

FEBRUARY 2016

Report on Growth and Competitiveness - Summary

Prepared by the Danish Ministry of Business and Growth
Complete report (only in Danish) available at www.evm.dk
Data available at www.factbook.dk

The Danish Government

Summary: Denmark – Going for Growth

Challenges and Growth Conditions

Denmark has a high level of prosperity. However, since the mid-1990s, growth in productivity in Denmark has been relatively weak both compared to other OECD countries and in a historical perspective. The Report on Growth and Competitiveness is a growth-focused performance review of Denmark's structural and, therefore, long-term growth and prosperity.

The report shows that the key challenge facing Denmark is a low productivity growth performance. Furthermore, Danish growth conditions are challenged in a number of fields in terms of strengthening longterm growth and prosperity.

Danish working hours per employee are among the lowest in the OECD. By contrast, Denmark have relatively high labour force participation, which will rise further when the effect of the implemented employment and withdrawal reforms becomes fully reflected in the labour market.

Business investments in Denmark have fallen significantly, especially following the crisis in 2008, and remain low. This may prove a challenge to the technological transition.

Competition in Denmark is not sufficiently efficient in a number of sectors, especially in the domestically-oriented service sector. The low Danish productivity growth should be seen, among other things, in light of low productivity growth within this sector.

Environmental regulation in Denmark is considered to be relatively less effective for the private sector relative to the OECD. This may reduce the growth potential. The reason is primarily that there are no legislative requirements regarding case processing times.

Also, Denmark has a number of growth strengths, including that business regulation is relatively effective, digital infrastructure is well developed, and energy efficiency is high.

In recent years, the Danish economy has benefited from increasing growth in our largest trading partner country, Germany, which has also been the engine of economic recovery in Europe. Regionally, however, the world economy presents a very diverse growth picture. Whilst the USA has seen progress for a rather long period of time, the former emerging economies such as Brazil and Russia have experienced economic decline. In China, growth is

decreasing from a high level whilst India, by contrast, has increasing growth.

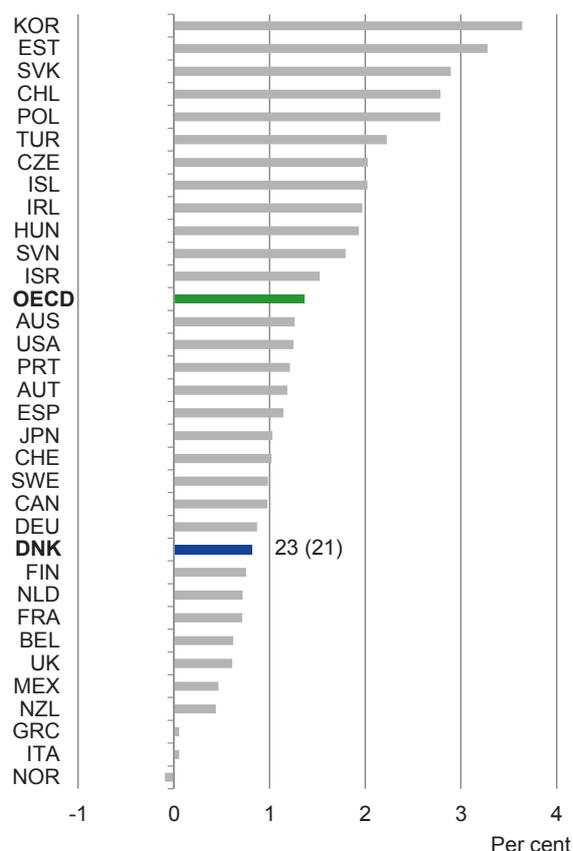
Productivity growth is low

Denmark is one of the OECD countries that have experienced the lowest average productivity growth since 2004, see figure 1.

High productivity growth is a precondition for Denmark to keep up a steady rise in standards of living and maintain a high level of prosperity by international standards. Productivity growth increases a society's opportunities along several paths, see box 1.

Productivity growth is the primary driver for increasing prosperity and better standards of living over time. A large number of factors can contribute to increasing productivity. They are, for example, technological progress, new knowledge, a larger capital stock, increasingly better educated labour, and effective competition fostering innovation and competitive companies.

→ **Figure 1** Productivity growth rate, 2004-2014



Note: The parenthesis indicates Denmark's position last year.
Source: OECD.

Summary: Denmark – Going for Growth

Box 1 Productivity growth creates more opportunities

Productivity growth increases a society's opportunities along several paths:

- **Wage increases:** Historically, wages have followed productivity, which reflects that productivity growth in the long run drives growth in wages.
- **Increased purchasing power for all social groups:** Wage increases in the private sector as a result of increased productivity will impact on public wages and through the Danish Rate Adjustment Pool it will also raise the purchasing power of persons on income transfer. Increased productivity in the private sector contributes to increasing wealth in society.
- **Lower prices:** If, for example, the service sector improves its resource efficiency, it may result in lower prices. At the same time, resources from the service sector will be made available for other sectors.
- **Public welfare:** A rich (and highly productive) society is a necessary prerequisite for a modern public sector providing high-quality services.
- **Less resource consumption:** More value is created with the same amount of resources, and increased standards of living are made possible with less energy and resource consumption.

Labour supply is relatively low

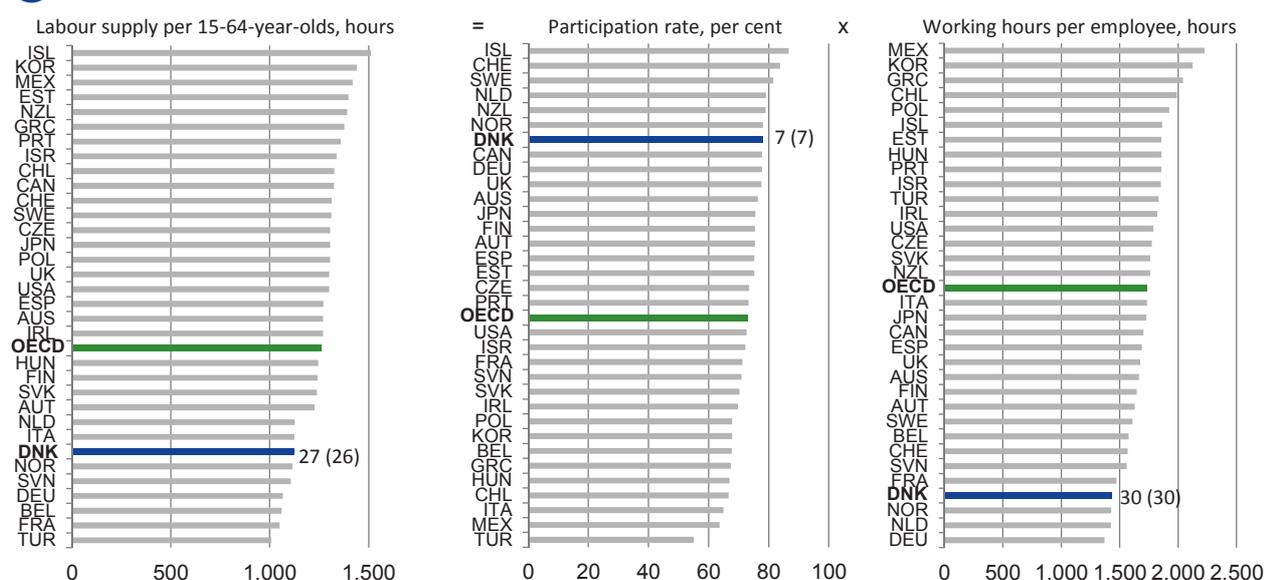
In Denmark, the labour supply is somewhat below the OECD average, but above Germany and Norway. The reason is that whilst average annual working hours in Denmark are among the lowest in the OECD, measured by the number of participants in the labour market (labour force participation), Denmark is one of the most highly-ranked OECD countries. Altogether, this means that Denmark's ranking position is relatively low when looking at total labour supply, see figure 2. An increased labour supply will therefore increase economic prosperity and increase the opportunities of high public service.

of these is not fully reflected in, for example, an increase in the age of withdrawal from the labour market.

