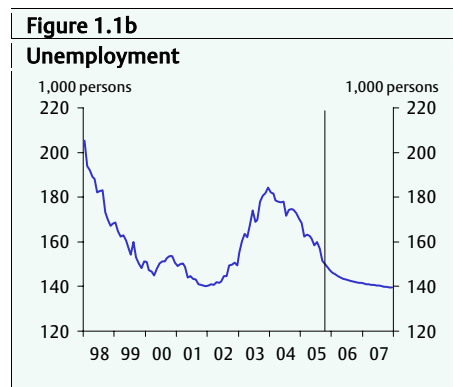
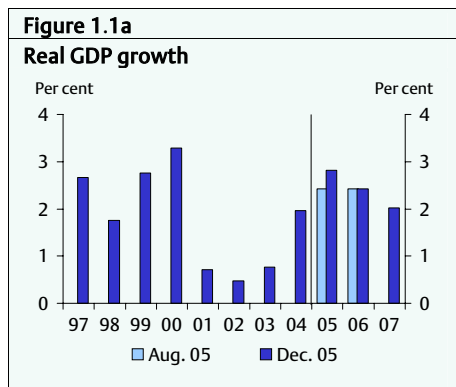


Economic Survey December 2005 – English Summary

1. Short term outlook

The Danish economy is currently experiencing a fairly strong recovery. Output is now estimated to grow by 2.8 per cent in 2005, 0.4 percentage points more than expected in the August economic survey, *cf. figure 1.1a*.¹ The fairly strong expansion reflects high growth in private consumption, but recently exports have also contributed more to activity and employment growth than previously expected. The recovery is mainly driven by low interest rates, buoyant international growth, strong house price increases and the impact of fiscal policy easing in 2004, notably tax reductions. Growth is expected to continue at a rather solid pace of 2.4 and 2.0 per cent in 2006 and 2007, respectively.

Unemployment has declined by approximately 33,000 persons (1.2 percentage points) since December 2003 and is expected to reach a record low of 140,000 persons in 2007 (4.9 per cent of the labour force, national definition), which is below the estimated structural level of unemployment, *cf. figure 1.1b*. Consequently, real wage growth is expected to pick up. Overall, employment is expected to increase by about 40,000 persons from 2004 to 2007.



While the recovery was driven mainly by buoyant growth in private consumption early on, the recovery is gradually becoming better balanced, due to strong export growth and increasing investments, while private consumption growth is expected to recede in 2006 and 2007.

¹ In July, Statistics Denmark substantially revised the methods and data used in the national accounts, including a shift to chain-weighting. Data based on traditional fixed-price indices are still published (in electronic form), now with 2000 as the new base year. For recent years, the differences in growth rates (e.g., for real GDP and demand components) between the chain-weighted and the 2000-fixed price data are modest. Unless otherwise stated, the real growth rates shown in this Survey are based on data in fixed 2000-prices.

House prices have been quite buoyant this year which has stimulated activity in construction of private dwellings to such an extent that some areas report on lack of skilled labour.

Table 1.1
Key figures compared to the August projection

	2005		2006		2007
	Aug.	Dec.	Aug.	Dec.	Dec.
Real growth, per cent					
Gross domestic product	2.4	2.8	2.4	2.4	2.0
Private consumption	3.6	4.1	2.5	2.4	1.9
Public consumption	0.3	0.6	0.5	0.3	0.5
Export market, manufactures	6.1	6.0	6.5	7.0	7.0
Per cent of GDP					
Public budget balance	2.5	3.3	1.9	2.3	2.1
Current account	2.4	3.2	2.4	3.1	3.4
1,000 persons					
Unemployment	158	158	147	143	140
Per cent increase					
House prices, single-family house	13.0	15.0	7.0	10.0	5.0
Consumer prices	1.7	1.8	2.1	2.0	1.6
Hourly compensation, private sector	3.2	3.0	3.7	3.5	4.0
Yield on 10-year government bonds	3.5	3.4	3.9	3.9	4.2
Oil price, \$ a barrel	53.5	54.0	58.5	57.0	48.5
Exchange rate Dkr. per \$	6.0	6.0	6.2	6.3	6.3
Oil price, Dkr. per barrel	320.5	324.0	361.2	360.2	306.5

Source: Statistics Denmark and Ministry of Finance

Public finances are expected to benefit from stronger activity, higher revenues from oil and gas production and high returns on pension savings. The suspension of Special Pension Savings contributions (of 1 per cent of income) in 2004 and 2005 has been extended to 2006 and 2007.

The budget surplus is projected to reach 3.3 per cent of GDP in 2005 and to subside to 2.3 and 2.1 per cent of GDP in 2006 and 2007, respectively.²

The international environment and its impact on the Danish economy

Global growth remains strong with continued brisk expansion in North America and Asia. Growth has been more subdued in the euro area, and the expected growth rate

