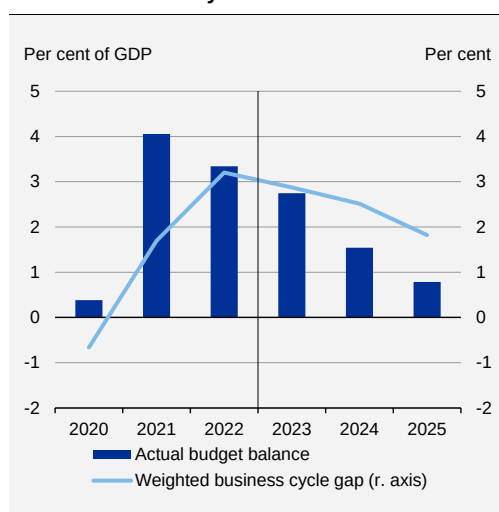
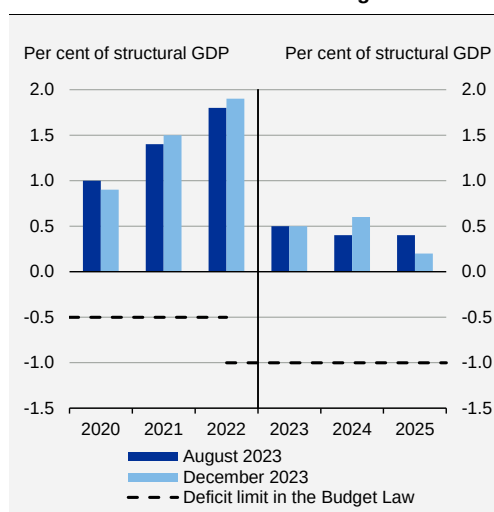


Figure 1.17 Structural budget surpluses and distance to the deficit limit of the budget law



Note: The weighted business cycle gap is a weighted average of the employment and output gaps with weights 60/40.
Source: Statistics Denmark and own calculations.

Compared to the August assessment, the increase in military support under the Ukraine Fund, *cf. the Agreement on the Increase of Military Support under the Ukraine Fund in 2023 and*

³ The weighted business cycle gap is a weighted average of the employment and output gaps with weights 60/40.

2025-2027 (November 2023) and the Government's 2030 plan *DK2030* (November 2023), results in a discretionary weakening of the structural balance by approximately 0.1 per cent of GDP in 2023 and about 0.4 per cent of GDP in 2025.

Conversely, the structural budget balance is improved by a higher estimated structural employment in 2023-2025, primarily based on increased employment for foreign nationals, including as a result of the extension of the special act for those displaced from Ukraine. In the opposite direction, contributing factors include an expected exceedance of investment budgets of municipalities and regions in 2023, *cf. chapter 8 (Danish version)*.

Over the years, the structural budget balance is estimated to decrease from a structural surplus of 1.9 per cent of GDP in 2022 to 0.2 per cent of GDP in 2025. The bulk of the decrease is estimated to have occurred in 2023, reflecting expenses related to the establishment and expansion of the Ukraine Fund and an increase in (other) public consumption expenditures adjusted for the decline in one-off covid-19-related expenses.

Towards 2025, the decrease in structural surpluses should also be viewed in the context of fiscal policy being planned with a gradually decreasing profile for the structural balance towards the target of -0.5 per cent of GDP in 2030, *cf. DK2030*. This is consistent with continued sound and sustainable public finances. Year-on-year changes in the structural balance in the forecast period are further described in chapter 8.

The annual change in the structural budget balance is not a well-suited measure to assess whether fiscal policy contributes to increase or dampen the capacity pressure in the Danish economy. Instead, this is measured by fiscal effects. The fiscal and structural policy stance is reflected in the estimate for the structural budget balance, but the structural budget balance is also influenced by a number of other factors, *cf. box 1.3*. In this vein, there may be policy measures that affect capacity pressure but not the structural balance, and vice versa. The weakening of the structural balance from 2022 to 2023 does not indicate that fiscal policy in 2023 increases capacity pressure. Instead, fiscal and structural policy is estimated to have tightened significantly in 2023, equivalent to a one-year fiscal effect of -1.0 percentage points, *cf. below*.

Box 1.3 Difference between year-on-year changes in structural budget balance and fiscal effects

The structural budget balance is an estimate of the underlying position of public finances given the current fiscal policy. The development of the structural budget balance is influenced by a wide range of factors, including the conducted fiscal and structural policies. However, it does not solely reflect policies but also other factors affecting the structural development in revenues and expenditures, such as demographic trends, foreign labour inflows, interest rate changes, shifts in demand composition, etc. For example, the development of North Sea revenues, largely driven by other factors than fiscal policy, has had a significant impact on the structural budget balance over time.

Year-on-year changes in the structural budget balance are therefore not well-suited as a measure of how much fiscal and structural policies contribute to increasing or dampening capacity pressure in the Danish economy. Instead, this is measured by fiscal effects, which provide estimates of the impact of fiscal and structural policies on the output and employment gaps.

In general, of course, a discretionary fiscal easing in a given year will result in a weakening of the structural budget balance and an increase in the fiscal effect, and vice versa for a discretionary fiscal tightening. However, there are exceptions and nuances implying that this does not always hold. Among other things, different fiscal policy instruments affect the capacity pressure differently for the same effect on the structural budget balance (i.e., they have different fiscal multipliers).

In addition, there are fiscal measures that affect the structural budget balance but not capacity pressure, and vice versa. For example, financial donations to Ukraine and purchases abroad do not impact capacity pressure in Denmark but weaken the structural budget balance. Conversely, the phasing out of one-off covid-19 expenditures does not affect the structural budget balance (as one-off measures are considered neutral for the structural budget balance) but contributes to dampen the capacity pressure. Additionally, the payment of frozen holiday allowances – as well as its phasing out – affects capacity pressure, while one-off tax revenues related to the payout are treated as a one-off measure in the calculation of the structural budget balance.

The fiscal policy for 2024 is set by the budget bill and the municipal and regional budget agreements. Overall, the planned fiscal policy for 2024 has an approximately neutral impact on capacity pressures, measured by the one-year fiscal effect, *cf. below*. Selected key priorities in the budget bill are outlined in *box 1.4*.

Box 1.4 Selected priorities in the agreement on the budget for 2024

More hands in Pedagogical Psychological Counseling (PPR): Reserve for more employees in Pedagogical Psychological Counseling (PPR) to support the educational staff in preventive work and increased presence in day care and primary school.

Reserve for elderly care: A reserve for elderly care, DKK 695 million in 2024-2027. The funds can be used for permanent teams and welfare technologies.

District heating pool: The district heating pool is extended to 2024 with DKK 150 million. Support is given to make more projects profitable for the district heating companies.

Emergency package for improving the water environment and reducing low-lying soils: A pool is set aside for an emergency package for improving the water environment. The pool facilitates efforts in the realization of the agreed reductions in nitrogen emissions, or otherwise contribute to improvements in water environment.

Reduce registration tax for zero-emission passenger cars: The basic deduction in the registration tax for zero-emission passenger cars is increased. Thereby, the basic deduction is extended to 2025.

Improve emergency preparedness, including emergency ambulances: The funds can facilitate a strengthened emergency preparedness e.g. more emergency medical vehicles.

Accommodate damage caused by storm surge in severely affected municipalities: An extraordinary construction pool of DKK 125 million is launched. Municipalities can apply for funds to cover costs caused by the storm surge.

Support for secondary schools and high schools in rural areas with economic struggles: A temporary increase in the subsidy for general secondary schools will be extended in 2024-2027.

The impact of the agreement on the budget for 2024 is neutral with regards to the economic activity and growth in public spending relative to the proposal on the 2024 budget by the government in August 2023.

Source: *Aftale om finansloven for 2024*.

The fiscal policy for 2025 will be planned in 2024 with the agreements on municipal and regional budgets and the budget bill for 2025. The specific planning of fiscal policy will, among other things, take into account the short-term economic outlook including the development of capacity pressures. Additionally, the government has proposed an income tax reform, which will dampen the fiscal effect in 2025 compared to the current forecast for 2025, which is based on calculation assumptions and agreements made until December 5, 2023.

The fiscal policy contributes to dampen capacity pressures in 2023 and 2024

After the significant fiscal easing during the covid-19 pandemic, fiscal policy was tightened in 2022, resulting in a one-year fiscal effect of -1.6 percentage points. The fiscal policy is estimated to have been further tightened in 2023, with a one-year fiscal effect of -1.0 percentage points. Consequently, the measures implemented during the pandemic, such as compensation schemes and stimulus measures, have been withdrawn, *cf. chapter 8*. With the agreement on the budget bill for 2024 it is estimated that fiscal and structural policy in 2024 will have an approximately neutral effect on capacity pressures. The one-year fiscal effect is estimated at -0.1 percentage points with the updated forecast.

The fiscal assessment for 2025 reflects technical assumptions and effects of political agreements, etc. On this basis, the one-year fiscal effect is estimated at 0.3 percentage points in

2025, *cf. figure 1.18*. This reflects, among other things, that fiscal policy is planned with a gradually decreasing structural budget balance towards the medium-term target of -0.5 per cent of GDP by 2030. The normalization of inflation and the position in the business cycle (measured by narrowing output and employment gaps) also suggest a gradual easing of fiscal policy from its current tight level to support a soft landing, resulting in a positive one-year fiscal effect and a negative multi annual fiscal effect. This is in line with the expected gradual easing of monetary policy in the euro area and Denmark throughout 2025, assuming decreasing inflationary pressures.

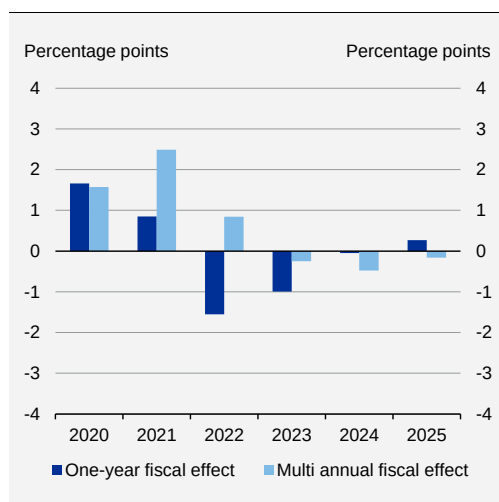
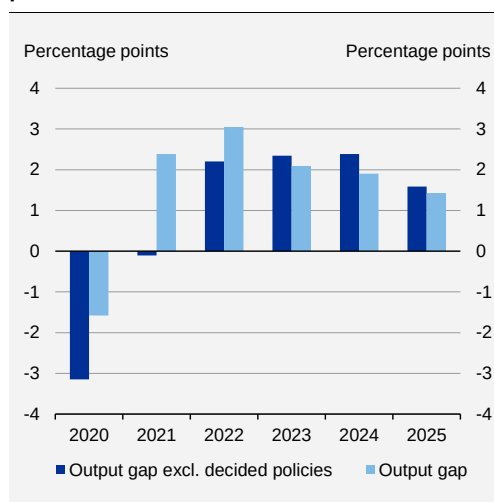
Compared to the *Economic Survey*, August 2023, the estimate for the one-year fiscal effect in 2023 is 0.1 percentage points higher, i.e. less tight. This is primarily due to an upward adjustment of public investment expenditures due to an expected exceedance of municipal and regional investment budgets. Previously assumed repayment of excess property taxes in 2023 being largely postponed to 2024 contribute in the opposite direction.

In 2024, the estimate for the one-year fiscal effect is conversely 0.1 percentage points lower than in the August assessment. The extension of the special act for displaced persons from Ukraine and an assumed tightening of public investments relative to 2023 contribute to reducing the fiscal effect in 2024. Conversely, the postponed repayment of excess property taxes adds to the one-year fiscal effect in 2024 compared to the August assessment.

The multi-annual fiscal effect, which measures the effect of fiscal and structural policy in a given year as well as the preceding years relative to the base year 2019, i.e., the year before the covid-19 pandemic, is estimated at -0.3 percentage points in 2023, -0.5 percentage points in 2024, and -0.2 percentage points in 2025, *cf. chapter 8*. The overall fiscal and structural policy since 2019 thus has a dampening effect on capacity pressures in the Danish economy in all forecast years, *cf. figure 1.19*.

With the *Agreement on Increase of Military Support under the Ukraine Fund in 2023 and 2025-2027 (November 2023)*, the Ukraine Fund is increased with a relaxation of the structural balance, as mentioned above. The impact on Danish economic activity is expected to be close to zero, as the vast majority of the expenditures are assumed to be donations to Ukraine and acquisitions purchased abroad. However, the activity impact will depend on how the funds are specifically allocated.

The government's recently proposed income taxation reform, which is not reflected in this forecast, will, in isolation, have a dampening effect on capacity pressures in the Danish economy. Overall, it is assessed that the proposal will reduce the one-year fiscal effect in 2025 by just below 0.1 percentage points. This reflects that the reform is financed through the "fiscal space" (which can be seen as fiscal room to maneuver within the governments medium-term structural budget balance goal and budget ceilings, and which is technically included as public consumption in the forecast) and that the short-term impact on capacity pressures of lower income taxes is less than for public consumption. At the same time, the reform increases labour supply, which, by itself, dampens capacity pressures.

