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Denmark

Demand has slowed considerably, reflecting weak export market growth and household and business caution. Growth prospects should brighten as the international situation improves and firms gain sufficient optimism to increase investment and hiring. Wage and price inflation pressures have eased as output has slipped below potential and are likely to remain contained over the projection period.

A neutral fiscal stance, with automatic stabilisers working to cushion output fluctuations, remains appropriate. But the government's strategy for managing public finances prudently could be put at risk if local government spending continues to slip. A faster pick-up in activity than projected could put upward pressure on wage inflation as the output gap closes. Further labour market reforms would not only help to address such risks but also reinforce the longer-term budget position.

The Danish economy has shown signs of renewed activity in the second half of this year, after the downturn of the past year. Export growth picked up modestly in the first half of the year, but rising unemployment and ebbing consumer confidence led households to take a more cautious approach to spending and avoid large purchases such as cars. Business investment has been pruned back sharply, although both manufacturing and services firms have become gradually more optimistic since the mid-year. Export markets are more buoyant, but the Danish upswing may not be fully established before the end of the year. The strong decline in private sector employment has been cushioned by a further expansion in public sector jobs. Wage growth has moderated and supply pressures have eased somewhat, as unemployment has risen and output has fallen below its potential.

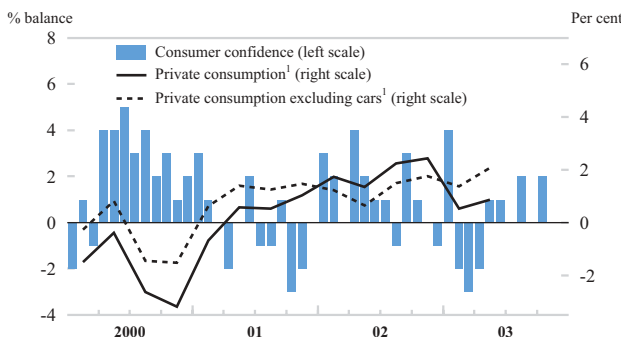
The pace of activity is poised to pick up

The general government surplus has shrunk markedly, to less than 1 per cent of GDP, as the automatic stabilisers have come into play. In addition, the government will provide a slight boost to activity next year through income tax cuts. The general government surplus is expected to improve only slightly next year, but will reach around 1½ per cent of GDP in 2005. The structural budget balance is projected to remain around 1¾ per cent of potential GDP, a level consistent with long-term fiscal sustainability. However, local authority expenditures could be difficult to rein in despite the “tax freeze” and may yet result in some budgetary slippage. Monetary

Policy settings may ease slightly

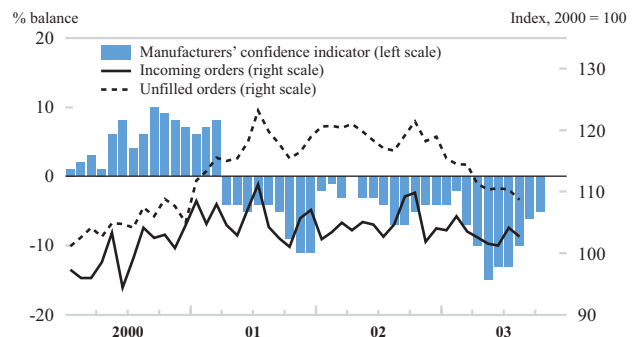
Denmark

Consumer sentiment remains volatile



1. Per cent change, 4-quarter moving average.
Source: Statistics Denmark; OECD.

Manufacturing indicators are still weak



Denmark: Demand, output and prices

	2000	2001	2002	2003	2004	2005
	Current prices billion DKK	Percentage changes, volume (1995 prices)				
Private consumption	608.7	0.4	1.9	0.8	2.3	2.2
Government consumption	323.8	2.1	2.1	1.1	0.7	0.6
Gross fixed capital formation	268.0	1.9	0.3	-4.2	2.3	5.4
Final domestic demand	1 200.5	1.2	1.6	-0.4	1.9	2.5
Stockbuilding ^a	3.7	-0.3	-0.3	0.3	0.0	0.0
Total domestic demand	1 204.2	0.9	1.2	-0.1	1.9	2.5
Exports of goods and services	567.3	3.0	5.8	1.9	6.1	7.0
Imports of goods and services	490.7	1.9	4.2	0.8	5.5	7.2
Net exports ^a	76.6	0.6	0.9	0.6	0.7	0.4
GDP at market prices	1 280.8	1.4	2.1	0.5	2.4	2.8
GDP deflator	—	2.0	0.9	1.7	1.8	2.2
<i>Memorandum items</i>						
Consumer price index	—	2.3	2.4	2.0	1.6	2.0
Private consumption deflator	—	2.6	2.4	1.9	1.5	1.9
Unemployment rate	—	4.3	4.5	5.5	5.3	5.0
Household saving ratio ^b	—	7.0	7.2	8.3	8.0	6.7
General government financial balance ^c	—	2.8	2.0	0.8	1.0	1.5
Current account balance ^c	—	3.1	2.5	3.7	3.5	3.5

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.

conditions are assumed to ease slightly in the near term and, as usual, will follow interest rate developments in the euro area over the projection period.

