

Denmark

The economy has continued to recover in 2004 due to a strong pick-up in private consumption and exports. Prospects look bright for 2005 and 2006, as business investment should add to activity on top of continued solid household spending and fast-growing export demand. The labour market is gradually improving, but inflationary pressures are likely to remain contained until 2006 when labour- and product-market slack is expected to disappear.

The outlook is very much shaped by the 2004 fiscal easing, which provided a large boost to household disposable income. Monetary policy settings are currently supportive of growth, but will become less so by 2006 as the European Central Bank gradually raises interest rates and Denmark follows suit. Further initiatives to increase labour force participation would help to sustain the upturn and bring employment closer to the government's medium-term target.

The first half of 2004 saw a substantial pick-up in exports and continued solid growth in private consumption after the boom at the end of 2003. While the increase in demand was largely matched by a huge rise in imports, real GDP grew well above its potential rate. Short-term indicators point to a continued pick-up in growth in the second half of this year, as confidence indicators have risen substantially (even if there has been some recent reversal in manufacturing) and growth in retail and car sales has been brisk. The labour market has turned for the better after the steady worsening last year, and the standardised unemployment rate now stands at 5¾ per cent of the labour force (around 1 percentage point above the structural rate). Wage increases have moderated, reflecting the weaker labour market than in previous years. Consumer price inflation has also remained low, despite significant oil price increases.

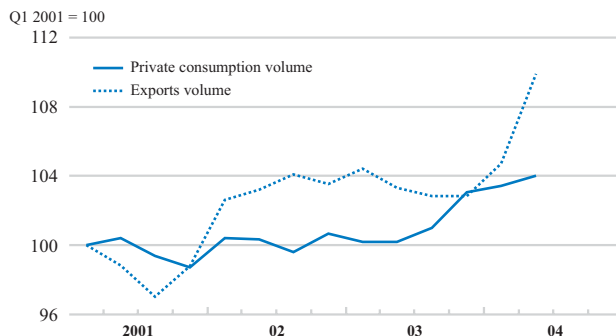
Exports and household spending continue to drive the recovery

The stimulus from tax cuts implemented at the beginning of 2004 and the spring fiscal package (frontloading tax cuts planned for 2005-07 and suspending Special Pension contributions in 2004 and 2005) is a major driver of growth this year and next. Its main impact is to boost household disposable income. The fiscal easing is expected to push the general government surplus back below 1 per cent of GDP this year, although rising activity and higher employment should help it recover to 1½ per cent of GDP by 2006. After adjusting for the business cycle and certain one-off factors, the structural surplus is projected to remain below the government's

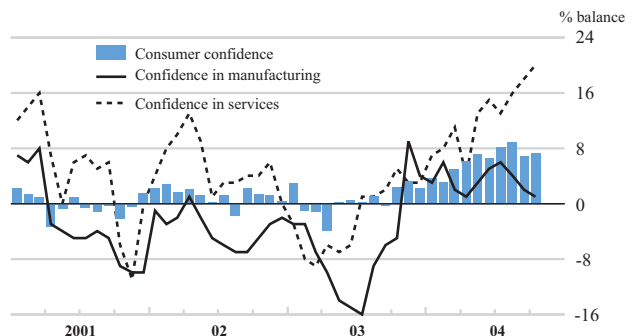
Fiscal easing boosts household income

Denmark

Private consumption and exports have picked up



Confidence is strong



Source: Statistics Denmark, Statbank Database, www.statbank.dk; OECD, Quarterly National Accounts database.

Denmark: Demand, output and prices

	2001	2002	2003	2004	2005	2006
	Current prices billion DKK	Percentage changes, volume (1995 prices)				
Private consumption	624.5	0.6	0.8	3.6	3.3	2.4
Government consumption	343.3	2.1	1.0	0.7	0.7	0.8
Gross fixed capital formation	271.0	4.5	0.1	3.6	4.7	5.4
Final domestic demand	1 238.7	2.0	0.7	2.8	3.0	2.8
Stockbuilding ^a	1.3	0.0	-0.4	0.2	0.1	0.0
Total domestic demand	1 240.0	1.9	0.3	3.1	3.1	2.8
Exports of goods and services	592.1	4.8	0.0	4.9	6.0	6.4
Imports of goods and services	506.5	7.3	-0.6	6.6	7.0	7.1
Net exports ^a	85.5	-0.8	0.3	-0.5	-0.3	-0.1
GDP at market prices	1 325.5	1.0	0.5	2.4	2.7	2.6
GDP deflator	—	1.6	2.2	1.9	2.0	2.0
<i>Memorandum items</i>						
Consumer price index	—	2.4	2.1	1.2	1.7	2.0
Private consumption deflator	—	2.1	1.8	1.2	1.7	1.9
Unemployment rate	—	4.6	5.6	5.8	5.3	4.9
Household saving ratio ^b	—	0.1	0.3	-0.3	-1.6	-1.3
General government financial balance ^c	—	1.6	1.2	0.9	1.4	1.5
Current account balance ^c	—	2.0	2.7	3.1	3.1	3.4

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, net of household consumption of fixed capital.

c) As a percentage of GDP.