Figure 1.18 One-year and multi annual fiscal effects**Figure 1.19** Fiscal policy dampens capacity pressures in 2023-2025

Note: The effect on the output gap in figure 1.19 is measured by the multi annual fiscal effect, which describes the total level effect of the fiscal and structural policy since 2019.
Source: Own calculations.

Growth in public consumption

Real public consumption is estimated to grow by 0.9 per cent in 2023 and 2.2 per cent in 2024. This is a downward revision of 0.6 percentage points in 2023 and an upward revision of 0.1 percentage points in 2024 compared to the estimated growth rates in the *Economic Survey, August 2023*, cf. figure 1.20.

The downward revision of real growth in 2023 mainly reflects the impact of specific allocations from the Ukraine Fund. Allocations made from the fund indicate a larger share of transfers abroad (approximately $\frac{3}{4}$) than previously assumed (approximately $\frac{1}{2}$), leading to lower estimated public consumption. In 2024, expenditures related to displaced Ukrainians are also estimated lower compared to *Economic Survey, August 2023*.

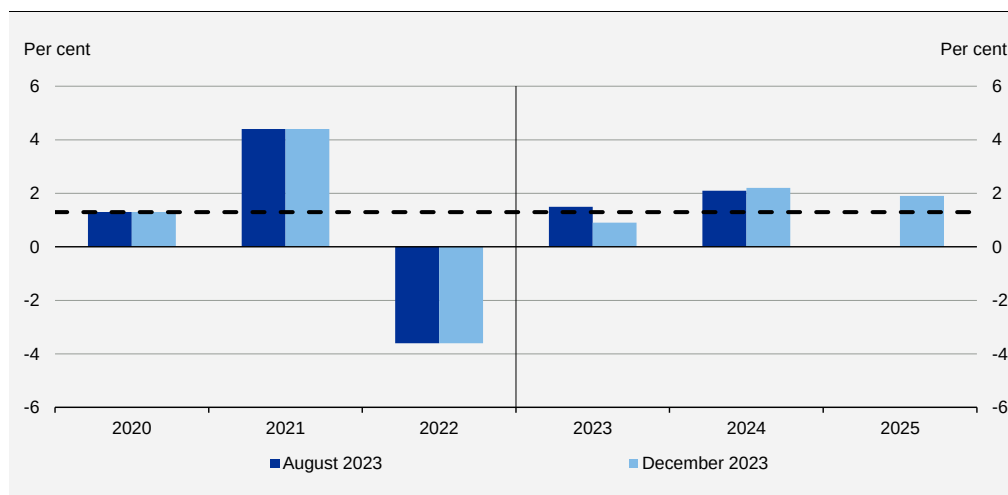
In addition, a new tripartite agreement on wages and working conditions in the public sector will result in wage increases for a number of public employees and, consequently, nominal consumption expenditures from 2024 and onwards. At the same time, the agreement reduces real public consumption, as the wage increase is offset by lower public consumption expenditures, including the agreed-upon administrative savings in municipalities and regions.

In 2025, technical assumptions based on the estimated “fiscal space” lead to a real public consumption growth of 1.9 per cent (before accounting for the government's proposal for an income tax reform, which is estimated to reduce public consumption growth by 0.6 percentage points in 2025).

Looking across the period since 2019, the real growth in public consumption has been significantly influenced by both efforts related to the covid-19 pandemic and Danish support for

Ukraine⁴, including the reception of Ukrainian refugees. The average annual real growth in public consumption from 2020 to 2025 is estimated to be 1.3 per cent.

Figure 1.20 Real public consumption growth

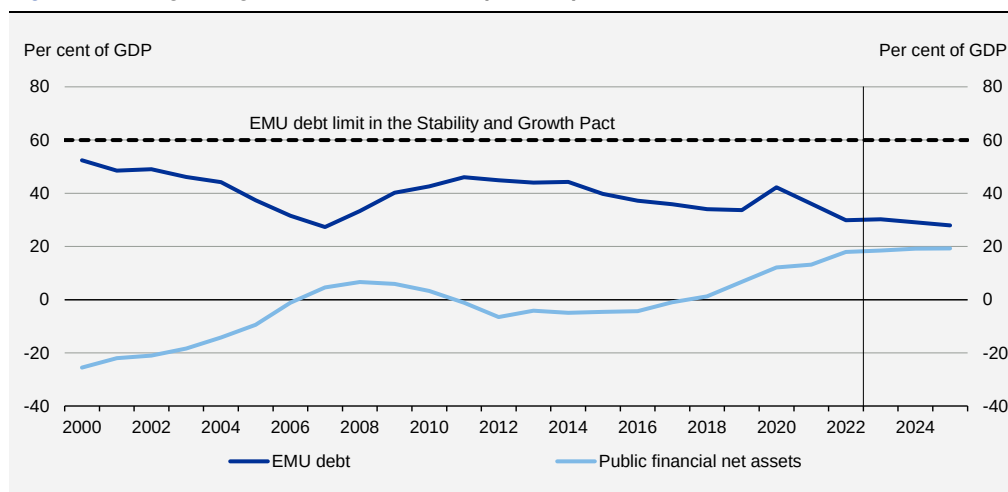


Continued low EMU debt and positive public financial net assets

The Danish EMU debt is projected to continue to maintain a comfortable distance from the debt limit of 60 per cent of GDP outlined in the Stability and Growth Pact. The EMU debt is expected to decrease from 30.3 per cent of GDP in 2023 to 27.9 per cent of GDP in 2025. Compared to *Economic Survey, August 2023*, the estimated EMU debt has been revised down by around 0.5 per cent of GDP in 2023 and 2024 due to larger estimated surpluses on the actual budget balance.

Denmark has had positive public financial net assets since 2018, and it is expected to continue until 2025, cf. figure 1.21. The estimates for 2023 and 2024 are largely unchanged since *Economic Survey, August 2023*, covering opposing movements. On the positive side, revised accounting figures for public net assets in 2022 and higher estimates for the actual budget balance contribute upward. Conversely, downward revisions in publicly-owned equities in 2023 weighs down on net assets.

⁴ Excluding one-off expenditures related to covid-19 in 2022, the real public consumption growth rate is estimated at 3.1 per cent in 2023. The allocated funds under the Ukraine Fund are assumed to affect (nominal) public consumption by approximately 2¼ to 3¼ DKK bn. yearly from 2023 to 2025.

Figure 1.21 Large margin to the debt limit and positive public net assts

Source: Statistics Denmark and own calculations.

Key figures for fiscal policy in the period 2022-2025 are shown in table 1.2. The assessment of fiscal policy is elaborated in chapter 8.

Table 1.2 Key figures relating to fiscal policy

	2022	2023	2024	2025
Structural budget balance, per cent of structural GDP	1.9	0.5	0.6	0.2
Actual budget balance, per cent of GDP	3.3	2.7	1.5	0.8
Public consumption growth, per cent ¹⁾	-3.6	0.9	2.2	1.9
Multi-annual fiscal effect, percentage points ²⁾	0.8	-0.3	-0.5	-0.2
One-year fiscal effect, per centage points ³⁾	-1.6	-1.0	-0.1	0.3
<i>Memo: One-year fiscal effect incl. income tax reform, percentage points ³⁾</i>	-1.6	-1.0	-0.1	0.2
Output gap, per cent ⁴⁾	3.0	2.1	1.9	1.4
Employment gap, per cent ⁴⁾	3.3	3.4	2.9	2.1
EMU debt, percent of GDP	29.8	30.3	29.1	27.9
Public financial net assets, per cent of GDP	17.9	18.5	19.2	19.2

1) The estimated growth in public consumption is technically assumed to be the same using the input and output method. The shown growth in 2022 is reported using the input method.

2) The multi-annual fiscal effect is a measure of how changes in the fiscal and structural policy affects the output gap (level effect compared to 2019).

3) The one-year fiscal effect is a measure of how changes in the fiscal and structural policy in a given year affects the output gap in a given year.

4) Calculated measure of how far production and employment are from their structural levels. When the gaps are positive, it indicates that resources in the economy are scarce compared to a normal cyclical position.

Source: Statistics Denmark and own calculations.

1.3 Annex table

Table 1.3 Key figures from the December survey and comparison with the August survey

	2023		2024		2025
	Aug.	Dec.	Aug.	Dec.	Dec.
Real change, per cent					
Private consumption	0.6	0.9	1.5	1.6	1.5
Total government demand	1.8	1.6	1.9	1.6	1.9
- of which government consumption	1.5	0.9	2.1	2.2	1.9
- of which government investments	3.6	6.3	0.8	-2.4	1.7
Housing investment	-12.9	-12.1	-2.1	-2.2	1.2
Business fixed investment	-3.6	-3.3	-2.0	-2.2	0.1
Inventories (contribution to GDP-growth)	-1.7	-1.4	-0.1	-0.5	0.1
Total final domestic demand	-2.3	-1.8	0.8	0.3	1.5
Exports	5.4	10.8	3.4	4.2	2.4
- of which manufacturing exports	8.8	15.0	3.3	4.6	2.3
Total demand	1.1	3.7	1.9	2.0	1.9
Imports	0.9	8.0	2.8	3.0	3.3
- of which imports of goods	-2.4	3.5	4.1	2.7	3.2
GDP	1.2	1.2	1.4	1.4	1.0
Gross value added	1.4	1.5	1.6	1.5	1.0
- of which non-farm private sector	2.2	0.9	1.1	1.0	1.0
Change in 1,000 persons					
Labour force, total	40	48	-4	2	-17
Employment, total	32	40	-13	-9	-21
- of which private sector	24	32	-16	-12	-26
- of which public sector	8	8	3	3	5
Gross unemployment	9	8	9	13	4
Cyclical developments, per cent					
Output gap	2.1	2.1	1.6	1.9	1.4
Employment gap	3.3	3.4	2.7	2.9	2.1
Unemployment gap	-1.0	-1.0	-0.7	-0.6	-0.3

Note: Public consumption is calculated using the input-method.
Source: Statistics Denmark and own calculations.

Table 1.3 (cont.) Key figures from the December survey and comparison with the August survey

	2023		2024		2025
	Aug.	Dec.	Aug.	Dec.	Dec.
Change, per cent					
House prices (single family homes)	-4.5	-2.0	1.4	1.2	1.9
Consumer prices	3.8	3.4	3.0	2.8	2.1
Hourly earnings in the private sector	4.5	4.3	5.4	5.4	3.4
Real disposable income, households	-0.7	1.1	2.9	1.4	0.9
Productivity in the private non-farm sector	2.5	0.2	1.6	1.4	2.2
Per cent p.a.					
1-year rate loan	3.5	3.4	3.7	3.3	2.8
10-year government bond	2.7	2.8	2.8	2.8	2.8
30-year mortgage credit bond	4.7	4.8	4.7	5.0	4.8
Public finances					
Actual public balance (DKK bn.)	56	77	29	44	23
Actual public balance (per cent of GDP)	2.0	2.7	1.0	1.5	0.8
Structural public balance (per cent of GDP)	0.5	0.5	0.4	0.6	0.2
Gross debt (per cent of GDP)	30.8	30.3	29.6	29.1	27.9
Labour market					
Labour force, total (1,000 persons)	3,283	3,290	3,279	3,293	3,276
Employment, total (1,000 persons)	3,200	3,208	3,187	3,199	3,178
Gross unemployment (yearly average, 1,000 persons)	85	84	94	97	101
Gross unemployment (per cent of labour force)	2.6	2.6	2.9	2.9	3.1
External assumptions					
Trade-weighted international GDP-growth	1.3	1.3	1.8	1.6	2.2
Export market growth (manufactured goods)	0.8	0.2	3.0	2.4	3.1
Exchange rate (DKK per USD)	6.9	6.9	6.7	6.9	6.9
Oil price, dollars per barrel	81.1	82.6	81.4	81.3	81.9
Balance of payments					
Current account balance (DKK bn.)	266	300	287	347	339
Current account balance (per cent of GDP)	9.6	10.7	9.9	11.8	11.1

Source: Statistics Denmark, IMF, Macrobond, Confederation of Danish Employers and own calculations.



2. GDP as a measure of prosperity and indicators of well-being

In the Economic Surveys, the focus is on the economic outlook for the Danish economy. This means the current and expected development in economic activity, employment and unemployment, inflation and public finances, etc. Here, value added in the gross domestic product (GDP) is included as the overall target for the development in output and total incomes. The forecast for growth in GDP is to a large extent governing the outlook for the labour market, price and wage developments, tax revenues and a wide range of other matters.

However, GDP is not a measure of a country's or its population's overall well-being or life satisfaction, nor was it ever intended to fill that role. The well-being or life satisfaction of the individual and of the average population is affected by a large number of other conditions, including environmental and social conditions. These are conditions that are not the subject of the forecasts in Economic Survey, but which are of course important for the organization of society and for political decisions.

The purpose of this chapter is, among other things, to contribute to a nuanced discussion of what GDP as a concept can be used for. The chapter will also touch on limitations in relation to the calculation and interpretation of GDP. Against this background, this chapter takes a closer look at the advantages and disadvantages of GDP as a measure of prosperity and, secondly, at a number of indicators which, in different ways, include other conditions of importance for the population's quality of life or well-being.