The relatively low Danish annual working hours should be seen among other things in light of how attractive it is to work and the fact that Denmark has some of the lowest collective agreement-based working hours in the OECD; one of the reasons being that the Danes have decided to convert income increases into more leisure time. Furthermore, Denmark is one of the OECD countries with the highest number of holidays.

Labour market reforms have been implemented in Denmark for a number of years. However, the effect

Figure 2 Total labour supply, participation rate and working hours per employee, 2014



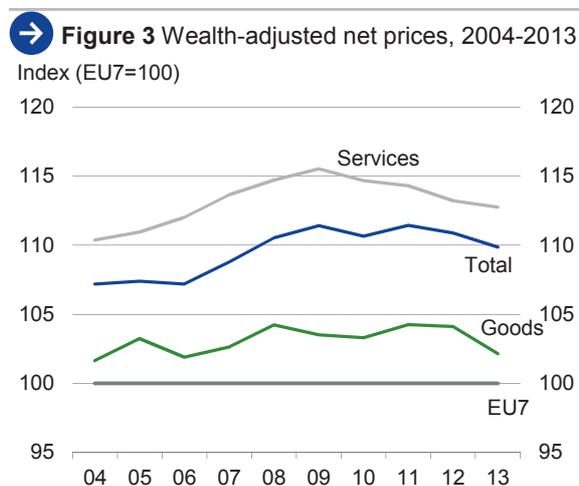
Note: The activity rate is calculated on the basis of the Danish Labour Force Survey (AKU). In connection with the labour supply calculation, the assumption is that the unemployed will work the same hours as the employed. Both working hours and the activity rate are affected by the economic conditions in the individual countries. Data for BEL and TUR relate to 2013. Source: OECD and own calculations.

Summary: Denmark – Going for Growth

Competition is not sufficiently efficient

For a long period of time, Danish wealth-adjusted net prices have been higher than those of a number of EU Member States with Denmark compare ourselves. A high price level may be a reflection of inefficient competition in the markets.

Since 2011, wealth-adjusted net prices have fallen slightly, see figure 3. However, Denmark has improved its relative position, but is still above the 2004 level. This indicates that competition has improved to some extent although some improvement may be cyclically induced. Competition remains an important action area. Efficient markets are important for productivity development and companies' competitiveness.



Source: Danish Competition and Consumer Agency, Eurostat and OECD.

Especially prices of services are higher in Denmark than in the other countries.

The reason for the relatively high net prices of services, adjusted for Denmark's high level of prosperity, may be that suppliers of services are exposed to competition from abroad to a minor extent. Domestically-oriented companies in the service sector have low productivity growth compared with industries which to a higher degree operate in export markets and are exposed to international competition, see chapter 2. A number of analyses show that the Danish productivity problem is due, among other things, to too weak competition and dynamism in parts of the Danish economy. This applies in particular to a number of domestically-oriented service industries. Furthermore, the high prices of services may be the result of a low wage gap across sectors.

Growth conditions

Prosperity in Denmark depends basically on how much we work and how productive we are at work. That is why economic growth and, in turn, prosperity depend on whether the supply of labour can be increased and on how rapidly productivity increases.

Historically, the largest contribution to growth in Denmark has come from productivity growth, see figure 4.

Over the last almost 20 years, annual growth in GDP has been 1.6 per cent. The contribution from increased productivity has been 0.9 per cent on average. The contribution from labour supply accounts for approx. ½ per cent, which should be seen in light of demographic change. Considering growth in GDP per capita, however, all of the growth has been driven by productivity over the last 20 years.

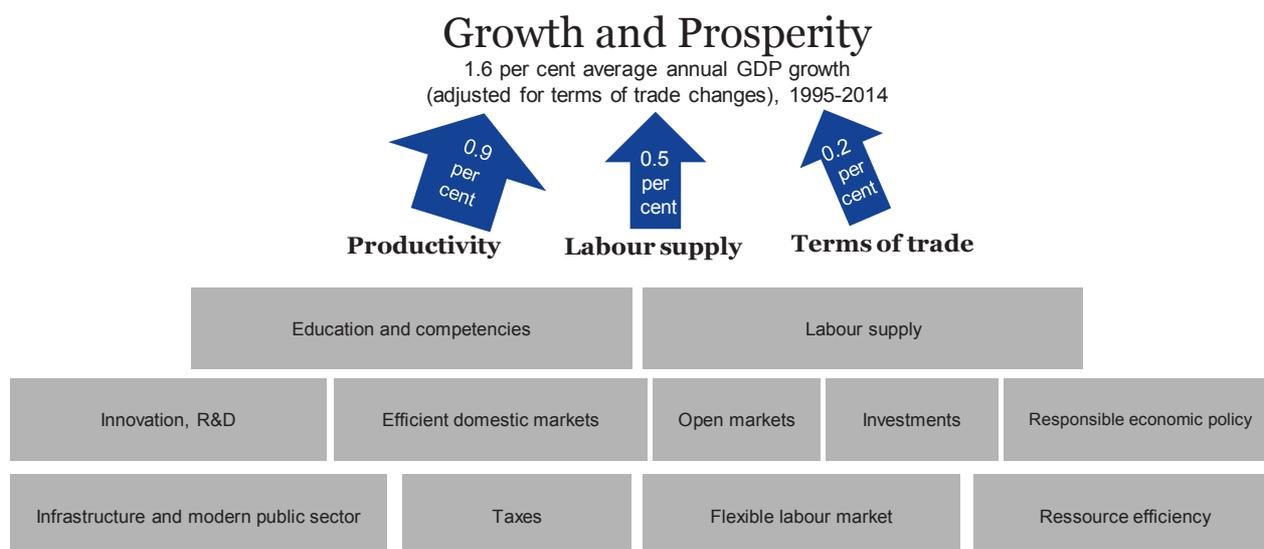
The contribution to growth from increased labour supply helps companies to recruit the manpower they demand. At the same time, it contributes to ensuring a foundation of healthy and sustainable public finances.

Prosperity is also affected by the fields in which Danish companies have specialised. If specialisation takes place in fields where terms of trade improve, it will result in increased prosperity as the revenue from exports can finance a larger volume of imports. This has been the case for Denmark where improved terms of trade over the last almost 20 years have contributed to increasing annual growth in GDP by 0.2 per cent on average.

