



Council of the
European Union

Brussels, 31 March 2017
(OR. en)

Interinstitutional File:
2016/0360 (COD)

7792/17
ADD 2

LIMITE

EF 65
ECOFIN 240
CCG 9
CODEC 507

NOTE

From:	Export Credits Group
To:	Working Party on Financial Services (Risk Reduction Measures)
No. prev. doc.:	14775/16 + ADD 1 + ADD 2 + ADD 3
No. Cion doc.:	COM(2016) 850 final
Subject:	Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements and amending Regulation (EU) No 648/2012 - Basel III: leverage ratio

Delegations will find attached annex 6 of the annex to the letter to the Commission.

EKF'S IMPACT ON THE DANISH ECONOMY – METHOD DESCRIPTION

This paper describes the calculation of EKF's impact on the Danish economy. In this context, the economic impact is the effect on Danish export turnover, Danish employment and the gross domestic product (GDP).

The method is developed by Copenhagen Economics in cooperation with EKF and is based on total guarantees and reinsurance issued by EKF in one year.

Overall, the method consists of three steps:

Step 1: Clarification of the extent to which EKF contributes to securing new export orders for Danish businesses.

Step 2: Adjustment for the fact that some export orders create value outside Denmark to a particularly high degree.

Step 3: Calculation of the economic impact of the increase in Danish export turnover.

In step 1, we assess the extent to which EKF's guarantees and reinsurance are additional. Additional means that they have played an important role to the Danish exporter in landing the order. In other words, in additional cases EKF has contributed to securing new Danish export sales equivalent to the contract amount of the export order. The calculation of EKF's economic impact is therefore based on the contract amount and not on the guarantee amount from EKF.

Step 2 takes into account that some export orders create particularly high value outside Denmark. Almost all export orders imply drawing on input from abroad in the form of labour, raw materials, semi-manufactures etc. This is adjusted in step 3 of the method. However, some export orders create particularly high value outside Denmark. A case in point is export contracts that include a significant degree of services performed locally, and exports from businesses with highly

global production structures. To ensure the validity of the calculated economic impact, the contract amounts of these orders are reduced significantly before they are included in the calculation of EKF's economic impact.

Step 3 calculates how the exports generated affect Danish export turnover, Danish employment and the GDP.

When Danish businesses win new export orders, it will have a positive impact on employment and sales directly on the export business. Moreover, it will increase activity at both Danish and foreign sub-suppliers. The draw on Danish sub-suppliers (and their sub-suppliers) reinforces the positive effect of exports on Danish employment and Danish export turnover. However, the draw on input from foreign businesses erodes the positive effect of export orders on the GDP.

The calculations made for all EKF guarantees and reinsurance issued during a year allow us to assess EKF's overall effect on:

- Danish export turnover
- Danish employment
- Denmark's GDP

In the following, steps 1-3 are described in more detail.

Step 1: New export orders

The method is based on all the cases during a year, in which EKF has issued guarantees or reinsurance. The additionality of the cases is assessed on the basis of product type, credit period, political risk and commercial risk as well as any individual factors.

In our judgement, working capital guarantees, L/C guarantees, reinsurance, portfolio guarantees and bonds are additional, as private banks and

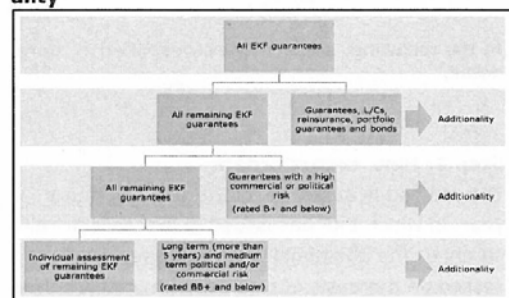
credit insurance companies are not willing to assume the risk of the underlying export transactions without these.

We find that all cases associated with a high commercial or political risk (rated B+ and below) imply such high payment risk that the private market will not carry the risk without the extra security of EKF guarantees. EKF's guarantees for high-risk transactions will therefore be additional.

The market for export finance for long-term projects with medium political or commercial risk is practically non-existent. A credit period exceeding five years for relatively difficult markets and buyers (rated BB+ and below) implies such high payment risk that the private market will not carry the risk without the extra security of EKF's guarantees. EKF's guarantees for contracts with longer terms and medium risk are therefore additional.

In the remaining cases, we assess on a case-by-case basis whether EKF has had a significant influence on the landing of the export order and whether the contract amount can be considered additional. Figure 1 illustrates this method.

Figure 1 Method for assessment of additionality



Source: Copenhagen Economics

Step 2: Value created in Denmark

In this phase of the analysis, we assess whether some export orders create value outside Denmark

to a particularly high extent and therefore should be adjusted before the calculation of EKF's economic impact.

In connection with some construction contracts most planning and engineering work will often be performed by the export business, while the construction itself typically involves the use of local labour and local materials. Therefore, the contract amount in this type of cases is reduced by 50 per cent.