In this connection, it should be noted that the economic policy in Denmark – and in general the organization of Danish society – has for many years pursued considerations in a wide range of areas and not just targets for GDP and employment. This applies, for example, to considerations of the environment and nature, climate, income distribution, individual freedom, financial security and cohesion. For many years, Denmark has been among the countries where the population has expressed the highest life satisfaction or happiness. Denmark also generally scores highly in the various combined indicators prepared by international institutions or researchers to shed light on the quality of life in different countries.

Among other things, the review in the chapter points to:

- GDP is a very central concept in economic planning, forecasts and projections, because it calculates a society's economic activity in a consistent – and internationally comparable – way.
- Attention to the development in GDP is important in relation to being able to organize economic policy with regards to dampening cyclical fluctuations and avoiding deep crises and periods of overheating.

- In relation to business cycle assessments, GDP is included together with a number of other information on activity, employment, prices, etc. in an overall assessment of the economic picture.
- There is still room to further develop GDP, so that it best supports the need for an overall activity target in economic planning.
- There are other indicators which are relevant in relation to other purposes and considerations in political decisions, e.g. distribution, climate and environment.
- Progress has been made with the green national account, which shed light on the relationship between the economy and the environment. A green GDP has also been developed, which estimates the environmental costs of economic activity. These are relevant for environmental considerations, but do not alter the use of GDP as the central measure of economic activity.
- Several international institutions, authorities and researchers have given different proposals for broader indicators for well-being and quality of life. Denmark generally scores high on these goals. However, balanced goals for well-being and quality of life can be difficult to use in relation to policy conducting, as they per construction includes a balancing of the many sizes and dimensions that are important for well-being and quality of life.
- Across countries, GDP is typically highly correlated with indicators of health, security and general life satisfaction. The connection is not a direct expression of causality, but it can reflect, among other things, that with greater prosperity (income and wealth), both as an individual and as a society, you can purchase goods and initiatives that can increase the quality of life. However, generating more wealth can also come with costs that potentially limit well-being, for example in the form of stress on natural resources or increased work intensity, and increased wealth can also lead to increasing expectations of what constitutes a good life, so that the average subjective life satisfaction does not increase in line with prosperity.

2.1 What is GDP?

GDP is one of the most common economic concepts and is basically an expression of the value creation of a country's total economic activity, which is reflected in use in the form of private consumption, public consumption, investments and exports.¹ The term is an important economic indicator, as it says something about the size of an economy, and the development in GDP over time can be used as a benchmark for whether there is growth or decline in economic activity.

High growth in GDP is often interpreted as a positive development, partly because it is typically followed by increasing employment and improved consumption opportunities. The level of GDP has increased over time in line with productivity increases that have made it possible to produce more with the same use of resources. In the short term, however, GDP also varies as a result of cyclical fluctuations, where, among other things, mood changes derived from developments abroad or on the housing market can affect the overall development of activity.

¹ The purpose of all economic activity is ultimately consumption, both private and public. Investments and exports enable greater consumption in the future and consumption of foreign products.

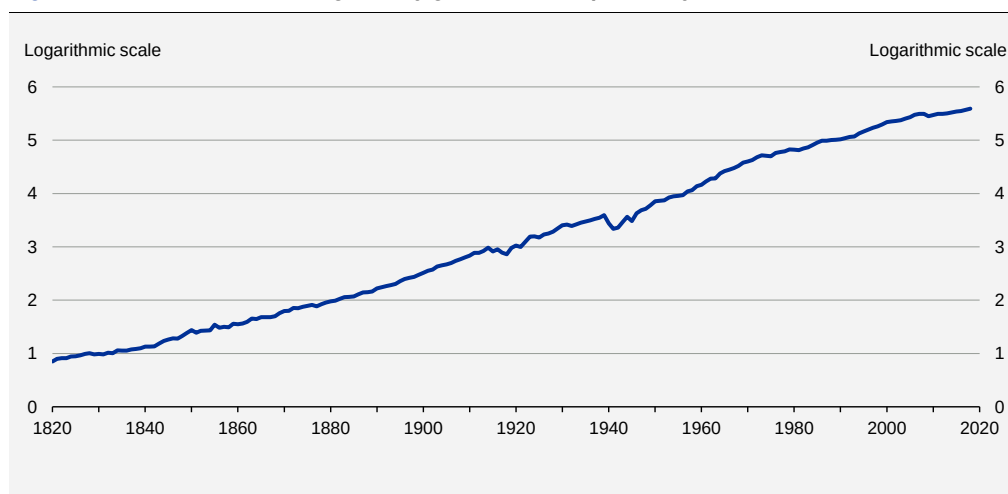
GDP is absolutely central to economic planning. Over time, economic policy can be instrumental in supporting productivity increases and higher labour supply that increase GDP. Furthermore, the economic policy can help dampen cyclical fluctuations and reduce the risk of an economy overheating or moving into a crisis. GDP is also important for the development of public finances and constitutes an important reference in relation to various efforts, e.g. research, defense and development aid and other matters that are managed in relation to GDP.

How is GDP calculated?

GDP cannot be measured directly, but must be calculated on the basis of a number of methods and principles. The current statement follows the methodology described in the EU's European system for national and regional accounts (ESA 2010). Statistics Denmark's current calculation of GDP in the national account at annual level covers the time period 1966 onwards, while the quarterly national accounts are available from the 1st quarter of 1990 onwards. However, other sources have calculated Denmark's GDP even further back in time.

GDP has generally been growing, even when corrected for rising prices, i.e. inflation. The growth in real GDP has, however, been particularly significant in the second half of the 20th century. Major events such as World War I and World War II are clearly visible in the long-term perspective, but there has been a tendency for the growth in GDP to continue anyway, cf. figure 2.1.

Figure 2.1 Denmark's GDP has generally grown over the past 200 years



Note: The figure shows the natural logarithm of GDP up to and including 2018 calculated in USD, 2011 prices.
Source: Maddison Project Database and own calculations.

The modern concept of GDP was developed by the American economist Simon Kuznets in 1934 and was adopted as the main measure of a country's economy at the Bretton Woods Conference in 1944. It was considered useful to have an estimate of a country's annual value creation when input in production had been deducted. Gross *Domestic* Product thus also indicates that the delimitation criterion is geography. There are, however, simple calculations that go much further

back in time. A very early calculation of economic activity dates from 1665, when the British scientist and civil servant, William Petty, made estimates of income and expenditure, population, land and other assets in England and Wales, cf. Coyle (2014).

In terms of national accounts, GDP can be calculated and distributed using three general approaches: the production approach, the expenditure approach and the income approach:

- The *production* approach calculates GDP as the sum of gross value added (GVA) and net product taxes. The approach is to take the sum of the value creation in the various industries of the economy, where value added is output value minus inputs in production.
- The *expenditure* approach is based on the balance of supply and usage, where total supply in an economy equals total usage. Supply consists of GDP and imports, while usage (expenditure) consists of consumption (both private and public), investments and exports abroad. In this way, GDP can be calculated as the sum of consumption minus imports.
- The *income* approach breaks down the value added as calculated by GDP in remuneration of the production factors, i.e. compensation of employees, gross operating surplus and mixed income as well as net indirect taxes.

The distribution of Denmark's GDP in 2022 as calculated by the three approaches, which all give the same GDP level, appears in table 2.1.

Table 2.1 Different approaches to calculate and distribute GDP for Denmark in 2022

Production		Expenditure		Income	
Component	Per cent of GDP	Component	Per cent of GDP	Component	Per cent of GDP
Primary industries	2.3	Private consumption	43.2	Compensation of employees	48.6
Secondary industries	18.1	Public consumption	21.8	Gross operating surplus etc.	38.6
Tertiary industries	67.7	Investments	23.9	Net indirect taxes	12.8
Net product taxes	11.9	Exports	70.0		
		Imports	58.9		

Source: Statistics Denmark and own calculations.

Following the production approach, value creation in the Danish economy was previously linked to agricultural production to a greater extent. Over time, the economy's occupational composition has changed towards so-called tertiary industries (services), while both primary industries (e.g. agriculture, mining and quarrying) and secondary industries (e.g. manufacturing) generally plays a smaller role, cf. *Economic Survey, December 2021*.

Following the expenditure approach, both exports and imports as a share of GDP have increased in line with increasing globalization. This is connected to the fact that Denmark is a small, open economy. However, private consumption still constitutes a large share of GDP.

Following the income approach, since 1966 – despite fluctuations from year to year – approximately 50-54 per cent of GDP goes to compensation of employees.² The second large component, gross operating surplus and mixed income, contains the businesses' profits, but also consumption of fixed real capital (depreciation of capital equipment) and remuneration of the self-employed.

Limitations in the calculation of GDP

The calculation of GDP does not include all forms of economic activity. As a starting point, market-based production is included in the calculation of GDP, such that the delimitation helps to provide a direct connection between GDP and paid employment.

However, not all activity takes place in a market where production and value added can be directly measured. This applies, for example, to public services, the rental value of one's own home and the black economy. In principle, such services have paying recipients, and in the national accounts calculation of GDP, an attempt is made to estimate their value. Thereby, the calculation will be subject to measurement problems.

Work at home and other forms of voluntary work, on the other hand, are not part of the chosen delimitation for the calculation of GDP, because no payment is made for this. This also means that GDP in isolation will increase when tasks are moved out of the home. The entry of women into the labour market from the end of the 1950s can thus explain part of the GDP growth in the second half of the 20th century (both increased labour supply and increased need for childcare, cleaning, etc.). Thus, it cannot generally be repeated.

GDP is calculated both in current prices and quantity. All activity is usually done in the year's (also called *current*) prices. However, it is often more relevant to view the development of economic activity in terms of quantities, i.e. corrected for prices. For the purpose of calculating quantitative (*real*) GDP, price indices are required, which are not always available. The ongoing development in the price of, for example, a banana is fairly straightforward, as it is a homogeneous product, but the price of, for example, a haircut at the hairdresser's is not. In general, prices are easier to calculate for goods than for services.

Another challenge in calculating real GDP is quality improvements. A better product (e.g. a phone with more functions and more computing power) that can be sold for more will result in a higher price index if no change in quality is taken into account. Therefore, there is also a need to quality-adjust the price indices of certain goods and services. However, this is not straightforward.

In addition, the nature of economic activity has changed over time. In recent decades, there has been a shift from mass production to more differentiated consumer goods. In addition, the consumption of services constitutes a growing share of total consumption. Production from patents also takes up more space. All of this increases the uncertainty about the calculation of the quantitative activity development.

Some particular challenges to calculating GDP as a measure of prosperity relate to measuring activity outside the country's borders as well as the value of digital services. These topics are elaborated in the following two sections.

² This share differs from the concept of the labour share, which is typically calculated as the total wage's share of GVA.

2.2 Activity outside Danish borders

Both the Danish economy and the global economy as a whole have been significantly influenced by increased globalisation. Improved communication and freight opportunities between countries have notably reduced barriers to trade. Modern shipping, in particular, has made it possible to quickly and affordably transport goods across the globe. International trade, division of labour, and other aspects of globalisation are important for the overall activity in society, and the calculation of GDP should be interpreted with the reservations associated with its measurement.

A significant share of, for example, shipping companies' business naturally takes place in international waters, involving sea transport between different countries.³ The organisation of shipping companies affects how their earnings contribute to the Danish national accounts. If the company immediately records its income at its Danish headquarters, it will be accounted for as production in Denmark. However, if the company earns income through a subsidiary abroad, and the Danish headquarters receives the income as dividends, the activity will not be defined as Danish production but instead be classified as capital income.

The ships of the shipping companies are similarly included in the capital stock of the country where they are registered, regardless of where they sail on the globe. This means that when a ship sails under, for example, the Dutch flag and is therefore subject to Dutch regulations, the ship must be included in the capital stock of that specific country. It also means that changes occur in the calculation of, for example, Denmark's capital stock if the shipping companies change the registration country of the ships, without necessarily reflecting the actual capital available to the Danish business. This differs from traditional non-mobile physical capital such as machinery and buildings and serves as an example of how international rules for calculating the national accounts impact the interpretation of GDP.

Another example is the calculation of the export of goods produced abroad and sold without crossing the Danish border. Even though production takes place abroad, a portion of the value creation is included in Danish GDP. This reflects that the production factors of the Danish company contribute to creating the value of the production of foreign factories and that the activity originates in Denmark. This is especially true for intangible intellectual capital such as patents and other intellectual property rights based on research and development. Intangible capital is included in the capital stock of the country where it is owned, even though it can be used anywhere in the world.