Lastly, prosperity and purchasing power in a society are affected by the return on net assets abroad. Since the mid-1980s, Denmark has had a balance-of-payments surplus, and Denmark's foreign debt has changed to net assets abroad. Therefore, Denmark will receive interest income and returns from abroad on an ongoing basis, which will boost purchasing power and prosperity. Another more precise measurement of the level of economic prosperity that takes into account net assets and terms of trade is real gross national income (GNI) per capita, see chapter 1.

A sustained effort is required to strengthen Denmark's growth conditions in order to ensure that opportunities are seized. This report examines the growth conditions in an international perspective and provides a basis for keeping track of developments.

→ **Figure 4** Factors of importance for growth and prosperity



Measured by GDP per capita, Denmark is one of the richest OECD countries in the world – only Norway, Switzerland and the USA have a significantly higher **level of prosperity**.

Over the last 10 years, Danish **productivity growth** has been 0.8 per cent annually, whilst average growth in the OECD has been 1.4 per cent. Productivity is the primary driver for increasing prosperity over time. Denmark has in general high productivity, but it is a significant challenge that Danish productivity growth is among the lowest in the OECD. However, in the period 1995-2014, net income from abroad and **terms of trade** raised the Danish level of prosperity by approx. 0.2 per cent annually.

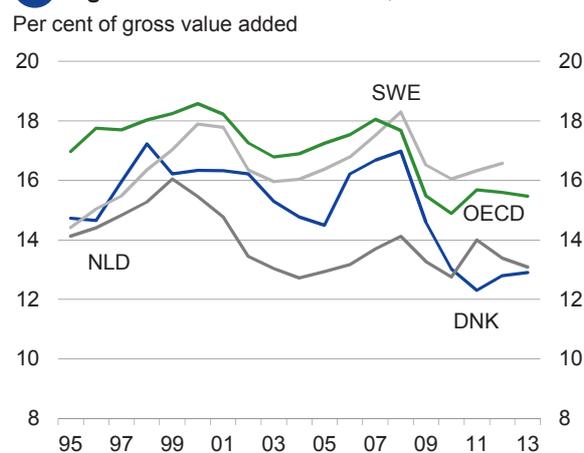
Business investments have been falling in Denmark since 1995 (as the ratio of value added), and the trend has followed the average for OECD countries up to the economic crisis when investments in Denmark dropped significantly, see figure 5. This is to a high degree a result of economic developments, but may over time have a dampening effect on the renewal of capital stock and, in turn, on productivity and production.

General progress in Denmark following the crisis has taken place primarily in the Greater Copenhagen area and around the largest towns. By contrast, some areas far from the major towns are experiencing lower growth and weaker employment development even if unemployment remains higher in the larger towns. Denmark has a smaller cross-regional **gap in GDP**

per capita than the OECD average and countries such as Sweden, Norway and the Netherlands.

Compared with many other countries, Denmark is characterised by a relatively high level of prosperity combined with a high degree of **social balance**. Denmark is the country in the OECD in which income inequality is least pronounced. One reason is that Denmark has a relatively well-educated labour force and that many have a strong attachment to the labour market, which is of importance to individuals' ability to support themselves and their family.

→ **Figure 5** Business investment, 1995-2013



Source: OECD.

During the first decade of this century, the skills of the pupils in Danish **primary and lower secondary school** were close to the OECD average for reading,

Summary: Denmark – Going for Growth

mathematics, natural science and problem solving. Whilst the Danish competence level measured by skills in primary and lower secondary school and by the number of persons who complete an **upper secondary education** or **higher education** is approximately that of the OECD average, it is considerably below the top performers of the OECD.

Denmark has a high ranking within the area of government spending on **research**. In addition, investment by Danish companies in R&D is relatively high. Government investment in R&D activities totals just over 1 per cent of GDP. This corresponds to the so-called Barcelona target according to which 3 per cent of Danish GDP is to be spent on R&D, with the public sector financing 1 per cent and the private sector 2 per cent.

The proportion of **growth companies** in Denmark is slightly above the OECD average, but below countries such as Sweden and Germany. The proportion is level with the Netherlands, Finland and Norway. Denmark and many European countries face the challenge that few companies develop and grow larger.

Danish investors engage in more **direct investment abroad** than foreigners do in Denmark. There is, however, a general tendency for richer countries to have a higher investment outflow than inflow.

A well-developed and up-to-date **digital infrastructure** is a prerequisite for citizens, companies and public authorities to reap the benefits of digital opportunities. This will strengthen productivity, business development and competitiveness in the private sector. Relative to other OECD countries, Denmark is one of the top performers together with countries such as Sweden and the Netherlands.

Denmark is one of the most **energy-efficient** countries. When resources are scarce and resource prices increase, a high degree of resource efficiency will enhance competitiveness as it will reduce the business operation costs relative to those of foreign competitors. Danish companies are generally very advanced regarding resource-efficiency, sustainable production and green transition.

Denmark is one of the countries in the OECD where environmental **regulation** imposes the heaviest economic burdens on the private sector. The indicator measures the extent to which a country's environmental regulation creates entry barriers and other restrictions of competition. One reason for Denmark's poor position is the absence of legislative requirements regarding case handling times.

Denmark has healthy public finances. Relative to the other OECD countries, Denmark has low **public debt** (EMU debt) and a small deficit on the **structural budget balance**. A responsible economic policy and healthy public finances support a stable economic development with low interest rates and low inflation. These are essential framework conditions for companies' planning and investment decisions.

Low structural unemployment is an indicator of an efficient labour market. Relative to the other OECD countries, Denmark has relatively low structural unemployment and a very efficient labour market.