Furthermore, a few Danish export businesses have a significantly global structure. They both sell and produce a certain proportion of their products outside Denmark. However, export contracts will still generate value for the Danish business, but they will often only have a limited effect on employment in Denmark. This is taken into consideration by calculating the share of the global businesses' sales generated in Denmark. Export contracts from these businesses will subsequently be reduced to this factor.

Step 3: EKF's economic impact

In the last part of the analysis, we calculate EKF's economic impact as the effect on Danish export turnover, Danish employment and the GDP. Our calculations are based on the part of the total contract amount that is additional and which creates value in Denmark. Our calculations take into account that:

- Danish businesses use input from both Danish and foreign suppliers in their production processes
- the increased imports from foreign suppliers have a negative effect on the GDP
- the increased sales for Danish sub-suppliers create further value for Denmark

The method applies official, industry-specific multipliers from Statistics Denmark, calculated on the

basis of input-output tables of the Danish economy (see Table 1). See www.dst.dk for further information.

Table 1 Examples of multipliers

Industry	Direct and indirect effect on turnover (%)	Direct and indirect effect on employment (persons per DKKm)	Direct and indirect effect on GDP (%)
Production of motors, wind-mills and pumps	1,75	0,78	0,60
Construction	1,81	1,14	0,63
Architects and consulting engineering	1,66	1,39	0,85
Electricity supply	1,46	0,48	0,70
Production of ships and other transport equipment	1,66	0,96	0,62

Source: Statistics Denmark

Effect on Danish export turnover

EKF's guarantees help secure new orders, increasing turnover in export businesses (direct effect on Danish export turnover). At the same time, there is an increase in turnover at export businesses' sub-suppliers and their sub-suppliers (indirect effect on Danish export turnover). See Figure 2.

To calculate the sub-suppliers' increased turnover, industry-specific sales multipliers from Statistics Denmark are applied. For the construction industry, for instance, an export order worth DKK 1 million adds around DKK 1.8 million to exporters and sub-suppliers' turnover (see Table 1).

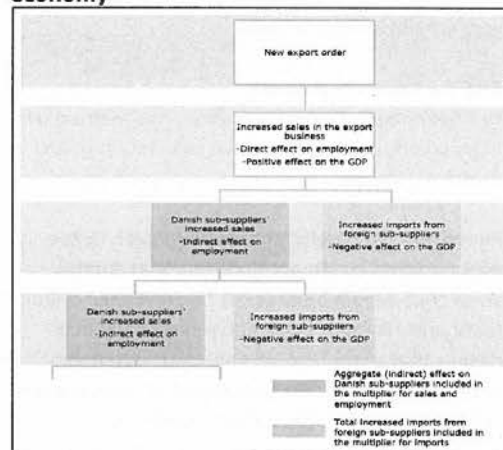
Effect on Danish employment

The increase in Danish export turnover contributes to creating or retaining jobs in Danish export businesses (direct employment effect) and with a large number of sub-suppliers (indirect employment effect). See Figure 2.

The aggregate employment effect of the increased export turnover is calculated by applying industry-specific employment multipliers based on Statistics Denmark's Input-Output tables, indicating the number of employees needed for production worth DKK 1 million.

Thus, in the construction sector, it takes 1.14 persons to produce an order of DKK 1 million (see Table 1).

Figure 2 New export order and the Danish economy



Source: Copenhagen Economics

Effect on the Danish GDP

The increase in Danish exports also has a positive effect on the national balance of payments. The reason is that the value added to the export order by the Danish production exceeds the value of the imported components. When the Danish export business starts preparing new orders, the business will also have to draw on input and services supplied by foreign manufacturers, though. Similarly, Danish sub-suppliers and their Danish sub-suppliers will draw on imported input when they manufacture goods for the export business. See Figure 2. The aggregate effect on GDP is calculated via Statistics Denmark's Input-Output tables. In the Danish electricity supply industry, for

instance, imports account for an average of DKK 300,000 in a DKK 1 million export order (see Table 1). This corresponds to a positive net contribution to the Danish GDP of DKK 700,000.

In calculating EKF's impact on society, the induced effects of EKF's guarantees are also calculated. Induced effects is the value created through salaries that are paid out and spent in Denmark by employees in both the exporting company and its sub-suppliers. The measurement of induced effects is somewhat uncertain, and so reporting of these is only done to provide a better insight into EKF's impact on Danish export turnover, employment and GDP.

EKF's economic impact

In Copenhagen Economics' view, the method developed offers a conservative calculation of EKF's economic impact.

Moreover, the results should be viewed in the context that Danish and international studies show that export businesses boast higher productivity and stronger competitiveness than businesses that manufacture only for the domestic market. Therefore, Danish export businesses create high value for the Danish economy.

In conclusion, EKF helps to ensure continued positive input from Danish export businesses to the Danish economy, inter alia, by securing more competitive workplaces.

EKF's effect on the Danish economy is published on www.ekf.dk.