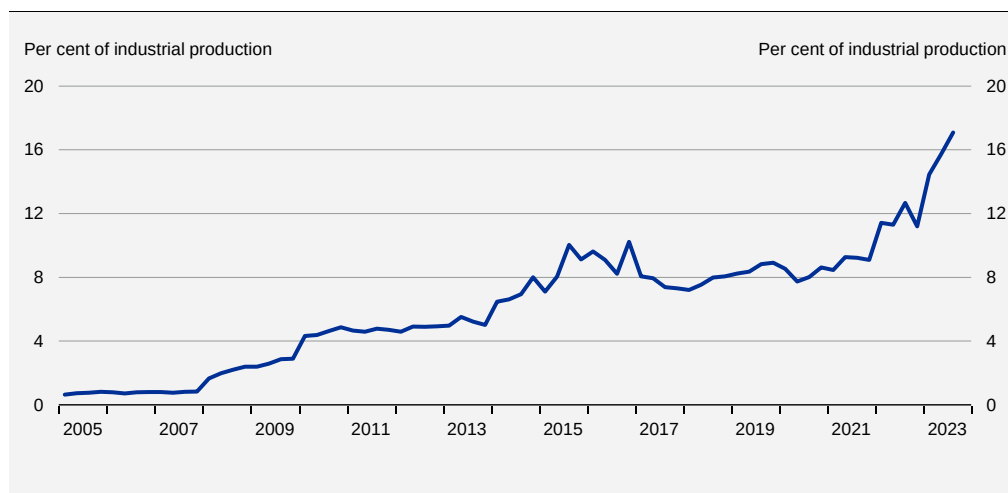
Currently, processing abroad accounts for approximately 17% of the total industrial production, *cf. figure 2.2*. This is almost double the share as compared to the share from just two years ago, primarily reflecting the high growth in the pharmaceutical industry in recent years. The significant increase in activity abroad in recent years should be viewed in connection with new pharmaceutical products, making it challenging to assess the actual development in real terms.

³ With "Danish" shipping companies, and Danish companies in general, reference is not made to the nationality of the ownership. A "Danish" company is not defined based on the nationality of the owners but rather on the company's presence in Denmark for at least one year with independent decision-making authority. This means that the company is considered to have its economic center of interest in Denmark, and its financial accounts are included in the Danish national accounts.

It follows from national accounting practices that a portion of the value creation from the activities of Danish companies is attributed to the Danish company and, consequently, to Danish GDP. The actual value creation can be associated with activities in Denmark, such as research and development, even if the final production takes place abroad. This accrual accounting practice can challenge the interpretation of GDP as the current activity in the Danish economy, partly because associated activities in Denmark, such as research and development, may precede the final production by years.

In addition to processing, the activities of Danish companies abroad also involve "merchandising". Merchandising refers to the buying and selling of goods that do not cross borders, and where the goods undergo no further processing between purchase and sale. Merchandising primarily encompasses two phenomena: merchandising as wholesale trade and merchandising as factoryless production, cf. Statistics Denmark (2021).

Figure 2.2 Processing abroad makes up a significant and increasing share of industrial production



Note: Processing abroad consists of goods sold abroad after having been processed there as well as goods sold in Denmark after production abroad. Own seasonal correction.

Source: Statistics Denmark and own calculations.

Companies using merchandising as a form of factoryless production issue a production order to a foreign factory, which both acquires the raw materials and ensures their processing. Like processing abroad, this can be an indication that intellectual property rights and the rest of the company are located in one country, while the final production takes place abroad.

Activity abroad contributes to increased volatility in the calculation of GDP and, at the same time, weakens the relationship between employment and GDP, making it more challenging to assess economic pressure solely based on GDP.

2.3 The value of digital services

Digitalisation entails significant upheavals regarding opportunities for production and consumption. Digital products and services include, among other things, information retrieval

(e.g., Google, Wikipedia), information sharing (e.g., Gmail, WhatsApp), social media (e.g., Facebook), entertainment streaming (e.g., YouTube), and online education (e.g., Khan Academy).

Many of these products and services are immediately free to use in the sense that there is no actual market transaction. The scale of usage for new digital products and services is vast, and these products are characterised by being easy to replicate and instantly consume. The marginal cost of consuming such products and services becomes zero. This impacts the so-called consumer surplus, which refers to the difference between the price consumers are willing to pay and the price they actually pay. For instance, there have been studies on how much users should be compensated for not using Facebook for a month, *cf. box 2.1*.

Box 2.1 New measures for the value associated with the use of digital services

Digital services like Google and Facebook have become increasingly prevalent over the past decade. In, for example, the USA and the UK, the average person now spends nearly 24 hours per week online, *cf. Coyle and Nakamura (2022)*. Statistics suggest the potential for significant gains for consumers, who typically access these services at no cost. They also pose a measurement challenge for traditional methods that rely on price data to construct national accounting metrics such as GDP.

In Brynjolfsson et al. (2023), a survey-based experiment is utilised to estimate the value of digital services. Researchers used Facebook's internal survey platform to conduct a large-scale experiment involving nearly 40,000 Facebook users across 13 countries. They queried users about their preferences regarding ten digital services – Facebook, Twitter, Instagram, WhatsApp, Snapchat, TikTok, Google Search, Google Maps, YouTube, and Amazon Shopping – along with how much money they would be willing to accept in exchange for deactivating their Facebook accounts for one month. The resulting data were used to calculate consumers' gains from using each of these services.

The researchers found that among Facebook users, the ten digital services provided value amounting to 2.5 trillion dollars, equivalent to 6.0 percent of the total GDP of the involved countries. This value represented a higher proportion of income in countries with lower income and wealth, as well as among individuals with lower income and wealth within those countries. Consequently, the researchers concluded that freely accessible digital services reduce inequality in consumption opportunities among users both within and across countries.

The results indicate that the majority of the value derived from the use of digital services accrues to consumers rather than to businesses. For instance, the researchers estimated that the value from Facebook in the 13 countries is 284 billion USD, which is more than twice Meta's total advertising revenue from Facebook, Instagram, and WhatsApp worldwide.

The researchers concluded that because free digital services generate significant value for consumers but are not included in GDP, economic growth and labor productivity have been underestimated in recent years – at least for the countries included in the study sample.

Source: Brynjolfsson et. al. (2023).

The payment for the use of products or services, however, takes place in a different manner. It can, for example, involve exposure to advertisements or the provision of data that can be used for targeted advertising. The "price" of the free products may thus indirectly be reflected in the prices of other (advertised) products and, as such, still be included in the national accounts. However, this is not necessarily the case in full. Ownership of data could potentially also be linked to the opportunity for future earnings.

2.4 Variations of GDP and other measures of prosperity

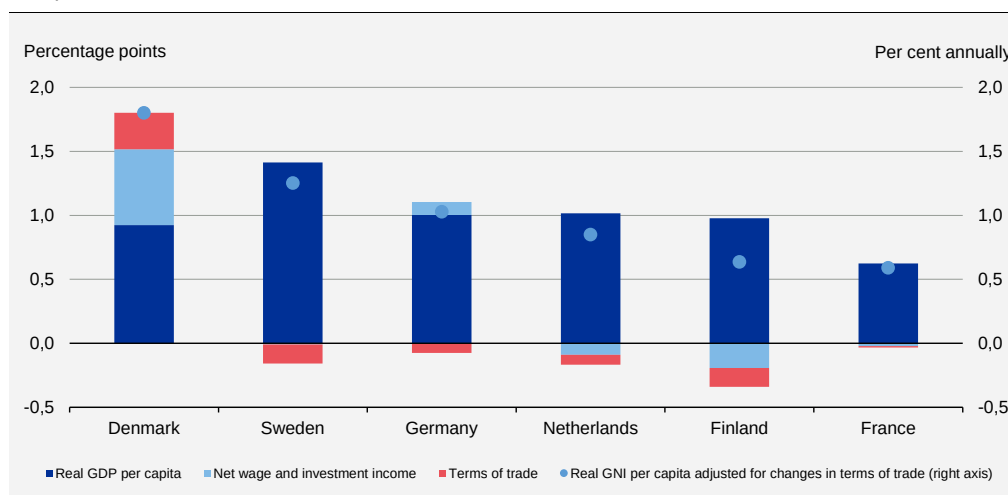
In the national accounts some related measures of gross value added and income can be found. A central number is GNI (gross national income), which covers total income of a country's residents. Relative to GDP thus GNI also consists of transfers in and out of the country. These transfers for example covers wage income (Danish citizens working abroad, or foreign citizens working in Denmark) and other transfers to and from abroad (e.g. foreign aid). GNI also consists of investment income to and from abroad. These covers for example rent income from mortgage, dividends and company profits from subsidiary companies.

Since total income of a country's residents says more about their consumption possibilities than value added, GNI per capita is often used as an alternative measure to GDP per capita, when the purpose is to shed light on the development in prosperity of a country.

Consumption possibilities are, however, not only affected by income, but also by the relative prices of goods and services at home and abroad. Changes in terms of trade, thus matters for the purchasing power of a country's income. That means, whether goods and services from abroad become more expensive relative to goods and services sold abroad – or vice versa. Prosperity, expressed as consumption possibilities, can thus increase, if terms of trade are improved. Therefore, it is relevant to adjust GNI for changes in terms of trade.

The development in real GDP per capita compared to real GDP per capita adjusted for changes in terms of trade from 2000 until 2022 in Denmark, reflects, that increase in prosperity especially can be attributed to an increase in real GDP per capita. At the same time, there has also been significant contributions from both wage and investment income from abroad, and from improvements in terms of trade. This reflects that GNI has increased by more than GDP in this period, and that the price of Danish exports has increased by more than the price of those goods and services, that Denmark imports from abroad, *cf. figure 2.3*.

Figure 2.3 Growth in real GNI per capita adjusted for changes in terms of trade in selected countries, 2001-2022

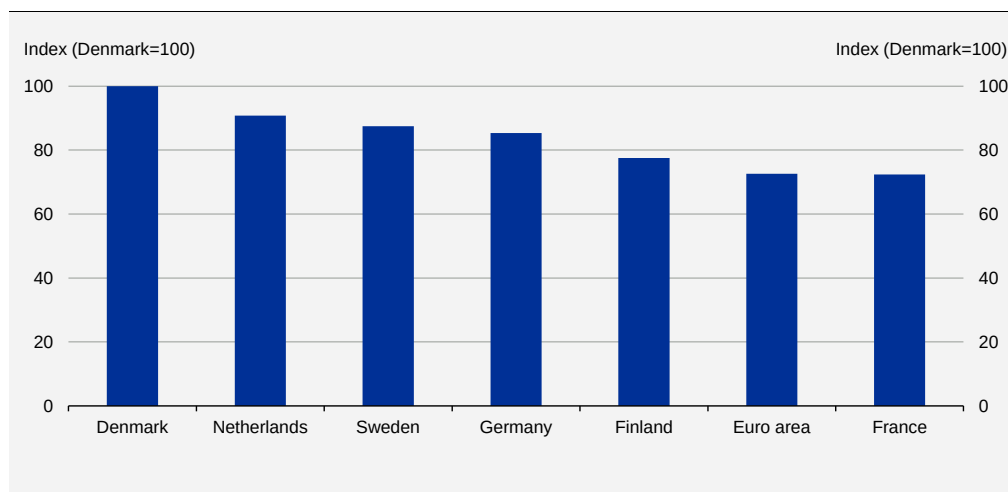


Note: Net contributions from wage and investment income is the difference between growth in real GDP per capita and growth in real GNI per capita. Contributions from terms of trade is the difference between growth in real GNI per capita adjusted for changes in terms of trade and real GNI per capita. The adjustment for changes in terms of trade corresponds to the method from Ølgaard (2006), which, among others, is used by DØRS in Produktivitet 2023.

Source: OECD, Christian Ølgaard (2006): Relevansen af BNP-vækstrater, Danmarks Nationalbanks Kvartalsoversigt, and own calculations.

The increase in prosperity of Danish citizens can thus be attributed to more factors than GDP – and to a much larger extent compared to a number of other European countries.

Besides *growth*, it is also relevant to compare the *level* of prosperity between countries. This however requires, that differences in price levels are taken into account. This is due to the fact, that a specific income in e.g. USD can buy a different size of basket of goods and services in different countries. It is attempted to take differences in price levels between countries into account by using so called PPP indexes (Purchasing Power Parity). Measured in this way by PPP adjusted GNI per capita, Denmark also has a high level of prosperity compared to a number of other European countries, cf. figure 2.4.

Figure 2.4 PPP-adjusted GNI per capita in selected countries, 2022

Note: GNI per capita is measured in current prices, local currency and adjusted with current PPP index in local currency per USD.

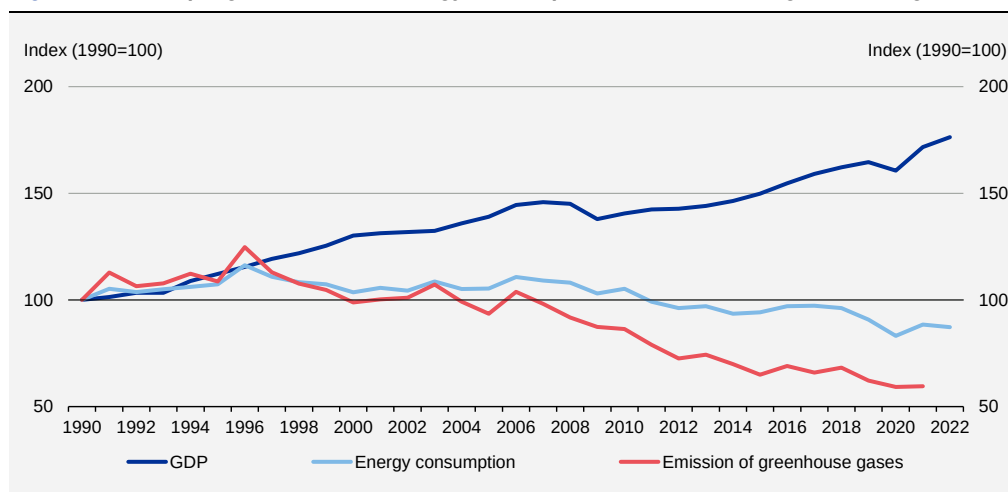
Source: OECD and own calculations.