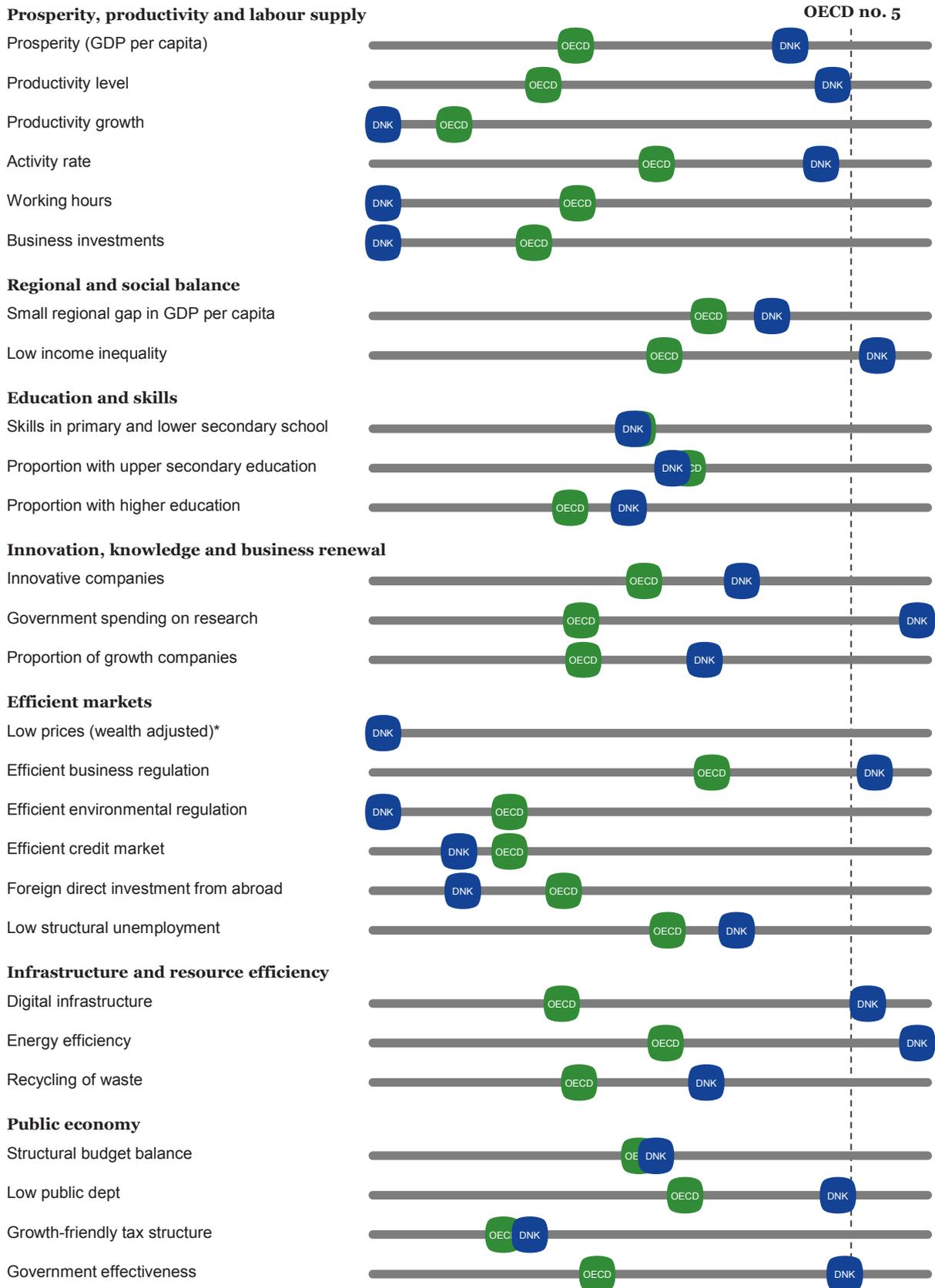
The composition of the tax system is of great importance to economic growth. Analyses from among others the OECD indicate that corporate taxes and income taxes are the most harmful taxes to economic growth. Considering how large a proportion of the taxation that is "**growth-friendly**" relative to the sum of direct and indirect taxes, Denmark's position is slightly better than the average among OECD countries.

Furthermore, Denmark is one of the OECD countries in which **business regulation** from an overall point of view is least detrimental to competition. Business regulation which fosters competition can lower prices for companies and households as well as increase productivity.

Figure 6 summarises Denmark's position internationally with regard to prosperity, growth and growth conditions. In a number of fields, Danish growth conditions are among the best in the OECD.

Summary: Denmark – Going for Growth

→ **Figure 6** Indicators of growth conditions in Denmark and the OECD



Note: See Appendix 1 for how to read the figure. * means that there are data for fewer than 10 countries. Therefore, no OECD average will be presented.

Summary: Denmark – Going for Growth

Industry-specific competitiveness barometer

The Government's business and growth policy is to contribute to good framework conditions for long-term growth – in all of Denmark.

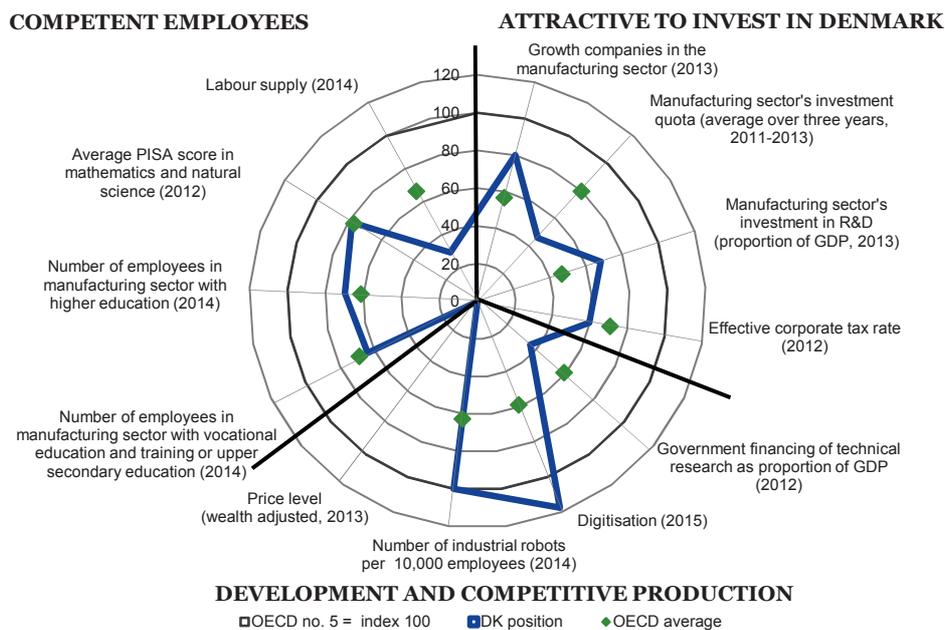
Economic development outside the largest Danish towns and in rural districts has been challenged by declining employment and weak growth. Key elements of the Government's strategy for *Growth and Development in All of Denmark* are manufacturing and the agricultural sector, which play an essential role outside the major towns and which are export-oriented.

These sectors are shown below in a more industry-specific competitiveness barometer combining the development in the industry (productivity, investments, exports, etc.) with the special growth conditions for the industry.

In figure 7, a total of 12 indicators of manufacturing in Denmark are compared with the OECD countries.¹ The figure shows among other things that Denmark is highly ranked in terms of digitisation and automation, but Denmark's ranking position is low with respect to costs and labour supply. The Danish effective corporate tax rate is more or less level with the OECD average.

Companies in the manufacturing sector are very export-oriented and are, therefore, up against strong international competition. Manufacturing businesses account for more than half of the private sector's investments in R&D and are important for Denmark's ability to create new products and solutions. In the fields of digitisation and new technology, this may present new opportunities for competitive production in Denmark, which due to relatively high wage costs may benefit from increased automation.

→ **Figure 7** Indicators of the manufacturing sector



Note: The indicators in the spider web are indexed so that the lowest-ranked country has the value 0, whilst the fifth highest-ranked country has the value 100. Regarding the indicator *Digitisation*, the value is 139 for Denmark and is set at the value 120 in the web. Source: OECD and own calculations.

¹ In its report, "Good Jobs", of May 2015, the Production Council underlined the importance of the Danish Government monitoring the development in growth conditions for production in Denmark on an ongoing basis.

Summary: Denmark – Going for Growth

Agriculture in Denmark has a high productivity level and high technical efficiency compared with other countries, see figure 8. One reason is relatively higher specialised and capital intensive production. However, productivity growth has been limited since 2003.

The specialised and relatively efficient production contributes to the high export share of the agriculture and food sector. However, the agricultural sector remains characterised by the consequences of relatively heavy indebtedness in the years leading to 2008. This is also reflected in a relatively low average solvency ratio per holding.

