

Denmark

The economy virtually stagnated in 2003, reflecting weakness in both domestic demand and exports. Prospects look brighter for 2004 and 2005, when household spending should accelerate and exports pick up. Labour market pressures eased significantly last year, and collective wage negotiations in spring 2004 have delivered lower compensation increases than the previous rounds. Wage and price inflation should remain contained, as output is projected to stay below potential over the projection period.

On top of the tax cuts implemented at the beginning of 2004, the government recently announced further measures to boost activity. Although this extra easing is relatively small, it risks coinciding with new interest rate cuts and already accelerating output. Some of this stimulus will therefore need to be removed as the expansion gathers steam. Further initiatives to raise labour force participation would help to sustain the upturn and bring employment closer to the government's long-term target.

Activity slowed last year as businesses reduced investment and exports were restrained by a steady appreciation of the krone *vis-à-vis* non-euro currencies. However, private consumption picked up strongly in the fourth quarter, which also saw solid private sector investment and renewed growth in exports. The pick-up in household spending probably came in anticipation of the previously-announced tax cuts for 2004, and rising consumer confidence points to sustained high spending. The steady worsening of labour market conditions last year has brought the standardised unemployment rate up to 6 per cent, more than 1 percentage point above its estimated structural level, and the weak labour market has led to a moderation of wage increases in the private sector. Consumer price inflation has also fallen markedly recently, partly because of one-off factors and a reduction in excise duties, but also reflecting the lower underlying inflation, which has followed from the negative output gap.

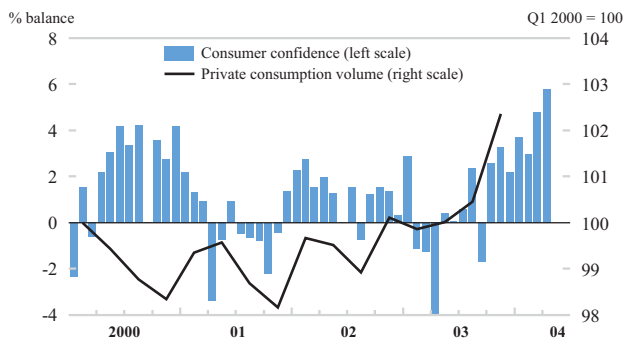
Increasing household spending signals recovery

Despite indications that a recovery is getting under way, the government has recently proposed various measures to boost household incomes and consumption, including advancing to 2004 the additional tax cuts that were to be phased in over 2005-07 and suspending the compulsory Special Pension contributions this year and next. Other government proposals include bringing forward public investments to 2004 and further encouraging housing investment. Even so, a general government surplus of around 1 per cent of GDP is projected this year and next, which however implies a reduction of the primary structural surplus given projected growth in excess

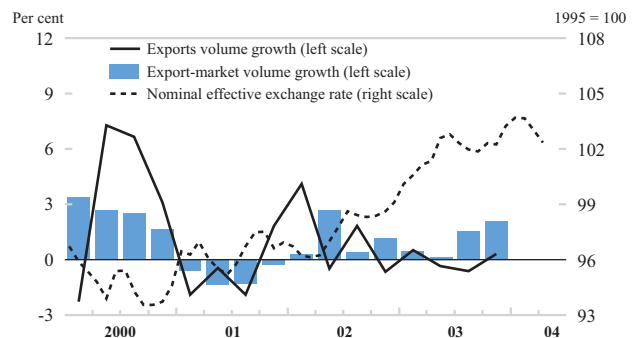
Fiscal policy is boosting household income...

Denmark

Private consumption has picked up



Exports have been restrained by a strong krone



Source: Statistics Denmark and OECD.

Denmark: Demand, output and prices

	2000	2001	2002	2003	2004	2005
	Current prices billion DKK	Percentage changes, volume (1995 prices)				
Private consumption	610.5	-0.2	0.6	1.1	3.4	3.1
Government consumption	323.3	2.7	2.1	0.5	0.8	0.6
Gross fixed capital formation	258.1	4.9	4.5	-0.4	4.0	4.3
Final domestic demand	1 191.9	1.8	2.0	0.6	2.9	2.8
Stockbuilding ^a	10.9	-0.7	0.0	-0.4	0.2	0.1
Total domestic demand	1 202.8	1.0	1.9	0.1	3.1	2.9
Exports of goods and services	564.0	4.4	4.8	0.3	3.0	6.8
Imports of goods and services	487.8	3.4	7.3	-0.4	5.8	7.7
Net exports ^a	76.2	0.6	-0.8	0.3	-1.1	-0.2
GDP at market prices	1 279.0	1.6	1.0	0.4	1.9	2.6
GDP deflator	—	2.1	1.6	2.1	2.1	2.3
<i>Memorandum items</i>						
Consumer price index	—	2.3	2.4	2.1	1.6	1.9
Private consumption deflator	—	2.5	2.1	1.8	1.7	1.8
Unemployment rate	—	4.3	4.6	5.6	6.0	5.8
Household saving ratio ^b	—	7.1	8.0	7.8	7.0	6.1
General government financial balance ^c	—	2.8	1.6	1.2	0.9	1.1
Current account balance ^c	—	3.1	2.0	3.0	2.6	2.8

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.

of potential and sharp declines in interest payments. One risk to public finances is the prospect of amalgamations of local governments that could involve significant adjustment costs over coming years.