Other variations of GDP exists. Net domestic product (NDP) also attempts to adjust for the wear and tear on capital goods, which means that the value of machinery, buildings and other capital goods depreciates over time. Equivalent to GNI a net national income (NNI) also exists. However, both GNI and NNI are associated with further measurement problems relative to GDP and NDP. They are therefore, less often used, especially when comparing countries.

2.5 Green economy

The traditional national accounts are linked to economic activity, including GDP. As a supplement, Statistics Denmark also prepares the green national accounts in accordance with international guidelines. The purpose of the green national accounts is to identify how economic activities affect the environment and how nature is part of the national wealth in a broad sense.

The green national accounts make it possible to compare production value, value added and employment across industries with the physical consumption of materials, energy and water. At the same time, it is calculated how large amounts of waste, waste water and emission of greenhouse gases and air pollutants the production entails. The statistics show, among other things, that over recent decades there has been a significant decoupling between economic activity (GDP), energy consumption and the emission of greenhouse gases, *cf. figure 2.5*.

Figure 2.5 Decoupling between GDP, energy consumption, and emission of greenhouse gases

Note: The gross energy consumption is excl. bunkering. Emissions of greenhouse gases follow UNFCCC, excl. land use and forestry (LULUCF). See appendix 2.1 in the Economic Survey, December 2019 for a detailed description of the calculation of the emission of greenhouse gases etc.

Source: Statistics Denmark, Aarhus University and own calculations.

The green national accounts also make it possible to shed light on aspects of the green economy, as it contains an inventory of, among other things, the production and export of green goods and services for a number of different purposes linked to environmental protection and resource conservation. Environmental protection purposes can, for example, be the production of plants for the utilization of wind energy, and resource purposes can be the production of energy-saving heat pumps.

Finally, the green national accounts have an inventory of stocks of some natural resources including oil, natural gas, forest and fish.

The green national accounts are under continuous development, but follow international guidelines and use the same classifications as the traditional national accounts. Therefore, there is also comparability over time and between countries.

The green national accounts do not in themselves contain a green GDP. In principle, a green GDP must include the value added from a number of environmental and nature services and take into account the costs of pollution, emission of greenhouse gases and wear and tear of Denmark's natural capital, as well as the gain from investing in increasing the natural capital – all converted into a monetary value that can be compared to GDP. A green GDP, where, in addition to normal consumption of goods, an attempt has also been made to take into account other resources/burden on the environment, is not, however, a clear-cut concept. The challenge of the assessment is, among other things, the valuation of non-market conditions, including access to nature. As an example of this kind of value assessment, the Danish Economic Council has made an estimate of the value of the lark's song, cf. The Chairmanship of the Economic Council (2004).

A group of researchers has developed a Danish green GDP that takes into account climate and environmental effects of economic activity and of various reform proposals, cf. Sørensen (2023). The relevant calculation of a green GDP is based, among other things, on the green national accounts and new methods for calculating the environmental and climate effects of economic activities in the society. The value of the various natural assets is calculated using studies in which a representative group of the population has been asked how much they are willing to pay for a specific environmental or climate improvement. With the calculation in question, the costs of pollution and damage to nature and the environment are estimated to be DKK 250 billion annually, corresponding to around 9 per cent of GDP. However, the cost is estimated to be relatively constant in monetary terms since 1990, which is why it has constituted a decreasing share of GDP during the period.

2.6 Broader measures of welfare

GDP is a measure of economic activity and prosperity, but does not say anything directly about welfare and what is ultimately the quality of life or life satisfaction for individuals or for a society. It is thus possible to point to conditions that can pull in different directions in relation to prosperity and welfare, and increased prosperity does not necessarily lead to correspondingly increased welfare.

An early and influential report on alternative measures of wealth was produced by Stiglitz, Sen and Firoussi (2009). It started a discussion about the challenges of GDP as a measure of prosperity and contained proposals that one should focus more on household incomes as a measure of the development in prosperity and place more emphasis on the median income rather than the average, as the average for many countries have been pulled up by rising income differences. In addition to objective measures of prosperity, the report also calls for increased use of subjective measures of quality of life.

Academics and international organisations have made attempts in recent years to develop various indicators for prosperity and welfare. The approach varies and includes the weighting of objective criteria as well as self-assessed measures of life satisfaction.

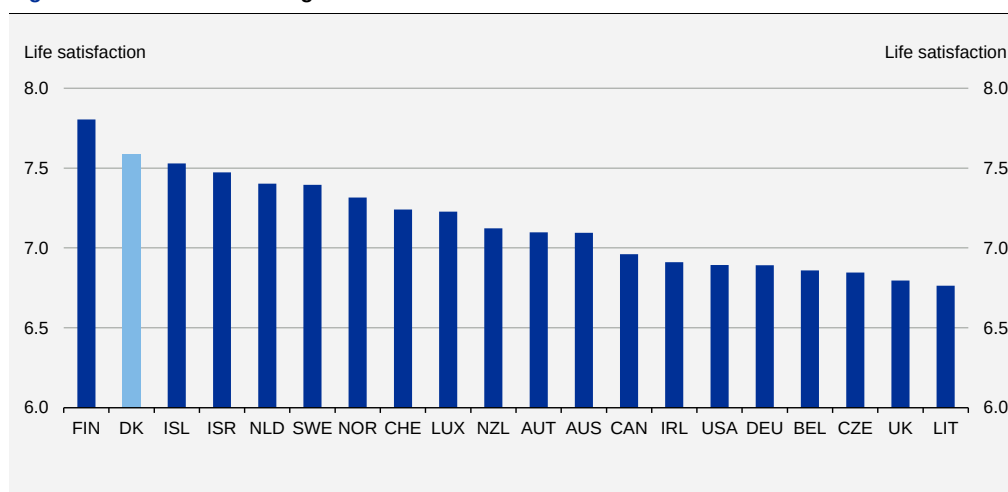
The UN calculates a standard of living index called the Human Development Index (HDI), which in addition to the standard of living measured by GNI per per capita also takes into account life expectancy and the average number of years of schooling in a country. The OECD has produced a more specific measure regarding the household sector based on disposable income adjusting for the value of social services, such as education and health services (adjusted GHDI). In these measurements, Denmark is ranked relatively high.

International organizations also publish a large number of indicators on a comparable basis for different countries, without necessarily weighing them up. A well-known example is the UN's global goals, which can also be followed by national indicators, including for Denmark. In a comparison of the so-called Sustainable Development Index, Finland, Sweden and Denmark have the highest score in 2023 (dashboards.sdgindex.org). The OECD also prepares the so-called Better Life Index, which contains a number of different indicators for prosperity and welfare, and where you can enter your own subjective weights on the various dimensions. It thus makes it possible to see the ranking across countries for different combinations of the indicators (oecdbetterlifeindex.org).

On the academic side, for example Jones and Klenow (2016) have constructed a welfare measure for different countries based on consumption, leisure, mortality and inequality. They find that the correlation between this measure and the classical GDP measure is very high. If this measure is used, Western European countries are closer to the USA than in terms of GDP. In addition, inequality across countries is greater using this measure, as poor countries score relatively lower on the four indicators used in the measure than they do on GDP. The Presidency of the Economic Council (2023a) has used the same method for Denmark and reaches the conclusion that, compared to 24 high-income OECD countries, Denmark ranks higher measured by the welfare indicator used than by GDP, whereas the opposite is the case for the USA.

Another type of indicator is based on questionnaire surveys and thus includes a self-assessed and subjective assessment of life satisfaction, sometimes called happiness. An example of the use of self-assessments can be found in the World Happiness Report, which is published annually, and which also attempts to provide explanations for some of the underlying reasons for the differences. In the latest report, Denmark ranks 2nd after Finland in terms of lifestyle satisfaction in the years 2020-2022, cf. figure 2.6.

Figure 2.6 Denmark is among the countries with most life satisfaction



Note: Life satisfaction scores are national averages of citizens surveyed by the Gallup World Poll on the question: "Please imagine a ladder, with steps numbered from 0 at the bottom to 10 at the top. The top of the ladder represents the best possible life for you and the bottom of the ladder represents the worst possible life for you. On which step of the ladder would you say you personally feel you stand at this time?"

Source: Helliwell et al. (2023).

While all countries in practice use a large number of different indicators in connection with political priorities and reforms – within e.g. economy, health, education, climate, nature and environment – some countries have begun, at least for a period, to present their political objectives and priorities within an overall framework with an emphasis on various goals for life satisfaction etc. For example, in 2019-2023 New Zealand has presented a "Wellbeing Budget", where the political priorities are also based on social and environmental indicators, among other things.

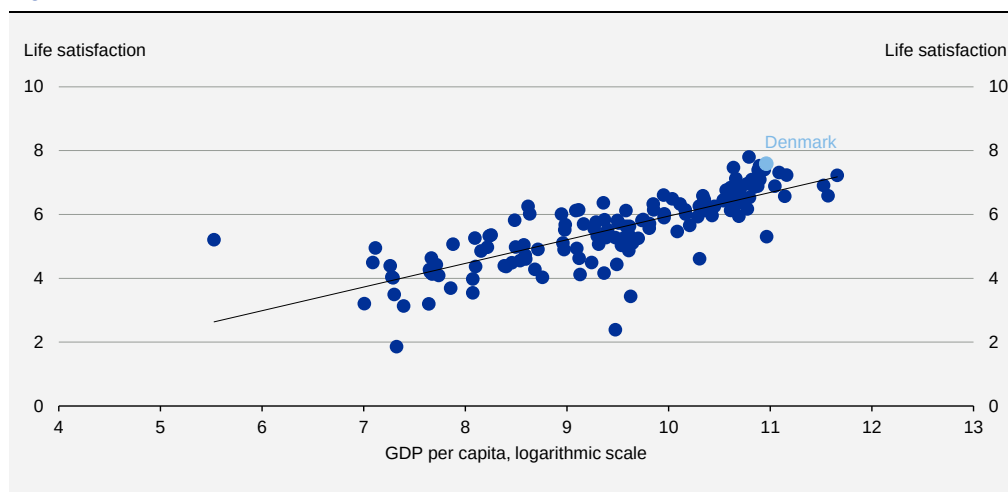
In Denmark, economic policy is also planned based on a wide range of considerations and using indicators in a wide range of areas. Among other things, Denmark probably has the most well-developed tools and database for elucidating distributional conditions and consequence calculations using the Law Model and the family type model, which also provide input for calculating the effect on the labor supply of changes in the tax and transfer system. The Ministry of Climate, Energy and Utilities prepares projections of Denmark's climate emissions, and in recent years GreenREFORM has been further developed and, among other things, used to calculate estimates for Denmark's consumption-based climate footprint and has supported the Expert Group for a green tax reform in their work.

In addition, there are various projects being prepared by private organisations, think tanks and researchers, which can support a greater spread of various welfare indicators. A so-called "Trivselsbank" is being developed by the think tank Institute for Happiness Research, where one of the ambitions is to try to measure the effect on the Danes' quality of life of various political measures. Another Danish initiative in a collaboration between Economists Without Borders, the University of Copenhagen, Rambøll Management Consulting and Impactly is the Open Social Value Bank, which is a tool that aims to help calculate the economic value of well-being. The bank contains estimates for social well-being values and a calculation model that the developers want used to promote socially and economically sustainable investments in society.

The various indicators for quality of life and life satisfaction provide an alternative basis for measuring societal development with a focus on quality of life and may, among other things, be relevant to look at as a supplement to GDP. However, it is not a given how they can best be used to prioritize efforts in different areas. Welfare has many dimensions, and it is not obvious that they can be gathered into a single goal. It seems difficult, for example, to balance loneliness, biodiversity, treatment of serious diseases and the marine environment, without it reflecting a subjective or political prioritisation.

Quality of life will also in many cases be both subjective and relative, as different people will not necessarily have the same perceptions of quality of life, and because the experience of welfare and quality of life will be conditioned by a number of external circumstances. A balance in a single goal will therefore also for this reason contain a subjective or political prioritization, which means that you will probably never be able to find a universal definition of goals for quality of life or welfare.

These challenges suggest that indicators for welfare and quality of life can be more of a supplement than an alternative to GDP. Furthermore, the provision of welfare will to a certain extent be conditioned by prosperity. Thus, there is a relatively close correlation between the various indicators for life satisfaction and GDP across countries, *cf. figure 2.7*.

Figure 2.7 Close correlation between life satisfaction and GDP

Note: GDP is calculated in real terms. See also note for figure 2.6.

Source: FN samt Helliwell m.fl. (2023).

The aforementioned indicators for welfare or quality of life emphasize, among other things, distribution, which is also an important consideration in the design of Danish economic policy. Denmark is generally characterized by small income differences by international standards.

Different inequality measures are used to illuminate the income differences and thus also the differences in consumption opportunities in the population. Income differences can be based on many factors, including personal choices and preferences as well as a lack of equal opportunities for e.g. education and work. Consequently, there is also a connection to other indicators of well-being. Conversely, income differences can also have an impact on incentives to choose education and employment.