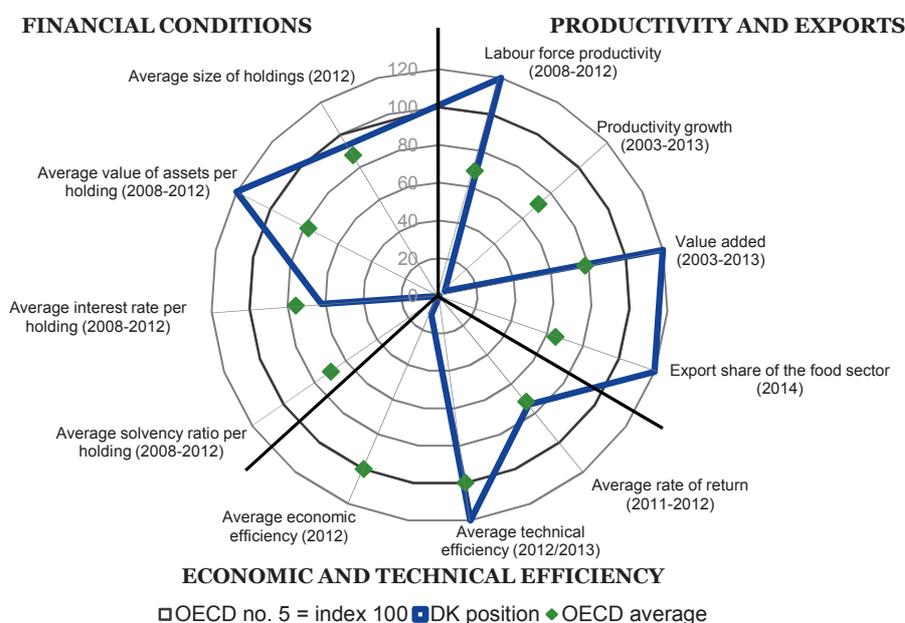
Especially during the years up to 2008, when farmers had access to relatively inexpensive credit facilities and also due to restrictions on ownership of agricultural land, enlargements were in many cases funded by loans. The inexpensive borrowing facilities contributed to increasing competition for land and, therefore, to increasing prices. Prices of agricultural holdings, and especially prices of agricultural land, increased significantly in the years leading to 2008. After the onset of the financial crisis at the end of 2008, land prices fell again, which was not matched by a corresponding fall in indebtedness.

Danish agriculture is relatively efficient in terms of production, but has at the same time relatively low economic efficiency. One of the reasons may be that farmers have invested in equipment that has undoubtedly boosted production but has not necessarily been equally profitable.

The high debt in the agricultural sector must, however, also be seen in light of the fact that the structural development in the agricultural sector is moving towards fewer but larger and more efficient holdings. This is supported by the easing of restrictions on ownership in the sector.

With the *Agreement on Foods and Agriculture Initiatives* of December 2015, the sector will be better prepared to increase the raw material base and exports as well as contribute to creating growth and employment in all of Denmark – in interaction with nature and the environment, see Major implemented and planned initiatives.

→ **Figure 8** Indicators of the agricultural sector



Note: The indicators in the spider web are indexed so that the lowest-ranked country has the value 0, whilst the fifth highest-ranked country has the value 100. Regarding the indicators sector terms of trade, export share of the food sector, technical efficiency and average value of assets per holding, the value is set at 120 in the web. For economic efficiency, there are data from fewer than 10 OECD countries, and the OECD average is therefore not presented.

Source: Eurostat, Danish Agriculture and Food Council, EU Commission – FADN, University of Copenhagen, Department of Food and Resource Economics, InterPIG and Dairy Report.

Summary: Denmark – Going for Growth

Key trends up to 2025

A number of global trends will impact on companies, households and Danish growth opportunities in the years leading to 2025. This applies among other things to digitisation and new technology as well as globalisation and an expanded middle class.

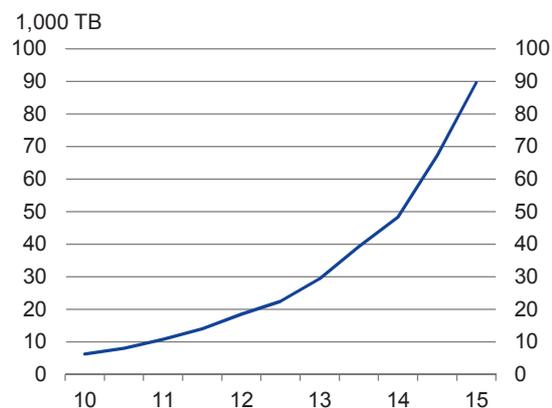
Historically, Danish companies and the Danish economy have proved ready to handle change caused by new conditions of competition. The above-mentioned trends may therefore create new opportunities for Danish companies in the form of new markets, etc. Other trends that will be of importance to Danish growth opportunities include for example resource scarcity and green transition.

Digitisation and new technology

Developments within the field of digitisation and new technology will continue to imply huge transition. The numbers of people having access to the Internet and the volume of data are increasing significantly. Today, approx. 2.5 billion people have access to the Internet. Expectations are that there will be twice as many online globally by 2020. At the same time, the volume of data will increase massively. A total of 90 per cent of accessible data in the world today are estimated to have been generated within the last two years.²

In Denmark, mobile data traffic is increasing exponentially. Mobile data traffic has increased more than 14 times in five years. The last year, the increase has been more than 85 per cent., see figure 9.

Figure 9 Mobile data traffic per half year, 2010-2015



Note: TB stands for Terabyte and equals just over one million MB.
Source: Danish Energy Agency. Tele Statistics, 1st half year 2015, February 2016.

²Sources: Google and IBM.

Denmark's point of departure is good. Denmark has a well-developed mobile and broadband infrastructure. However, there are still areas in the country where citizens and companies have no access to the broadband speeds and mobile phone coverage they want.

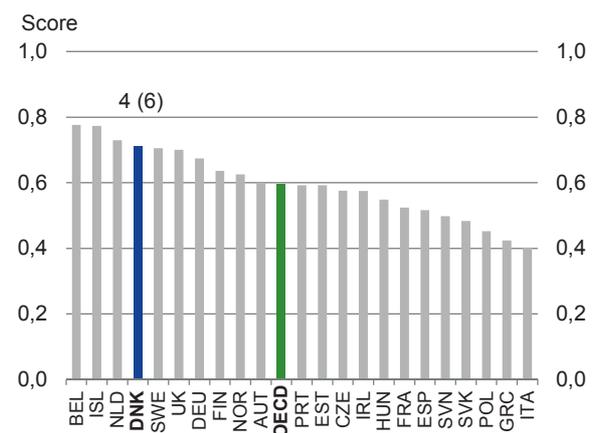
The development within for example robot technology, drones, 3D Print and Big Data paves the way for new production processes, business models and digital solutions that Danish companies have the possibility to exploit.

By means of new technology and digital solutions, companies can strengthen productivity and competitiveness, for example by increased automation in the manufacturing sector. However, it is a characteristic of more than a third of Danish SMEs that they only use IT to a limited extent. Increased focus on IT security and responsible data protection is also necessary.

Good digital infrastructure is among other things an important precondition for enabling households and the private sector to exploit the new digital opportunities. In Denmark, the digital infrastructure is being rolled out based on the principles of technology neutrality, which means that particular technologies are not given preference at the expense of others.

Internationally, Denmark has a well-developed mobile and broadband infrastructure with generally good coverage, see figure 10.