*... along with an easing
of monetary policy*

Monetary conditions continue to follow euro area developments, with a cut in interest rates projected in the short term followed by a gradual tightening in 2005. European Central Bank interest rates, to which Danish interest rates are aligned, will probably be better suited for the Danish economy than previously expected, as the output gap has widened and now more closely resembles that of the euro area.

*Growth should accelerate
in 2004 and 2005...*

With accommodative fiscal and monetary settings, output is projected to increase by around 2 per cent in 2004 and 2½ per cent in 2005. The growth of private consumption is likely to pick up in the second half of 2004 as households react to the fiscal package, and a rebound of exports due to recovering foreign demand may also add to increased activity this year. Developments in household spending and exports should continue to be strong in 2005, while business investment may provide further underpinning of growth. The unemployment rate is projected to fall back as the business sector starts to increase hiring during 2004, but wage and price increases should be moderate throughout the projection period as output remains below its potential level.

*... although this is highly
dependent on household
behaviour*

The main source of uncertainty is the reaction of households to the policy stimulus, especially the degree to which they turn to other tax-deductible pension schemes as substitutes for the Special Pension contributions. The strength of the European recovery and exchange rate developments constitute further risks to the outlook through their effect on 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				2005		Fourth quarter		
				Q4	Q1	Q2	Q3	Q4	Q1	Q2	2003	2004	2005
	Per cent												
Real GDP growth													
United States	3.1	4.7	3.7	4.1	4.6	4.3	3.8	3.9	3.6	3.6	4.3	4.2	3.6
Japan	2.7	3.0	2.8	6.4	1.7	2.2	2.5	2.7	2.8	3.0	3.6	2.3	2.9
Euro area	0.5	1.6	2.4	1.4	1.4	1.9	2.3	2.3	2.5	2.5	0.7	2.0	2.6
Total OECD	2.2	3.4	3.3	4.0	3.1	3.2	3.2	3.2	3.2	3.3	2.9	3.2	3.3
Inflation													
United States	1.7	1.7	1.6	1.5	2.1	2.0	1.3	1.3	1.8	1.5	1.6	1.7	1.6
Japan	-2.5	-1.8	-1.1	-4.4	-0.8	-1.4	-1.2	-1.1	-1.1	-1.0	-2.7	-1.1	-0.9
Euro area	2.0	1.7	1.7	1.6	1.5	1.6	1.8	1.8	1.6	1.7	2.0	1.7	1.7
Total OECD	2.0	1.7	1.6	1.1	2.1	1.8	1.6	1.6	1.6	1.5	1.6	1.8	1.6
Unemployment rate													
United States	6.0	5.5	5.2	5.9	5.6	5.6	5.5	5.4	5.3	5.3	5.9	5.4	5.1
Japan	5.3	5.0	4.6	5.1	5.0	5.0	4.9	4.9	4.8	4.7	5.1	4.9	4.3
Euro area	8.8	8.8	8.5	8.8	8.8	8.8	8.8	8.8	8.7	8.6	8.8	8.8	8.3
Total OECD	7.1	6.9	6.7	7.1	7.0	7.0	6.9	6.9	6.8	6.7	7.1	6.9	6.5
World trade growth	4.5	8.6	10.2	11.5	6.9	8.9	9.6	10.0	10.5	10.5	5.8	8.8	10.5
Current account balance													
United States	-4.9	-4.7	-4.8										
Japan	3.1	3.8	4.4										
Euro area	0.4	0.5	0.6										
Total OECD	-1.2	-1.0	-1.0										
Cyclically-adjusted fiscal balance													
United States	-4.2	-4.6	-3.9										
Japan	-7.5	-7.0	-7.0										
Euro area	-1.7	-1.6	-1.8										
Total OECD	-3.4	-3.5	-3.2										
Short-term interest rate													
United States	1.2	1.3	2.9	1.1	1.2	1.2	1.4	1.6	2.1	2.6	1.1	1.6	3.6
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	1.7	1.8	2.2	2.1	1.7	1.5	1.5	1.5	1.5	2.2	1.5	2.3

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 deposit; Japan: 3-month CD; euro area: 3-month interbank rate.

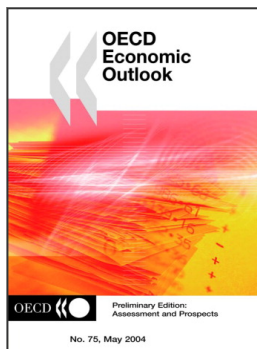
Assumptions underlying the projections include:

- no change in actual and announced fiscal policies;

- unchanged exchange rates as from 14 April 2004; in particular 1\$ = 108.50 yen and 0.836 euros;

The cut-off date for other information used in the compilation of the projections is 21 April 2004.

Source: OECD.



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