There are a number of different inequality targets. The common feature of various inequality measures is that total income differences are boiled down to a single number. This means that nuances are lost. If the income differences measure by, for example, the Gini coefficient increase, it may be because incomes have been reduced in the lower part of the income distribution or increased in the upper part. For all distributional measures, it is also true that they typically do not say anything concrete about the causes of the measured income differences. Also, differences in income does not give the whole picture if you want an insight into inequality, and other relevant factors are, for example the degree of equal opportunities for education, employment and healthcare.

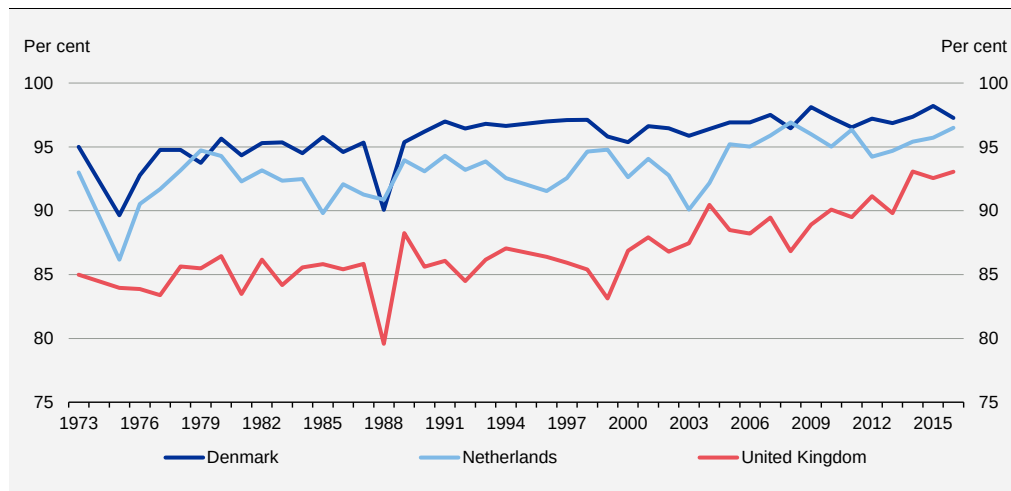
2.7 Life satisfaction over time

While the cross-sectional correlation between life satisfaction and GDP is strong across countries, the correlation is weaker for a given country over time. That is, long run economic growth only results in increased survey based life satisfaction to a lesser extent, as per Easterlin og Angelescu (2009) og Sgroi (2023). This holds especially for advanced economies. The difference in short and long-term correlations, which was proposed in 1974, has been dubbed Easterlins paradox, as per Easterlin (1974). A possible explanation of the paradox is that life satisfaction to

some extent is based on comparisons with other people, where the socioeconomic status of others constitutes a point of reference for one's own life satisfaction. Another explanation is that people become accustomed to a higher quality of life. According to Lavard and de Neve (2023), economically wealthy people are on average happier than economically poor people at any given time. It is not clear however, that rich countries have increased their quality of life as they have encountered economic growth. This is also expressed by the fact that a clear difference in level of life satisfaction can be observed across countries, which seems to be persistent over time, as shown in *figure 2.8*.

The fact that a rise in material wealth is not unequivocally linked with a rise in subjective life satisfaction over time in rich countries may indicate that an increase in material wealth concurrently raises expectations regarding a good life. The rising expectations should be seen in conjunction with the fact that increased prosperity provides new and improved opportunities that sets the norm. This includes disease treatment, combating environmental issues, leisure and travel, food and drinks, communication, methods of transportation etc. Therefore, even though the people of e.g. the 1970s reported a similar degree of life satisfaction as the people of today, it is doubtful that the people of today would be as satisfied with the living standards of the 1970s.

Figure 2.8 Life satisfaction over time for selected countries



Note: Percentage of respondents indicating that they are "very satisfied" or "quite satisfied" with their lives.
Source: Eurobarometer.

Business cycles have an independent impact on the life satisfaction of different groups. In particular, economic downturns seem to result in a decline in life satisfaction for a period. This was evident, for instance, under the oil crisis in the 1970s, following the crisis in the 1980s and after the financial crisis in the 2000s. The conclusion also applies more broadly, although the effect is more moderate when it comes to regular economic fluctuations, as indicated by Wolfers (2002).

Economic downturns do not only lead to income loss but are also associated with increased uncertainty, which can affect the population more broadly. Hence, several studies show that economic uncertainty is linked to higher levels of anxiety and stress. A study of individuals' self-

reported life satisfaction reveals that life satisfaction is more than twice as susceptible to negative growth compared to positive growth, as per De Neve et al. (2015). This asymmetry, where economic setbacks affect life satisfaction more, can be an argument for pursuing countercyclical policies. Additionally, countercyclical policies can already contribute to reducing risks, such as preventing the build-up of financial imbalances in households and businesses.

2.8 Conclusion

GDP is an important economic concept that provides a general benchmark for whether there is growth or decline in economic activity and prosperity. GDP will continue to be an absolutely central concept in relation to a society's economic activity and economic policy planning. This applies, for example, in relation to organize monetary and fiscal policy in different business cycles and thereby dampening cyclical fluctuations and avoiding deep crises and periods of overheating. In addition, the calculations of GDP is the result of methodological considerations that ensure a uniform calculation across countries.

However, GDP is not a measure that captures everything, and it must be used and interpreted with the limitations that the calculation has. In a global economy with large multinational companies that create value not just within their own country but also in other countries, it is increasingly important to interpret the development in the various sub-components of GDP and not just the development in GDP as a whole.

Other indicators may be relevant in other contexts, but they cannot serve as a substitute for GDP. Depending on the specific issue, GDP can for example be supplemented with measures for the impact on the environment and climate, distributional effects on incomes or subjective assessments of life satisfaction. This consideration is not new and has largely been standard practice in e.g. impact assessments of policy initiatives for many years, where emphasis is typically placed on many dimensions of a given initiative, incl. e.g. distributional effects or effects on nature and the environment.

It is important to continuously evaluate and further develop methods to describe development in prosperity and various indicators for well-being. As a central measure of prosperity, the underlying methods for calculating GDP are also continuously evaluated and updated by Eurostat, among others.

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Annex tables

Table B.1 Demand, import and production

	2023	2024	2025	2023	2024	2025	2023	2024	2025
	DKK bn.			Volume, per cent			Prices, per cent		
Private consumption	1,278	1,335	1,383	0.9	1.6	1.5	3.4	2.8	2.1
Public consumption ¹⁾	640	680	727	0.9	2.2	1.9	2.8	4.0	4.9
Public investments ²⁾	97	98	103	6.3	-2.4	1.7	3.3	3.3	3.1
Residential investment	134	134	139	-12.1	-2.2	1.2	2.8	2.7	2.3
Business fixed investment	373	369	376	-3.3	-2.2	0.1	1.4	1.1	1.9
Domestic demand excl. inventory investment	2,525	2,620	2,733	-0.3	0.9	1.4	2.9	2.9	2.8
Inventory investment ³⁾	21	11	13	-1.4	-0.5	0.1			
Total domestic demand	2,546	2,631	2,746	-1.8	0.3	1.5	3.0	3.1	2.8
Exports of goods and services	1,959	2,064	2,148	10.8	4.2	2.4	-10.8	1.1	1.6
Total demand	4,505	4,695	4,894	3.7	2.0	1.9	-3.5	2.2	2.3
Imports of goods and services	1,702	1,762	1,845	8.0	3.0	3.3	-5.6	0.6	1.4
Gross domestic product	2,803	2,933	3,049	1.2	1.4	1.0	-2.2	3.2	2.9
Taxes on products, net	331	350	365						
Gross value added	2,472	2,583	2,684	1.5	1.5	1.0	-2.3	2.9	2.9
- Non-farm private sector ⁴⁾	1,798	1,868	1,934	0.9	1.0	1.0	10.5	2.9	2.5
Gross national income	2,885	3,014	3,130						

Note: The division into volume and price components is made based on a fixed price calculation in the previous year's prices.

- 1) The change in volume for public consumption is calculated using the output method. For 2023-2025, growth in public consumption using the input method is assumed to equal growth using the output method.
- 2) Public investments exclude general government net purchases of buildings, and therefore the figures will deviate from public investments in table B.7.
- 3) The volume figures reflect changes in inventories compared to GDP.
- 4) Non-farm private sector consists of manufacturing, construction and private service excluding shipping.

Source: Statistics Denmark and own calculations.

Table B.2 Interest rates, oil price, exchange rates and external assumptions

Interest rates, per cent		2021	2022	2023	2024	2025
USA	Federal Funds Target Rate	0.3	1.9	5.2	5.4	4,6
	3-month LIBOR	0.2	2.4	5.4	5.5	4,8
	10-year government bond	1.4	3.0	4.0	4.4	4,4
Euro area	Main Refinancing Operations Rate	0.0	0.6	3.8	4.4	3,6
	3-month EURIBOR	-0.6	0.4	3.4	3.6	2,9
	10-year government bond (Germany)	-0.3	1.2	2.5	2.6	2,6
Denmark	Certificates of deposit rate	-0.6	0.0	2.9	3.5	2,7
	3-month CIBOR	-0.2	0.6	3.5	3.6	2,9
	1-year adjustable mortgage rate	-0.5	1.0	3.4	3.3	2,8
	10-year government bond	0.0	1.5	2.8	2.8	2,8
	30-year mortgage interest rate	1.5	3.7	4.8	5.0	4,8
	Average interest rate	0.4	2.0	3.6	3.6	3,3
Oil price						
Dollar per barrel			100.8	82.6	81.3	81.9
DKK per barrel			713.1	569.7	558.3	562.4
Exchange rate						
DKK per 100 dollar			707.6	689.6	686.8	686.8
DKK per 100 euro			744.0	745.1	745.7	745.7
Effective Krone Rate Index (1980=100)			101.9	104.7	105.2	105.2
		Real growth rate, per cent				
External assumptions						
Export market growth ¹⁾ , per cent			7.2	0.3	2.4	3.1
Trade weighted GDP-growth ²⁾ , per cent			3.1	1.3	1.6	2.2

Note: The projections are based on data through November 27th, 2023. Annual averages are own calculations. For monetary policy interest rates, the interest rate estimate is based on an assessment of the latest announcements by central banks and market expectations. For money market rates and the yield on 10-year government bonds, estimates are based on market expectations, which are based on the prices of swap interest rates. For the 1-year and 30-year mortgage rate bonds, data is Finance Denmark's bond rates and estimates are based on spreads to the 3-month money market rate and the 10-year government bond rate respectively. Estimates for exchange rates are calculated technically by assuming that the exchange rate for the remaining forecast period corresponds to the average during the last ten days prior to the estimation. Estimates for the oil price are based on the International Energy Agency, World Energy Outlook, October 2023, as well as futures prices.

- 1) Calculated as the weighted average of import growth in Denmark's 36 most important trade partners. The weights reflect the countries' share of Danish manufacturing exports in 2022.
- 2) Calculated as the weighted average of the GDP-growth in Denmark's 36 most important trade partners. The weights reflect the countries share of Danish export of goods and services in 2022.

Source: Macrobond, Nordea Markets, The International Energy Agency, IMF World Economic Outlook October 2023 and own calculations.

Table B.3 Befolkning og arbejdsmarked

	2021	2022	2023	2024	2025
1,000 persons					
Total population	5,857	5,890	5,916	5,934	5,949
- Labour force	3,156	3,242	3,290	3,293	3,276
- Total employment	3,052	3,168	3,208	3,199	3,178
- Ordinary employment ¹⁾	2,956	3,065	3,101	3,000	2,975
- Subsidised employment ²⁾	96	103	107	114	116
- Gross unemployment (incl. activation) ³⁾	106	76	84	97	101
- Net unemployment	94	65	70	78	82
- Outside the labour force	2,700	2,647	2,626	2,642	2,674
- Recipients of unemployment benefits outside the labour force	85	80	73	75	77
- Early retirement pensioners outside the labour force	198	204	211	212	215
- Senior pensioners outside the labour force	11	18	24	27	28
- Voluntary early retirement	52	47	35	27	21
- Persons under 15 years	947	943	937	933	930
- Pensioners outside the labour force	978	963	968	982	995
- Others outside the labour force	430	392	379	386	408

Note: Recipients of education assistance benefit, the special education benefit and other temporary benefits (kontantydelse) are included as cash benefit recipients.

- 1) Calculated as the difference between employment as determined in the national accounts and subsidised employment, which is based on data from AMFORA. Due to differences in the definition of employment in the two sources, the data is subject to a degree of uncertainty
- 2) Includes persons in employment with wage subsidies (including flex jobs and light duty jobs)
- 3) The number of unemployment benefit recipients in activation and labour-market-ready cash benefit recipients includes persons in subsidised employment.

Source: Statistics Denmark and own calculations.

Table B.4 Employment by industry including leave

	2021	2022	2023	2024	2025
1,000 persons					
Employment, total	3,052	3,168	3,208	3,199	3,178
- Service industries	1,597	1,682	1,710	1,702	1,687
- Construction	204	212	212	208	203
- Manufacturing	307	317	323	322	318
- Agriculture	71	70	70	69	69
- Public sector	853	865	873	876	881

Note: The industry division is based on the division in the ADAM model, which are not identical to the division in the national accounts. The employment levels for oil refineries etc. and housing are not shown in the table.