Figure 10 Digital infrastructure (DESI), 2015



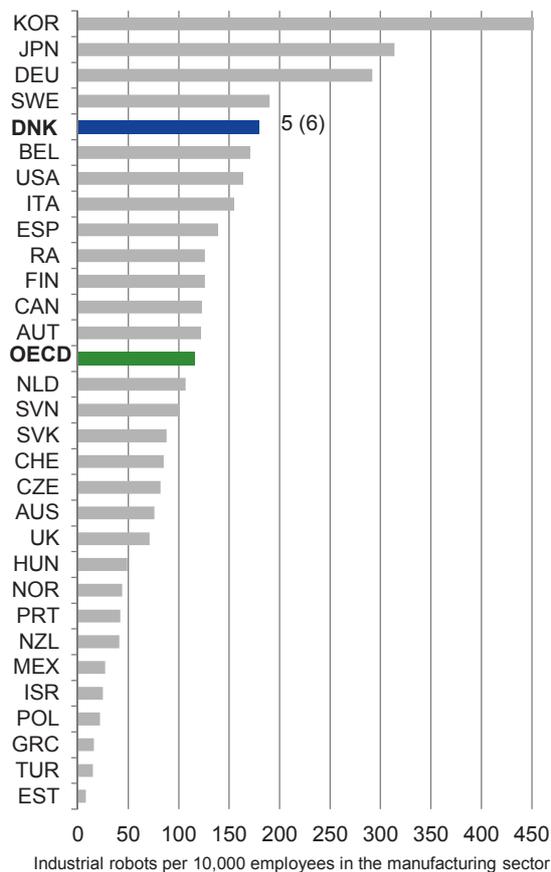
Note: The figure shows the indicator "Connectivity", which is one of the five overall categories in "The Digital Economy and Society Index" (DESI). The indicator is calculated as a weighted average of the degree of coverage for fixed and mobile broadband, respectively, the capacity, as well as the costs relating to the purchase of broadband.
Source: European Commission, Digital Agenda Scoreboard.

Summary: Denmark – Going for Growth

Industrial robots have become increasingly inexpensive, which has made it more attractive to invest in automation. Especially large companies in the manufacturing sector have automated much of their production and achieved a productivity increase.

Measured on the number of industrial robots per employee in the manufacturing sector, Denmark ranks sixth in the OECD. Part of the difference between the countries is a result of the countries' business structure. The high level for industrial robots in, for example, Korea, Japan and Germany must be seen in light of the fact that robot development to a high degree had its starting point in the car industry. It is possible that the number of robots is slightly exaggerated for the three countries as the robots may be integrated in other systems and transferred to other countries, see figure 11.

➔ **Figure 11** Number of industrial robots per 10,000 employees, 2014



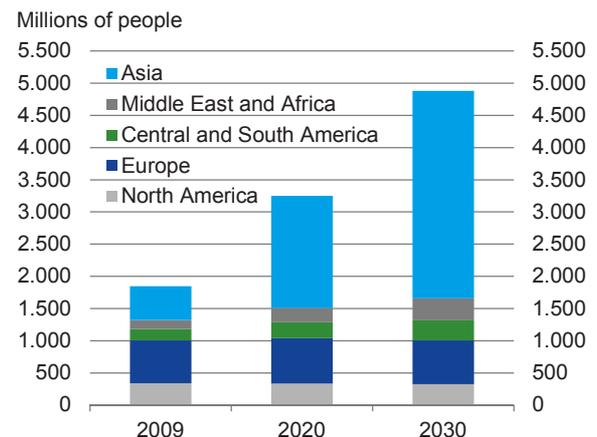
Source: International Federation of Robotics.

Globalisation and the growing middle class

Economic globalisation implies increased integration of and inter-dependence between national economies and companies. This is achieved through increased trade, increasing investments and other types of cross-border collaboration. In the business area, globalisation implies among other things that many companies enter into so-called global value chains where activities such as R&D, production and sales are increasingly split up and organised across countries and companies.

The world's economic centre of gravity is at the same time moving eastward. High growth rates outside Europe create new strong economies and imply for example that the global middle class is expected to grow larger. According to the OECD, the global middle class is expected to increase to approx. five billion people up to 2030. The largest increase will take place in Asia. This provides new opportunities, see figure 12.

➔ **Figure 12** Global middle class, 2009, 2020 and 2030

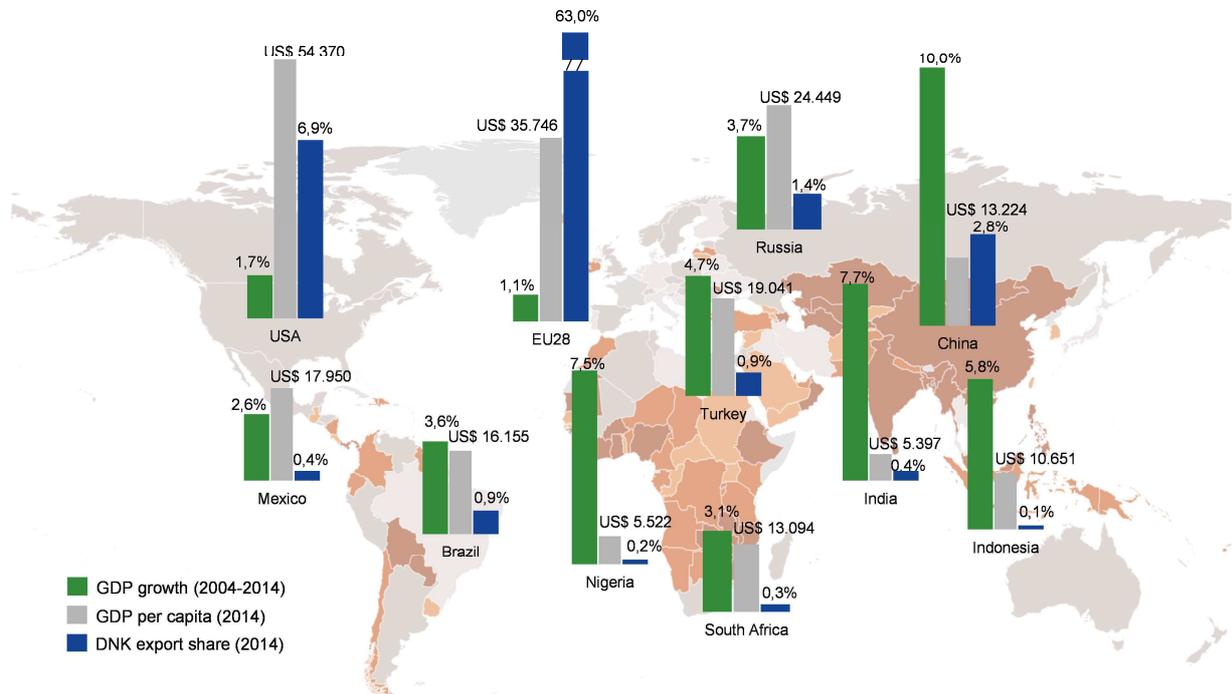


Source: OECD.

Economic growth is particularly pronounced in large parts of Asia, including China and several countries in Africa, see figure 13. The present relatively low level of prosperity in these countries presents large future opportunities. Purchasing power in these countries will increase rapidly due to the increasing population as well as the relatively rapid increase in prosperity.