Source: OECD Economic Outlook 76 database.

target of 1½ to 2½ per cent of GDP over the projection period. A risk to public finances is the restructuring of local governments from 2007, which could involve substantial adjustment costs in 2006 that would be difficult to handle within the spending targets set out in the government's medium-term fiscal framework. Monetary conditions continue to follow euro area developments, with a gradual increase in interest rates projected in 2006 as activity picks up in the euro area. The fiscal stimulus may have pushed Denmark a little ahead in the cycle compared to the euro area, which could make monetary policy there less appropriate for Danish conditions.

Growth depends on household behaviour and export markets

With accommodative fiscal settings, output is projected to increase by just above 2½ per cent per annum from 2004 to 2006. Private consumption seems to have picked up in the second half of 2004 as households reacted to the fiscal package while continued strong exports due to recovering foreign demand have further boosted activity this year. Household spending and exports should remain strong over the next two years, although some moderation of private consumption growth is projected in 2006 as Special Pension contributions are resumed, cutting into disposable incomes. Business investment may provide more support to growth in 2005 and 2006 as firms seek to expand capacity. The unemployment rate is also projected to fall as the business sector starts to increase hiring. Yet wage and price increases should be moderate as output is expected to remain below its potential level until the end of 2005. The main source of uncertainty is the reaction of households to the extra income from previous policy measures. The more of this they decide to spend, the faster capacity constraints may begin to bite, raising inflationary pressure. The strength of the European recovery generates a further uncertainty associated with the outlook, given Denmark's close economic integration with its European Union partners.

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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

	2004	2005	2006	2004	2005				2006			Fourth quarter		
				Q4	Q1	Q2	Q3	Q4	Q1	Q2		2004	2005	2006
	Per cent													
Real GDP growth														
United States	4.4	3.3	3.6	3.5	3.1	3.2	3.4	3.5	3.6	3.7		3.8	3.3	3.6
Japan	4.0	2.1	2.3	2.8	2.3	2.5	2.5	2.5	2.2	2.1		2.6	2.4	2.1
Euro area	1.8	1.9	2.5	1.7	1.9	2.1	2.5	2.5	2.5	2.5		1.9	2.3	2.5
Total OECD	3.6	2.9	3.1	2.9	2.9	3.0	3.2	3.2	3.1	3.1		3.1	3.1	3.1
Inflation														
United States	2.0	1.8	1.7	1.5	2.1	1.7	1.7	1.7	1.9	1.6		2.2	1.8	1.7
Japan	-2.3	-1.3	-0.3	-1.6	-1.5	-1.2	-1.0	-0.6	0.0	0.1		-1.6	-1.1	0.2
Euro area	1.9	1.7	1.8	1.4	1.9	1.9	1.7	1.7	1.8	1.8		1.7	1.8	1.8
Total OECD	1.8	1.7	1.7	1.4	1.8	1.5	1.7	1.8	1.8	1.6		1.9	1.7	1.7
Unemployment rate														
United States	5.5	5.3	5.1	5.4	5.4	5.4	5.3	5.3	5.2	5.2		5.4	5.3	5.0
Japan	4.8	4.5	4.2	4.8	4.7	4.6	4.5	4.4	4.3	4.2		4.8	4.4	4.0
Euro area	8.8	8.6	8.3	8.8	8.7	8.7	8.6	8.6	8.4	8.4		8.8	8.6	8.2
Total OECD	6.6	6.5	6.3	6.5	6.5	6.5	6.5	6.4	6.4	6.3		6.5	6.4	6.2
World trade growth	9.5	9.0	9.5	8.4	8.7	8.9	9.3	9.4	9.7	9.7		9.4	9.1	9.6
Current account balance														
United States	-5.7	-6.2	-6.4											
Japan	3.5	3.5	3.7											
Euro area	0.7	0.6	0.9											
Total OECD	-1.2	-1.4	-1.3											
Cyclically-adjusted fiscal balance														
United States	-4.2	-4.0	-4.2											
Japan	-6.3	-6.4	-6.6											
Euro area	-2.1	-1.8	-1.8											
Total OECD	-3.4	-3.3	-3.3											
Short-term interest rate														
United States	1.5	2.8	3.8	2.1	2.5	2.7	3.0	3.2	3.5	3.7		2.1	3.2	4.2
Japan	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.2	0.2		0.0	0.0	0.5
Euro area	2.1	2.1	2.7	2.1	2.1	2.1	2.1	2.1	2.3	2.5		2.1	2.1	3.0

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 and in levels otherwise. 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 certificate of deposits; euro area: 3-month interbank rate.

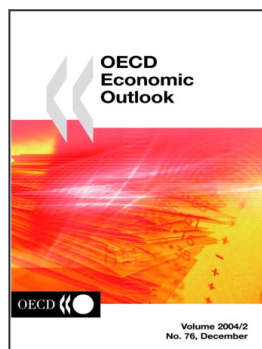
Assumptions underlying the projections include:

- no change in actual and announced fiscal policies;

- unchanged exchange rates as from 5 November 2004; in particular 1\$ = 105.70 yen and 0.771 euros;

The cut-off date for other information used in the compilation of the projections is 18 November 2004.

Source: OECD Economic Outlook 76 database.



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