Source: Statistics Denmark and own calculations.

Table B.5 Unemployment

	2021	2022	2023	2024	2025
1,000 persons					
Gross unemployment	106	76	84	97	101
- per cent of workforce	3.4	2.3	2.6	2.9	3.1
Net unemployment	94	65	70	78	82
LFS unemployment (per cent)	5.1	4.5	5.0	6.0	6.2

Note: Differences in the definition of the labour force between the Ministry of Economic Affairs and the Ministry of Finance on one side and Statistics Denmark on the other means that the gross unemployment rate in per cent of the workforce is estimated at a lower level.

Source: Statistics Denmark and own calculations.

Table B.6 Benefit recipients etc.

	2021	2022	2023	2024	2025
1,000 persons					
Unemployment benefits (excl. activation)	82	55	58	65	69
Cash benefits (excl. activation)	75	64	61	62	67
Recipients of unemployment benefits and cash benefits in activation ¹⁾	22	21	23	26	28
Holiday benefit	2	2	2	2	3
Early retirement pensioners ²⁾	219	226	233	234	237
Senior pension	12	19	26	30	31
Resource assessment benefit	33	38	35	35	35
Voluntary early retirement	52	47	35	27	21
Early retirement	0	7	12	14	14
Flex job scheme benefit	3	3	2	2	2
Disablement rehabilitation benefit ³⁾	2	2	1	1	1
Sickness benefit ⁴⁾	86	86	80	80	79
Maternity leave	54	53	51	51	53
Benefit for unemployed	16	13	14	15	15
Self-support, home-travelling and transitional benefits ⁵⁾	10	14	13	15	10
Total	668	650	646	659	665
Student grant (SU)	312	297	290	298	297
Total, including SU	980	947	936	957	962
Pensioners	1,118	1,102	1,106	1,123	1,139
Total, including SU and pensioners	2,098	2,049	2,042	2,080	2,101
Subsidised employment ⁶⁾	96	103	107	114	116
Total, including SU, pensioners and subsidised employment	2,194	2,152	2,149	2,194	2,217

Note: Recipients of education assistance benefit, the special education benefit and other temporary benefits (kontantydelse) are included as cash benefit recipients.

1) The data does not cover persons in subsidised employment and thereby differs from other register-based data and table B.3. Furthermore, both labour market ready and non-labour market ready cash benefit recipients are included in the group of recipients of unemployment benefits and cash benefits in activation schemes.

2) Early retirement and retirement pension include pensioners living abroad as well as pensioners, who are employed.

3) Excl. persons on disablement rehabilitation with wage support.

4) The number of sickness benefit recipients does not reflect the total absence due to illness. It includes the part of the sickness absence, which is not covered by the employer. Specifically, this covers sickness absences longer than 30 days as well as sickness among the unemployed.

5) The number of self-support and home-travelling as well as transitional benefits are calculated excl. recipients of wage subsidies

6) Includes persons in employment with wage subsidies (including flexi-jobs and sheltered jobs).

Source: Statistics Denmark, DREAM and own calculations.

Table B.7 Gross investments

	2022	2021	2022	2023	2024	2025
	DKK bn.	Real growth rate, per cent				
Gross fixed capital formation	616	6.6	3.2	-3.9	-2.2	0.7
<i>Divided into groups:</i>						
- Construction investments	295	9.7	-3.8	-4.4	-2.3	1.2
- Tangible and intangible investments	321	3.4	10.4	-3.5	-2.2	0.2
<i>Divided into groups:</i>						
- Residential investments	148	10.0	-8.5	-12.1	-2.2	1.2
- Public investments ¹⁾	88	-3.1	0.8	7.0	-2.6	2.4
- Total business investments	380	7.8	9.2	-3.3	-2.2	0.1
- Construction investments	98	11.4	0.7	1.1	-1.8	0.0
- Tangible and intangible investments	281	6.3	12.3	-4.8	-2.3	0.1

1) Public investments are incl. public acquisitions of buildings, which is why numbers differ from what is stated in table B.1.
Source: Statistics Denmark and own calculations.

Table B.8 Balance of payments

	2021	2022	2023	2024	2025
DKK bn.					
Goods exports	886	1,050	1,154	1,225	1,265
Goods imports	813	989	973	1,011	1,054
Goods balance, total	73	61	182	214	210
Service exports	611	933	805	839	884
Service imports	513	680	729	751	791
Service balance, total	98	253	76	88	93
Balance of goods and services	171	314	257	302	303
- Per cent of GDP	6.7	11.1	9.2	10.3	9.9
Investment income from abroad, net	112	110	100	100	100
Wage income from abroad, net	-15	-18	-19	-20	-20
EU payments, net	-16	-12	-14	-13	-16
Other current transfers from abroad, net	-26	-16	-24	-22	-27
Net transfers from abroad, total	55	64	42	45	36
Current account, total	226	379	300	347	339
- Per cent of GDP	8.9	13.4	10.7	11.8	11.1
Net assets against other countries	1,883	1,757	2,057	2,683	3,350
- Per cent of GDP	73.8	62.1	73.4	91.5	109.9

Source: Statistics Denmark and own calculations.

Table B.9 Exports and imports

	2022	2021	2022	2023	2024	2025
	DKK bn.	Real growth rate, per cent				
Exports						
Goods, total	1,050	10.4	7.1	10.0	5.0	2.2
- Agricultural goods etc.	146	4.7	-2.5	-3.1	1.6	2.1
- Industrial goods (excl. ships etc.)	774	10.3	9.6	15.0	4.6	2.3
- Other goods ¹⁾	130	24.9	1.4	-5.3	14.0	2.0
Services, total	933	3.5	16.3	11.7	2.9	2.7
- Sea transport	561	7.5	5.8	7.0	2.4	3.1
- Other services	307	-1.0	20.1	19.0	3.2	2.2
Total	1,983	7.7	10.8	10.8	4.2	2.4
Imports						
Goods, total	989	10.7	1.2	3.5	2.7	3.2
- Agricultural goods etc.	112	5.5	3.4	-4.5	5.0	3.8
- Industrial goods (excl. ships etc.)	611	12.9	0.3	3.7	4.2	3.7
- Other goods ²⁾	266	6.2	2.6	6.4	-2.4	1.4
Services, total	680	6.0	14.9	14.6	3.3	3.5
Total	1,668	8.8	6.5	8.0	3.0	3.3
Memo						
Nominal growth rate, per cent						
Export of basic goods ³⁾	956	10.2	14.2	13.6	5.1	3.3
Export prices						
Change, per cent						
Goods, total	-	2.7	10.6	0.0	1.0	1.0
Services, total	-	18.8	31.3	-22.8	1.3	2.5
Total	-	8.7	19.5	-10.8	1.1	1.6
Import prices						
Goods, total	-	8.7	20.2	-5.0	1.2	1.1
Services, total	-	6.9	15.2	-6.4	-0.3	1.7
Total	-	8.0	18.1	-5.6	0.6	1.4

1) Raw materials, energy and ships etc.

2) Raw materials, energy, cars and ships etc.

3) Export of basic goods consists of export of goods excluding energy, ships and airplanes.

Source: Statistics Denmark and own calculations.

Table B.10 Private consumption

	2022	2021	2022	2023	2024	2025
	DKK bn.	Real growth rate, per cent				
Total consumption	1,225	5.5	-1.4	0.9	1.6	1.5
Retail trade	411	8.1	-3.3	-4.0	2.4	1.9
- Food, drinks and tobacco	186	6.1	-6.5	-3.8	2.5	1.2
- Other goods	224	9.7	-0.6	-4.2	2.4	2.5
Purchase of vehicles	44	0.2	-18.1	25.0	0.5	2.0
Electricity, fuels and gas	76	9.3	-8.2	-1.5	1.5	0.5
Gasoline and similar	33	3.3	-0.4	5.0	-0.2	-0.2
Housing	268	1.1	1.7	1.0	0.9	0.9
Other services	418	4.8	8.5	3.8	1.9	2.0
Tourist expenditures	40	26.1	18.6	22.0	2.0	2.0

Source: Statistics Denmark and own calculations.

Table B.11 Net lending by sectors

	2021	2022	2023	2024	2025
DKK bn.					
Private sector, total	132	288	229	308	321
- Households	-30	30	31	64	44
- Corporations	162	258	199	243	276
- Non-financial corporations	115	189	99	151	194
- Financial corporations	47	69	100	92	82
General government	103	95	77	44	23
Total	235	382	306	352	344

Note: Net lending of general government corresponds to the general government budget balance. The total (except for the typically small net capital transfers from abroad) corresponds to the current account balance, cf. table B.8.

Source: Statistics Denmark and own calculations.

Table B.12 Gross value added (GVA)

	2022	2021	2022	2023	2024	2025
	Share, per cent	Real growth rate, per cent				
Total GVA	100	6.9	3.6	1.5	1.5	1.0
Public sector	18	3.3	1.1	1.2	1.1	1.3
Private sector	82	7.9	4.2	1.5	1.6	0.9
Private sector excl. mining and quarrying	81	7.9	4.2	1.7	0.9	0.8
Non-farm private sector ¹⁾	65	9.1	4.2	0.9	1.0	1.0

1) Non-farm private sector consists of manufacturing, construction and private services excluding shipping.
Source: Statistics Denmark and own calculations.

Table B.13 Hourly productivity in selected industries

	Avg. 2003-2022	2021	2022	2023	2024	2025
Real growth rate, per cent						
Total	1.0	0.8	-0.5	0.7	1.6	1.6
Public sector	0.2	-1.5	-0.5	0.2	0.4	0.3
Private sector	1.2	1.3	-0.8	0.9	2.0	2.1
Private sector excl. mining and quarrying	1.5	1.3	-0.8	1.0	1.3	2.0
Non-farm private sector ¹⁾	1.5	2.3	-1.0	0.2	1.4	2.2

Note: Hourly productivity is defined as gross value added in constant prices relative to the total number of hours.

1) Non-farm private sector consists of manufacturing, construction and private services excluding shipping.

Source: Statistics Denmark and own calculations.

Table B.14 Contributions to growth in households' real disposable income¹⁾

	2021	2022	2023	2024	2025
Real growth rate, per cent					
Disposable income ²⁾	0.2	2.5	1.1	1.4	0.9
Contribution, percentage points					
Compensation of employees ³⁾	3.7	-0.4	1.1	2.1	1.4
Social benefits	-0.5	-2.4	0.2	0.5	0.8
Income taxes	-2.1	2.0	-0.5	0.2	-0.7
Net interest income	0.4	0.7	0.5	-0.9	-1.1
Dividend etc. ⁴⁾	0.2	1.0	-1.3	0.0	0.1
Pension contribution	-0.7	1.7	-0.9	-0.7	0.1
Payment from pension schemes ⁵⁾	-0.6	0.3	1.2	0.0	0.3
Others ⁶⁾	-0.2	-0.4	0.7	0.3	0.0

1) The household sector in the Economic Survey includes Non-Profit Institutions Serving Households (NPISH).

2) Taxation on payments of frozen holiday funds is subtracted in the calculation of disposable income.

3) Covering only employees residing in Denmark.

4) Incl. dividends from investment funds.

5) Occupational pensions etc. (but not individual pension schemes in banks, etc.).

6) Including the self-employed.

Source: Statistics Denmark and own calculations.

Table B.15 Households' net lending¹⁾

	2021	2022	2023	2024	2025
DKK bn.					
Disposable gross income ²⁾	1,167	1,286	1,344	1,401	1,443
Private consumption	1,156	1,225	1,278	1,335	1,383
Gross investment ³⁾	139	155	144	144	148
Net capital transfers ⁴⁾	-2	8	4	17	5
Direct net lending	-130	-86	-73	-61	-83
Adjustment for the change in pension entitlements ⁵⁾	99	116	103	126	127
Net lending⁶⁾	-30	30	31	64	44
Per cent of disposable gross income					
Direct net lending	-11.1	-6.7	-5.4	-4.4	-5.8
Net lending	-2.6	2.3	2.3	4.6	3.1

1) The household sector in the Economic Survey includes Non-Profit Institutions Serving Households (NPISH).

2) Taxation on payments of frozen holiday funds is subtracted in the calculation of disposable income.

3) Households' gross investments include investments in owner-occupied housing and investments in buildings and materials by sole proprietors.

4) Net capital transfers in 2022 include property taxes refunded to owner-occupied property owners, funds for specific challenges as a result of covid-19 and further stimulants as well as reimbursement of contributions to the voluntary early retirement scheme.

5) Net payments to and returns (excl. tax on pension yield) on household capital in life insurance companies and pension funds.

6) Households' (net) acquisition of financial assets (incl. shares) in other sectors.

Source: Statistics Denmark and own calculations

Table B.16 Real estate market and housing construction

	2021	2022	2023	2024	2025
Per cent					
Change in the price of traded single-family houses ¹⁾	10.5	0.3	-2.0	1.2	1.9
Housing gross investment (real growth)	10.0	-8.5	-12.1	-2.2	1.2

1) The change is adjusted for developments in the volume of housing sales.

Source: Statistics Denmark and own calculations.