Danish exports to many high-growth countries in, for example, Africa are relatively low.

→ **Figure 13** GDP growth, GDP per capita and Danish export share, 2004-2014 and 2014



Note: The colours of the countries indicate GDP in 2014. Grey nuances indicate low growth, whilst pink nuances indicate high growth.
Source: The Conference Board, Total Economy Database and IMF World Economic Outlook, April 2015.

Resource scarcity and green transition

Large population growth and economic growth have led to heavy pressure on global resources, for example water, agricultural land, energy, raw materials, etc.

This development may lead to pressure for increased resource efficiency in Danish companies in order to hold down costs. High resource efficiency will make it more attractive to maintain and develop production in Denmark. Danish companies are in many areas very advanced in terms of using resource-efficient technologies and production processes. This may open up for exports of knowledge, advisory services and technological solutions, which will benefit Denmark in global competition. Growth in resource productivity in Denmark has, however, been lower than in comparable countries for a number of years.

If Denmark introduces special requirements that are more burdensome to implement for Danish companies than their international competitors, it may cause loss of competitiveness and, in turn, loss of Danish jobs.

The government's business and growth policy

The Government finds it of great importance to create growth and prosperity as well as more private-sector jobs through the pursuit of a sound and responsible economic policy.

The Government will pursue an economic policy ensuring growth and strong competitiveness and supporting a strengthening of productivity in order to foster the creation of well-paid jobs. The Government will reduce taxes on earned income and implement a business taxation reform to simplify Danish business taxation and make it more competitive.

The Government's business and growth policy will strengthen the framework conditions for the private sector and, in turn, growth and competitiveness.

As a first step, the Government has presented the strategy *Growth and Development in All of Denmark*, which will create better opportunities for development in all parts of the country. The strategy contains more than 100 initiatives that will increase opportunities for growth and development throughout the country and

Summary: Denmark – Going for Growth

contribute to making it easier to live and work in all parts of Denmark.

The next step is to ensure that Denmark continues to be a country in growth. Denmark's business and growth policy must have an eye for the specific challenges facing the Danish private sector right now and also an eye for more long-term global trends.

In order to enhance productivity, business development and competitiveness in the Danish private sector, it is necessary to provide good framework conditions that are at the same agile and adaptable to new realities.

Only 10 years ago, very few people considered for example broadband, access to data, and IT security to be altogether crucial for companies' growth conditions. Today, Denmark are facing the fourth industrial revolution. In this, digitisation and automation will be key elements. Together with rapid growth in the sharing economy and e-commerce, they will radically change the reality in which Danish companies operate. Business models based on digital technology will create new opportunities and challenges for the companies.

Key benchmarks of the Government's business and growth policy are presented in the three pillars below, see figure 14:

- Industrialisation 4.0
- Generation growth
- New global economy

Industrialisation 4.0

Based on inspiration from among others leading industrial firms, Danish companies need to become better at developing a more intelligent and flexible production, making use of increased automation, sophisticated robots, etc. This will make it possible to develop and maintain important production in Denmark.

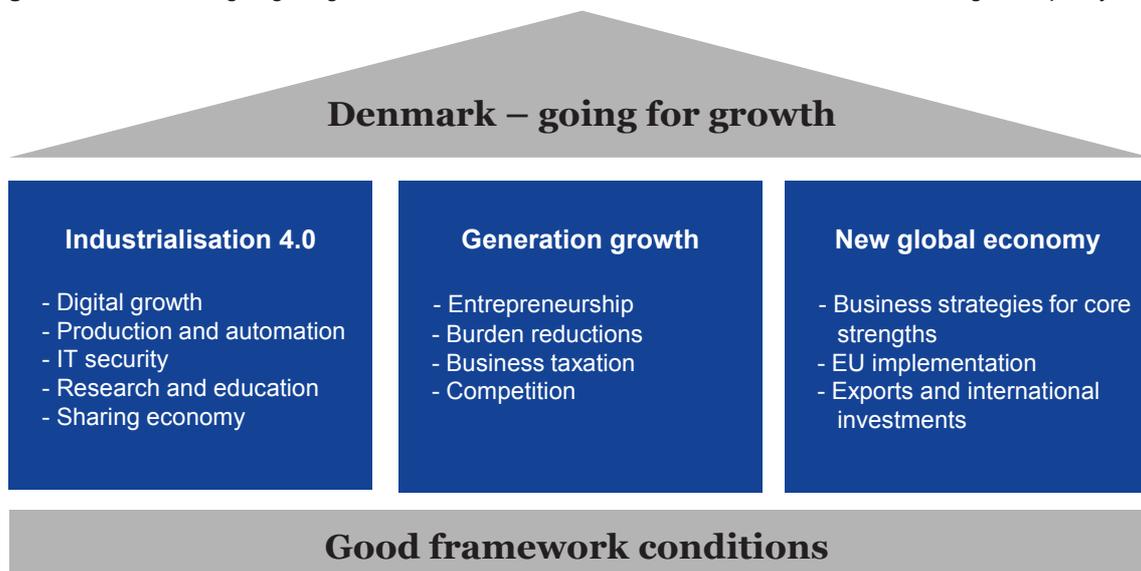
Danish companies must also become better at exploiting the new opportunities that digitisation gives access to: Big Data, Internet of Things as well as robots and automation that enable the companies to produce more defect-free products faster and less expensively.

Furthermore, digitisation enables public authorities to provide the companies with even better and more targeted service. This is, among other things, the objective of the new public digitisation strategy.

As recommended by the Expert Committee on Quality in Higher Education, the Government will adjust the student intake on higher education programmes to achieve better correlation between choice of study programme and employment prospects.

Denmark is also in need of more young people completing a vocational education and training programme. Therefore, in 2014 a broad majority of the Folketing (Danish Parliament) passed a reform of the vocational education and training system. The fourth industrial revolution will further highlight the need for young people with the qualifications and skills required by the private sector to ensure that Denmark again can become a large-scale production country.

→ **Figure 14** Denmark – going for growth: The Government's benchmarks in the business and growth policy



Summary: Denmark – Going for Growth

Generation growth

Denmark has good preconditions for becoming a successful entrepreneur nation. It is easy to set up a business. We have a strong public governance culture and good digital infrastructure.

The objective is among other things to get more companies to grow so large that they are able to perform successfully in the global market.

In order to achieve this, it is necessary for us to work towards reducing the burdens imposed on the private sector. The Government will ease the burdens on companies by up to DKK 3 billion towards 2020. Furthermore, the Government has set up an implementation council which is to ensure that EU rules are not over-implemented. Denmark need to prioritise security, environmental and consumer protection, etc. also in future, but this must not imply burdens on Danish companies that distort competition.

At the same time, Denmark must ensure a level playing field. This applies to direct and indirect taxes as well as the EU rules and requirements that to a high degree create the framework conditions for the Danish private sector. Danish companies must not be saddled with unnecessary economic burdens that will place them in a poorer position when competing with companies in our neighbouring countries.

Today, too few of our entrepreneurial businesses develop into growth companies and grow larger. Denmark have a good foundation but we do not benefit sufficiently from it.

Moreover, Denmark must exploit the new consumption patterns which the digital business models create. The emergence of the sharing economy is a reflection of this. It is estimated that the sharing economy will account for more than DKK 2,000 billion in the global economy.

