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Denmark

Denmark is already enjoying a recovery in private consumption and stronger exports. The pace of activity is projected to pick up gradually as the international situation improves and firms regain sufficient confidence to increase investment and expand employment. But unemployment is already lower than its structural rate and labour shortages accompanied by accelerating wages could re-emerge as the expansion quickens.

The authorities continue to steer a prudent fiscal course, and the “tax freeze” should help to constrain public consumption growth in the face of strong upward pressures. Recent initiatives to get more people into work and reduce reliance on benefits are welcome, and further reforms to boost participation should be pursued.

Private consumption growth has at last picked up pace, reaching an annualised rate of almost 3½ per cent in the first half of this year, with a surge in purchases of new cars and other durable items. Exports have significantly outperformed market growth, expanding by more than 7 per cent in the first semester. But business sector indicators present a somewhat mixed picture for production in the second half of 2002, which may lead to a postponement of some business investment plans. Nevertheless, additions to capacity over the past year have boosted labour productivity, while labour that was hoarded during the slowdown is now being used to respond to higher demand. Private sector employment has remained stable this year, while job creation has continued in the public sector, albeit at a reduced annual pace of around ½ per cent, leaving the standardised unemployment rate at 4¼ per cent. Compensation per employee has decelerated slightly, but overall the labour market remains relatively tight, with actual unemployment below estimated sustainable levels.

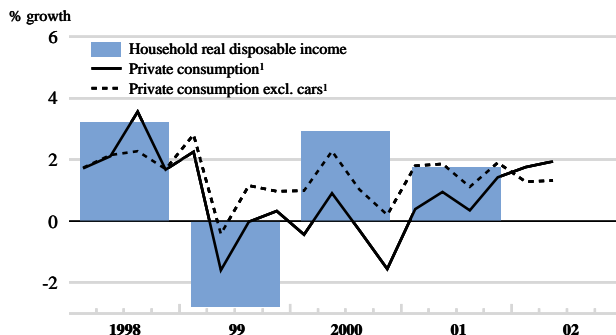
Recovery is underway

The government is expected to maintain the current neutral cyclically-adjusted budget stance over the projection period, with the budget surplus rising to nearly 3 per cent of GDP by 2004 as output growth accelerates. However, new rules on taxation of pension fund yields make public revenues more sensitive to movements in stock prices than in the past, increasing their volatility. The government’s “tax freeze” is designed to put downward pressure on public expenditure growth. However, this may prove quite difficult to achieve given only indirect mechanisms for controlling the behaviour of individual local authorities and the government’s stated

Fiscal policy is neutral

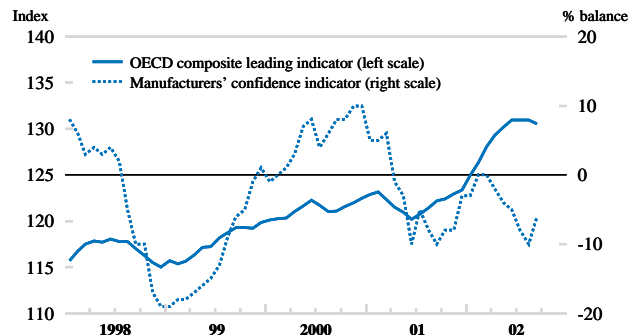
Denmark

Consumption growth is picking up



1. 4-quarters moving average.
Source: Statistics Denmark; OECD.

Indicators of business climate are mixed



Denmark: Demand, output and prices

	1999	2000	2001	2002	2003	2004
	Current prices billion Dkk	Percentage changes, volume (1995 prices)				
Private consumption	597.5	-0.3	0.8	2.2	2.0	2.2
Government consumption	313.9	0.6	1.2	1.3	0.8	0.9
Gross fixed capital formation	248.1	10.7	-0.2	0.5	1.5	3.4
Final domestic demand	1 159.5	2.4	0.7	1.6	1.5	2.2
Stockbuilding ^a	- 3.2	0.2	0.4	-0.3	0.1	0.0
Total domestic demand	1 156.3	2.6	1.1	1.3	1.6	2.2
Exports of goods and services	459.6	11.5	3.7	4.3	6.1	7.1
Imports of goods and services	402.3	11.2	4.3	4.1	5.7	6.9
Net exports ^a	57.3	0.6	-0.1	0.3	0.4	0.4
GDP at market prices	1 213.6	3.0	1.0	1.5	2.0	2.5
GDP deflator	—	3.7	2.8	1.5	2.3	2.1
<i>Memorandum items</i>						
Consumer price index	—	2.9	2.4	2.4	2.0	2.2
Private consumption deflator	—	3.0	2.1	2.4	2.1	2.2
Unemployment rate	—	4.4	4.3	4.3	4.2	4.1
Household saving ratio ^b	—	4.0	5.3	4.8	5.3	4.9
General government financial balance ^c	—	2.5	3.0	2.2	2.4	2.9
Current account balance ^c	—	1.6	2.5	2.4	2.8	2.9

a) Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

b) As a percentage of disposable income.

c) As a percentage of GDP.

Source: OECD.

ambitions in health and education. Recent policy initiatives to reduce reliance on various forms of income support by strengthening work incentives go in the right direction but are only expected to deliver a slight reduction in public expenditures within the time horizon of the projections.

**Monetary conditions will
support growth**

Monetary policy largely mirrors developments in the euro area, with the National Bank making minor adjustments when necessary to keep the krone within narrow bands around its central parity *vis-à-vis* the euro. Monetary conditions may remain relatively easy over the projection period, given Denmark's cyclical position relative to the euro area.

**The pace of activity is projected
to pick up steadily**

The economy is projected to expand at a gradually accelerating rate from around 1½ per cent in 2002 to about 2½ per cent by 2004. Household finances are projected to sustain private consumption growth of around 2 per cent each year, while export prospects should brighten significantly with the projected pick-up in world trade as Denmark consolidates its recent gains in export market share. These factors are expected to provide a modest impetus to business investment. But housing investment may remain relatively sluggish, despite some pressures in certain urban areas and policy measures to boost construction of social housing.

**Labour shortages with
accelerating wages are the
main risk**

The gathering momentum in activity is projected to feed through into modest increases in employment. With unemployment expected to decline further below the structural rate, some wage acceleration is likely. Tight labour markets remain the predominant risk to the outlook, and further policy initiatives to increase labour supply would help.

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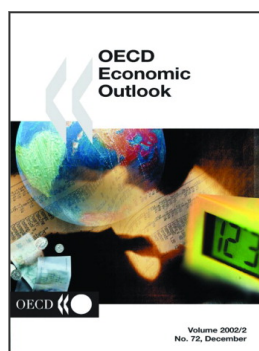
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Conventional signs

\$	US dollar	.	Decimal point
¥	Japanese yen	I, II	Calendar half-years
£	Pound sterling	Q1, Q4	Calendar quarters
€	Euro	Billion	Thousand million
mbd	Million barrels per day	Trillion	Thousand billion
..	Data not available	s.a.a.r.	Seasonally adjusted at annual rates
0	Nil or negligible	n.s.a.	Not seasonally adjusted
–	Irrelevant		



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