Table B.17 Labour wage ratio, wage increases and computational preconditions

	2021	2022	2023	2024	2025
Labour wage ratio, per cent					
Private sector	56.5	53.5	57.2	57.3	56.6
The entire economy	61.5	58.6	61.8	61.9	61.6
Wage increase, per cent					
Private sector					
- Hourly earnings (excl. nuisance bonus)	2.9	4.0	4.3	5.4	3.4
Public sector					
- Hourly earnings (excl. nuisance bonus)	2.5	2.4	-	-	-
- Budgetary impact	2.5	1.9	2.4	4.6	6.0
Wage adjustment rate, per cent ¹⁾	2.0	1.2	2.7	3.2	4.0

Note: The labour income ratio is calculated as aggregate labour income relative to the GVA (gross value added) and adjusted for the number of self-employed. The hourly wage increases in the private sector in 2021-2022 are published by The Confederation of Danish Employers. The hourly wage increases in the public sector are a weighted average of wage indices for the state, the municipalities and the counties, all reported by Statistics Denmark. No estimates are made on the development in public sector hourly earnings. The budgetary impact is based on the contractually agreed wage increases including contributions from the adjustment scheme (reguleringsordningen) but excluding any residual increases. The hourly wage increases for the private and public sectors are not comparable.

1) The announced wage adjustment rates are shown for 2021-2024, while 2025 is an estimate based on the estimated wage increase in the private sector for 2023.

Source: The Confederation of Danish Employers, Statistics Denmark, and own calculations.

Table B.18 Price developments and explanatory factors

	2021	2022	2023	2024	2025
Change, per cent					
Net price index	1.5	7.7	4.8	2.4	2.0
Tariffs and housing benefits, contribution	0.5	0.0	-1.4	0.4	0.1
Consumer price index	1.9	7.7	3.4	2.8	2.1

Note: The contribution from tariffs and housing benefits is computed as the difference between the consumer price inflation and the net price inflation. Changes in the prices of taxed goods such as energy can therefore influence the contribution from taxes, even though the tax level remains unchanged.

Source: Statistics Denmark and own calculations.

Table B.19 Public finances

	2021	2022	2023	2024	2025
DKK bn.					
Public consumption	612.2	616.7	639.8	680.2	727.2
Income transfers ¹⁾	387.7	386.9	403.2	421.0	441.2
Investments	84.2	88.8	97.5	98.3	103.0
Interest expenditures	14.1	20.4	20.7	19.3	17.3
Subsidies	63.3	39.9	37.5	38.2	39.6
Other expenditures ²⁾	84.8	90.1	88.1	98.6	96.1
Total expenditure³⁾	1,246.3	1,242.7	1,287.9	1,356.8	1,425.3
Personal income taxes, etc. ⁴⁾	544.0	567.9	592.8	603.5	624.2
Labour market contributions	112.4	116.8	122.1	127.7	132.1
Pension yield taxation	63.8	11.1	9.0	9.3	11.4
Corporate taxes	100.8	89.2	94.7	96.5	94.8
VAT	251.2	264.7	270.5	281.6	294.1
Other duties	147.5	145.0	134.2	136.0	140.1
Other taxes ⁵⁾	2.8	1.2	1.0	1.0	1.0
Interest revenues	23.9	29.6	37.7	43.5	42.6
Other revenues ⁶⁾	107.1	116.4	105.9	105.6	112.5
Tariffs etc. to the EU	-3.7	-4.6	-4.7	-4.9	-5.1
Total revenue⁷⁾	1,349.8	1,337.4	1,364.5	1,401.1	1,448.6
General government budget balance	103.5	94.6	76.5	44.3	23.4
Net interest expenditure	-9.8	-9.1	-16.9	-24.2	-25.3
General government primary balance⁸⁾	93.7	85.5	59.6	20.1	-2.0

1) Income transfers exclude other regular transfers to households such as mileage allowance and index supplement.

2) Other expenditures include capital transfers, transfers to the Faroe Islands and Greenland and the Danish EU-contributions.

3) Total expenditure differs from Statistics Denmark's equivalent. Total expenditure is calculated from a definition of the total expenditure, where all sub-elements of public consumption – e.g. imputed expenditure from depreciation and revenue from sales of goods and services – are defined as expenditures.

4) Personal income taxes include withholding taxes, tax on imputed income from owner-occupied dwellings, specific taxes from households, tax on estates of deceased persons and other personal taxes.

5) Other taxes include media license and mandatory pension payments for civil servants.

6) Other revenues include profits from public enterprises, current and capital transfers from other domestic sectors and the EU, and imputed (calculated) revenues such as contributions to civil servants' earned pension. Moreover, revenues from oil and gas explorations in the North Sea, duty on pipelines, and the hydrocarbon tax are included in other revenues.

7) Total revenue differs from Statistics Denmark's equivalent, where the sales of public goods and services are counted as revenue and not – like here – counted as a part of the total expenditures. Furthermore, total revenue here includes a revenue-counterpart to the imputed depreciation expenditures included in public consumption.

8) The general government primary balance states the balance of the general government finances before net interest expenditures.

Source: Statistics Denmark and own calculations

Table B.20 Taxes and tax burden

DKK bn.	2021	2022	2023	2024	2025
Indirect taxes	395.0	405.1	400.0	412.8	429.2
- VAT	251.2	264.7	270.5	281.6	294.1
- Registration tax	16.4	11.5	11.3	9.9	10.1
- Excise duties	71.7	70.3	57.8	67.3	68.8
- Energy (incl. PSO)	37.6	38.4	27.7	36.8	38.0
- Environmental	3.7	3.7	3.7	3.8	3.9
- Tobacco and spirits etc.	13.2	11.3	11.0	11.1	11.1
- Others	17.1	16.8	15.4	15.6	15.8
- Property taxes	32.4	33.1	33.1	26.4	26.4
- Motor vehicle tax paid by businesses	4.1	4.1	4.2	4.1	6.2
- Other indirect taxes	19.3	21.4	23.1	23.5	23.5
Direct taxes	815.6	777.6	811.6	831.3	856.9
- Withholding taxes ¹⁾	522.1	544.6	569.2	582.0	602.4
- State tax	182.3	189.8	197.0	207.0	215.1
- Bottom-bracket tax	159.8	165.2	171.9	179.5	186.7
- Top-bracket tax	20.2	21.7	22.4	24.7	25.4
- Health contributions	0.0	0.0	0.0	0.0	0.0
- Limited tax liability	2.4	2.9	2.7	2.9	3.0
- Total municipal tax	277.9	284.1	297.3	312.9	324.1
- Property value tax	14.2	14.4	14.4	14.2	13.6
- Other withholding taxes ²⁾	47.7	56.3	60.4	47.9	49.6
- Pension yield tax	63.8	11.1	9.0	9.3	11.4
- Corporate tax	100.8	89.2	94.7	96.5	94.8
- Other personal taxes	8.1	8.7	9.2	8.3	8.4
- Media license	1.2	0.0	0.0	0.0	0.0
- Motor vehicle tax paid by households	7.2	7.2	7.4	7.5	7.9
- Labour market contributions	112.4	116.8	122.1	127.7	132.1
Social security contributions ³⁾	1.5	1.2	1.0	1.0	1.0
Capital taxes	6.6	7.4	7.1	5.7	5.6
Customs and import duties (collected by the EU)	3.7	4.6	4.7	4.9	5.1
Total taxes	1,222.5	1,196.0	1,224.4	1,255.6	1,297.8
GDP	2,550.6	2,831.6	2,803.0	2,932.9	3,048.9
Total taxes, share of GDP	47.9	42.2	43.7	42.8	42.6

1) For 2020-2022, the distribution of withholding taxes to the state and municipalities is from Statistics Denmark. For 2023-2024, an estimate is used based on the Ministry of Finance's tax base forecast.

2) Includes equity income tax, tax on estates of deceased persons and revenue from the Danish business scheme etc.

3) Includes mandatory pension payments for civil servants in public enterprise etc.

Source: Statistics Denmark

Table B.21 Development in the tax base for municipalities

	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
	DKK bn.					Per cent				
Aug. 2020	1,044.9	-	-	-	-	-0.9	-	-	-	-
Dec. 2020	1,070.7	1,087.2	-	-	-	0.7	1.5	-	-	-
May 2021	1,070.3	1,085.6	-	-	-	0.9	1.4	-	-	-
Aug. 2021	1,075.5	1,081.7	-	-	-	1.6	0.6	-	-	-
Dec. 2021	1,094.1	1,104.2	1,153.8	-	-	2.8	0.9	4.5	-	-
May 2022	1,102.1	1,105.9	1,148.2	-	-	3.5	0.3	3.8	-	-
Aug. 2022	1,136.4	1,122.8	1,148.8	-	-	6.8	-1.2	2.3	-	-
Mar. 2023	1,132.9	1,154.2	1,185.7	1,233.2	-	6.4	1.9	2.7	4.0	-
May 2023	1,132.9	1,160.9	1,193.6	1,230.1	-	6.4	2.5	2.8	3.1	-
Aug. 2023	1,132.9	1,140.0	1,195.7	1,249.2	-	6.4	0.6	4.9	4.5	-
Dec. 2023	1,132.9	1,140.0	1,203.3	1,265.4	1,310.3	6.4	0.6	5.5	5.2	3.6

Note: Rows show the time of the budgeting of the municipal tax base. The columns show the tax base in the year concerned.
Source: Statistics Denmark and own calculations.

Table B.22 Income transfers

	2021	2022	2023	2024	2025
DKK bn.					
Unemployment benefits (excl. activation)	17.7	11.7	12.8	14.7	16.3
Cash benefits ¹⁾ (excl. activation)	26.9	27.8	29.8	31.7	33.2
Vacation allowance	0.6	0.5	0.5	0.4	0.5
Anticipatory pensions ²⁾	46.3	47.7	50.7	52.2	55.0
Resource rehabilitation allowance	5.8	6.6	6.4	6.6	6.9
Early retirement benefit	8.9	7.8	5.8	4.4	3.6
Rehabilitation benefit	0.5	0.4	0.3	0.3	0.2
Sickness benefit	16.2	16.5	15.8	16.3	16.7
Maternity pay	12.1	12.0	11.8	12.1	13.1
Rent benefit	15.5	15.6	16.3	17.1	17.9
Child and youth benefit	14.9	14.9	15.9	16.3	16.8
Other transfers ³⁾	21.8	23.7	25.6	23.6	25.0
Student grants (SU)	21.0	20.0	19.9	21.4	22.2
Public pension scheme ⁴⁾	146.2	145.2	152.0	162.8	170.8
Other pension schemes ⁵⁾	33.5	36.4	39.6	41.0	43.0
Total⁶⁾	387.7	386.9	403.2	421.0	441.2
Total, excl. public and other pensions	208.1	205.3	211.6	217.2	227.4
Total, excl. education grants, public pensions and other pensions	187.1	185.2	191.7	195.8	205.2

Note: The expenditures to income transfers is not directly equivalent to the number of benefits recipients in table B.6.

1) Taxable and non-taxable benefits incl. the integration benefit.

2) Incl. early retirement benefits to retired citizens in foreign countries.

3) Activation benefits, dependent child allowance, subsidy for childcare, unemployment benefits, special education benefit, green check and pay scheme for holders of flexi-jobs etc.

4) Incl. differentiated allowances and heating allowance for pensioners. Incl. pension schemes for citizens in foreign countries.

5) Civil servants in public enterprises and part-time early retirement scheme etc.

6) Income transfers exclude other regular transfers to households such as mileage allowance and index supplement.

Source: Statistics Denmark and own calculations.

Table B.23 Key figures estimated at different times

	May 2022	Aug. 2022	Mar. 2023	May 2023	Aug. 2023	Dec. 2023
2022						
GDP (real growth rate, per cent)	3.4	2.8	3.6	3.8	2.7	2.7
Gross unemployment (1,000 persons)	86	78	76	76	76	76
Consumer prices (change, per cent)	5.2	7.3	7.7	7.7	7.7	7.7
Balance of payments (DKK bn.) ¹⁾	170	231	371	367	383	379
Actual budget balance (DKK bn.)	17	32	82	93	97	95
2023						
GDP (real growth rate, per cent)	1.9	0.8	0.2	0.6	1.2	1.2
Gross unemployment (1,000 persons)	87	93	93	91	85	84
Consumer prices (change, per cent)	1.8	3.3	3.9	4.3	3.8	3.4
Balance of payments (DKK bn.) ¹⁾	160	208	269	232	266	300
Actual budget balance (DKK bn.)	5	22	45	51	56	77
2024						
GDP (real growth rate, per cent)	-	-	1.5	1.4	1.4	1.4
Gross unemployment (1,000 persons)	-	-	97	97	94	97
Consumer prices (change, per cent)	-	-	2.8	3.0	3.0	2.8
Balance of payments (DKK bn.) ¹⁾	-	-	264	243	287	347
Actual budget balance (DKK bn.)	-	-	24	16	29	44
2025						
GDP (real growth rate, per cent)	-	-	-	-	-	1.0
Gross unemployment (1,000 persons)	-	-	-	-	-	101
Consumer prices (change, per cent)	-	-	-	-	-	2.1
Balance of payments (DKK bn.) ¹⁾	-	-	-	-	-	339
Actual budget balance (DKK bn.)	-	-	-	-	-	23

1) Show current amount on the balance of payments.

Source: Statistics Denmark and own calculations

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