New global economy

It is necessary to give serious consideration to whether Denmark has the right trade focus for succeeding in global world trade. In connection with the Government's business strategies, efforts must be made to optimise Danish core strengths in medicine and medico technology, food, shipping as well as green technologies and energy-efficient solutions.

Denmark is a small open economy, but we have managed to create global business successes that command respect abroad and create thousands of jobs in Denmark and globally.

Denmark must focus on how important it is for Danish companies to seize the opportunities for sales and exports which are created by a globally increasing population and a growing middle class. At the same time, we must not forget our traditional neighbouring markets with the Single Market in Europe continuing to be the most important market for Danish exports – not least for minor companies.

Major implemented and planned initiatives

- **The tax deduction scheme for domestic and home-improvement services (BoligJobordningen).** In August 2015, BoligJobordningen was reintroduced with effect from 1 January 2015. The design of the scheme is to be the same for 2015 as was the case in 2014. In November 2015, an agreement was concluded on a green BoligJobordning applicable to 2016 and 2017, which to a greater extent is to support the green transition, increased sustainability and the climate change action. Furthermore, the scheme will be enlarged among other things with the laying of cables, etc. to establish broadband connections throughout the country. At the same time, the total maximum deduction per person on the tax return will be raised from DKK 15,000 to DKK 18,000. The deduction will be two-pronged so that in 2016 and 2017 the maximum deduction per person will be DKK 12,000 for energy renovations, climate change adaptation, etc. whereas the maximum deduction for domestic services will amount to DKK 6,000 per person.
- **Agreement on the Finance Act (The Budget) for 2016.** The Agreement on the Finance Act for 2016 will strengthen public finances by DKK 5 billion in 2016, and the deficit on the structural budget balance will be reduced to 0.4 per cent of GDP. This places the Danish economy at a better distance from the requirements of the Budget Act and at the same time a step closer to the goal of structural balance by 2020. The tight economic framework in 2016 implies that there has been no scope in advance for new initiatives in the Finance Act for 2016. The Finance Act Agreement sets a new direction for Denmark with clear priorities: strengthened core welfare, a safer Denmark, a better foundation for doing business, and an easier day-to-day life for families and house owners. The Budget holds a great number of elements and is financed through reprioritisation and budget improvements.
- **Strategy for growth and development in all of Denmark.** The Government wishes to see growth and development in all parts of Denmark and has therefore presented an overall proposal for growth and development nationwide. This proposal comprises more than 100 initiatives, which will increase the opportunities for growth and development throughout the country and contribute to making it easier to live and work in all parts of Denmark. In order to implement the initiatives of the overall strategy, more than DKK 9 billion has been earmarked for the period 2015-2019 inclusive of the tax elements agreed as part of the Finance Act for 2016. Expectations are that the total number of initiatives (incl. Agreement on the Finance Act for 2016) will give a lasting boost to structural GDP of up to DKK 3½ billion. Especially changes to the Danish Planning Act and a better framework for the agriculture and food sector are of great importance for growth and, in turn, structural GDP.
- **Liberalisation of the Danish Planning Act.** The Government wishes to liberalise the Planning Act to give the municipalities more freedom. The municipalities must be able to take the necessary initiatives to make it attractive to do business as well as live and work throughout the country. Liberalisation is to create better conditions for growth and development both in and outside the largest towns, and it is to continue to give consideration to nature and the environment. The liberalisation initiatives include the following: a more liberal framework for municipal planning and administrative simplification, new development opportunities in rural districts and for production, greater municipal freedom for planning along the coasts, a national tourism strategy, and new pilot projects for coastal and nature tourism as well as better development opportunities for retail trade and planning in the major towns.
- **Agreement on Foods and Agriculture Initiatives.** In December 2015, the Government concluded an agreement on implementing a number of specific initiatives to improve the ability of the agriculture and food sector to increase the raw material base and exports as well as to contribute to creating growth and employment in all of Denmark – in interaction with nature and the environment. The agreement implies a paradigm shift in the environmental regulation of agriculture, which in future is to be targeted and based on an assessment of local needs so that action will be taken where this is called for. The Agreement on Foods and Agriculture Initiatives includes among other things the abolition of the general requirements for buffer strips, a phase-out of the reduced fertiliser norms, and abolition of the ban on spreading fertiliser and using pesticides in Section 3 areas. The initiatives will contribute just over DKK 1 billion in structural GDP and will improve the environmental status by 2021.
- **Tax and burden freeze.** The Government's tax and burden freeze implies that the Government will not raise any direct or indirect taxes during this election term. Changes to direct and indirect taxes that have already been decided will be maintained, including for example the reduction of the corporate tax rate in 2016 as well as already decided indexation of excise duties. A direct and indirect tax can only be introduced or raised if compelling reasons occur, for example in case of inconsistencies with EU rules. Every single DKK of the additional revenue must be spent to reduce another direct or indirect tax. This implies that in principle no shift of the burden of taxation can be implemented.

Exceptions to the tax freeze are, however, the organisation of the future financing of PSO expenditures (financing of Public Service Obligations regarding the production of renewable energy) and the possibility of making a revenue-neutral change of car taxation. The business support may at the same time be reduced if the revenue is spent in its entirety on reducing direct and indirect taxes for companies.

- **JobReform, phase 1.** In December 2015, the Government concluded an agreement on a cash benefit system that will mean an increase in the gain from working. The main elements of the agreement are a new cash benefit ceiling to ensure that it pays significantly more to work than to receive public support and a tightening of the availability-for-work requirement through the introduction of a 225-hour rule. The cash benefit ceiling will put a cap on how much it is possible for recipients of cash benefits to receive in public support. The objective of the requirement is to ensure that recipients of cash benefits have, on an ongoing basis, an incentive to maintain their attachment to the labour market.
 - **Reduced administrative burdens.** With effect from 1 October 2015, two annual commencement dates were introduced in Denmark. This implies that business-oriented legislation will as a main rule only enter into force twice a year on fixed dates. The Government wishes to call a halt to the over-implementation of EU rules. The Government has set up a government committee to ensure a more systematic and uniform approach to the implementation of business-oriented EU legislation. This is to place an overall and strengthened focus on avoiding unnecessarily restrictive rules that are detrimental to Danish companies and jobs. Furthermore, the Government has set up an implementation council with the participation of, among others, business organisations and special experts. The council is to provide advice and guidance on the implementation of business-oriented EU legislation
 - **JobReform, phase 2.** The Government wants to get more Danes into work and have fewer people on public support. This will make Denmark richer and fairer. In summer, the Government will present a new 2025 plan for the Danish economy. On the basis of this, the Government will invite the political parties to negotiations in autumn 2016 on a tax reform which is to ensure that it pays more to work than to receive public support. The Government wishes to reduce taxes for the lowest income brackets to ensure that the gain from low-paid work increases. In addition, the Government's ambition is to reduce the marginal tax rate by five percentage points to ensure that more people will work more and to make it easier for Danish companies to recruit and retain also well-paid employees.
 - **Business taxation reform.** The Government will implement a business taxation reform in order to simplify Danish business taxation and make it more competitive as well as to contribute to attracting more foreign investments.
 - **Reduced burdens for the private sector.** The Government will ease the administrative burdens on the private sector by up to DKK 3 billion towards 2020.
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