*The outlook is positive,
depending on the international
upturn*

Output is expected to accelerate to 2½ per cent in 2004 and 2¾ per cent in 2005, as export markets improve and households consume more of their income. Business investment is also projected to gather pace as demand gains momentum. Employment is projected to increase modestly next year, but by enough to allow the unemployment rate to decline gradually. With the output gap remaining negative through the projection period, wage and price increases are expected to be moderate, but a faster pick-up in activity than projected could lead to capacity pressures and wage inflation. The other main risk to the outlook stems from international developments and their implications for Danish exports.

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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		

Summary of projections

	2003	2004	2005	2003			2004				Fourth quarter		
				Q2	Q3	Q4	Q1	Q2	Q3	Q4	2003	2004	2005
Per cent													
Real GDP growth													
United States	2.9	4.2	3.8	3.3	7.2	3.4	4.0	4.0	4.1	4.1	3.8	4.1	3.6
Japan	2.7	1.8	1.8	3.9	0.6	2.6	1.3	1.7	1.5	1.7	2.4	1.6	1.9
Euro area	0.5	1.8	2.5	0.0	1.1	1.6	2.1	2.1	2.3	2.3	0.6	2.2	2.6
European Union	0.7	1.9	2.5	0.3	1.3	1.8	2.2	2.2	2.4	2.4	0.9	2.3	2.7
Total OECD	2.0	3.0	3.1	2.0	3.3	3.1	2.9	3.0	3.2	3.3	2.4	3.1	3.1
Inflation													
United States	1.6	1.2	1.2	1.0	1.7	1.2	1.3	1.0	1.0	1.0	1.6	1.1	1.2
Japan	-2.5	-1.3	-0.8	-2.6	-0.4	-0.9	-1.9	-1.5	-1.0	-0.9	-1.6	-1.3	-0.6
Euro area	1.9	1.7	1.6	1.9	2.1	1.8	1.7	1.6	1.4	1.4	1.9	1.5	1.7
European Union	2.1	1.8	1.7	1.9	2.0	1.9	1.8	1.7	1.6	1.6	2.0	1.7	1.8
Total OECD	1.8	1.4	1.4	1.4	1.1	1.4	1.5	1.5	1.4	1.3	1.5	1.4	1.4
Unemployment rate													
United States	6.1	5.9	5.2	6.2	6.1	6.2	6.1	5.9	5.8	5.6	6.2	5.6	5.0
Japan	5.3	5.2	5.0	5.4	5.3	5.3	5.3	5.3	5.2	5.2	5.3	5.2	4.9
Euro area	8.8	9.0	8.7	8.8	8.8	9.0	9.0	9.0	8.9	8.9	9.0	8.9	8.6
European Union	8.0	8.1	7.9	8.0	8.0	8.2	8.2	8.1	8.1	8.1	8.2	8.1	7.8
Total OECD	7.1	7.0	6.7	7.1	7.1	7.2	7.1	7.1	7.0	7.0	7.2	7.0	6.4
World trade growth	4.0	7.8	9.1	2.6	5.2	7.5	8.6	9.0	9.1	9.1	4.3	9.0	9.0
Current account balance													
United States	-5.0	-5.0	-5.1										
Japan	2.9	3.6	4.3										
Euro area	0.4	0.7	0.9										
European Union	0.1	0.1	0.3										
Total OECD	-1.4	-1.3	-1.3										
Cyclically-adjusted fiscal balance													
United States	-4.5	-5.1	-5.0										
Japan	-6.9	-6.5	-6.6										
Euro area	-1.7	-1.5	-1.8										
European Union	-1.7	-1.5	-1.9										
Total OECD	-3.4	-3.6	-3.7										
Short-term interest rate													
United States	1.2	1.5	2.7	1.2	1.1	1.1	1.1	1.4	1.6	1.9	1.1	1.9	3.4
Japan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Euro area	2.3	2.0	2.2	2.4	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.5

Note: Real GDP growth, inflation (measured by the increase in the GDP deflator) and world trade growth (the arithmetic average of world merchandise import and export volumes) are seasonally and working-day-adjusted annual rates. The "fourth quarter" columns are expressed in year-on-year growth rates where appropriate. The unemployment rate is in per cent of the labour force while the current account balance is in per cent of GDP. The cyclically-adjusted fiscal balance is in per cent of potential GDP. Interest rates are for the United States: 3-month eurodollar deposits; Japan: 3-month CDs; euro area: 3-month interbank rates.

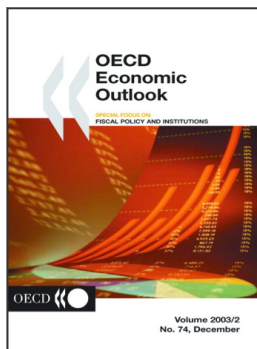
Assumptions underlying the projections include:

- no change in actual and announced fiscal policies;

- unchanged exchange rates as from 3 November 2003; in particular 1\$ = 111.20 yen and 0.873 euros;

The cut-off date for other information used in the compilation of the projections is 7 November 2003.

Source: OECD.



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