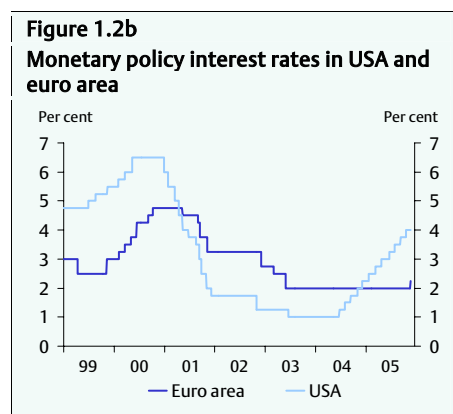
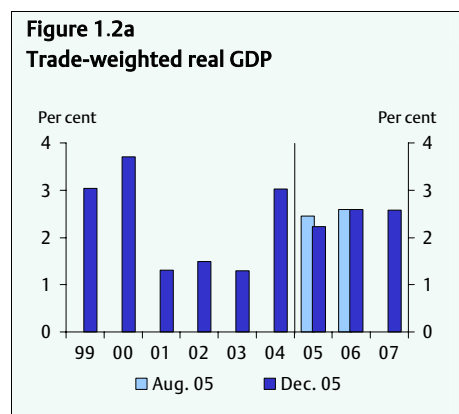
² The data are based on the new national accounts, in which the labour market supplementary pension scheme ATP has been reclassified from the public to the private sector. The revised treatment of ATP has lowered the general government balance by around 1 per cent of GDP in the official statistics. The altered statistical treatment of ATP is purely technical and does not affect the assessment of fiscal policy challenges, nor the sustainability of public finances.

in EU15 is slightly lower than expected in the August economic survey, especially in Germany and UK. In some EU15 countries, growth is expected to be somewhat higher than expected in August, especially Sweden and Italy.

Although growth rates in several EU-countries are seen slightly lower than in the August survey, the outlook is still for a gradual pick-up in the euro area with GDP increasing by 1.9 and 2.1 per cent in 2006 and 2007, respectively, from 1.3 per cent in 2005. The pick-up is sustained by still-low interest rates, increasing household wealth and boyant export growth.

Projected growth for the United States in 2005 is roughly unchanged since the August survey. The US economy appears relatively resilient to the recent oil price shocks, and the effect of the hurricanes Katrina and Rita will have only minor and temporary effects on output growth in 2005. The overall expansion of activity in the United States is expected to slow in 2006 and 2007, and to be slightly below potential growth in 2007, due to increasing (short-term) interest rates and an expected increase in households' savings rate.

Overall, real GDP growth among Denmark's main trading partners has been revised down slightly (by 0.2 percentage points in 2005), but the pace of activity is still expected to be rather healthy, *cf. figure 1.2a*.



The ECB has raised its key policy interest rate by $\frac{1}{4}$ percentage point in December 2005 to forestall future inflationary pressures, *cf. figure 1.2b*. The key Danish policy rate has been held close to the refinancing rate of the ECB as a consequence of the fixed exchange rate policy vis-à-vis the euro. Overall, however, the European policy rate remains low, which should be seen in view of still-uncertain economic growth prospects.

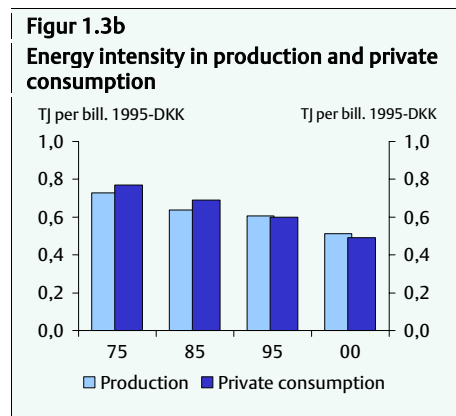
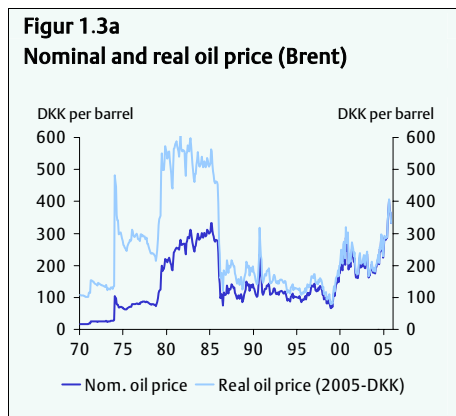
In the USA, the federal funds target rate has been gradually increased since mid-2004. Long term interest rates have increased by $\frac{1}{4}$ percentage points since August,

slightly less than anticipated in August. The gradual tightening of monetary policy towards a more neutral stance is expected to continue.

Oil prices increased markedly up until the end of September partly as a consequence of the temporary reduction in production capacity in the US following the hurricane Katrina. Recently, the price of oil has dropped but it is still above the price level seen in early 2005, cf. *figure 1.3a*. The expected average dollar-price of oil is unchanged relative to the August survey. The average crude oil price (in DKK) is expected to increase by 11 per cent from 2005 to 2006.

For 2007 the oil price (Brent) is expected to decrease by 15 per cent to \$48.5 per barrel in accordance with the International Energy Agency's forecast.

In recent years, Denmark has been a net exporter of energy and higher oil prices tend to strengthen both the budget balance and the current account. Private consumption may be negatively affected, but the energy intensity in both production and private consumption is significantly lower than in previous periods with high oil prices, cf. *figure 1.3b*. Due also to the large component of excise duties in end-user energy prices, the impact of crude oil price changes on overall inflation is comparatively modest. Oil prices in real terms (i.e., relative to consumer prices) are still far lower than in the early 1980s, when the crude oil price corresponded to some 600 Dkr. or \$100 pr. barrel in today's terms, cf. *figure 1.3a*.



The dollar has appreciated somewhat against the euro, although with some fluctuation. The assumed dollar exchange rate has been revised upward in 2006 to 6.32 Dkr. in the current forecast (from 6.20 Dkr. per dollar in August). The somewhat stronger dollar will cause Danish (and euro-area) producers to recoup some of their earlier price competitiveness but it may also imply slightly higher inflation.

On balance, the changes to the international environment since the August Survey point to a marginal upward revision to real GDP growth in 2005 and 2006, *cf. box 1.1*.

Box 1.1

Estimated effects of revised external assumptions

Overall, the revisions to the assumptions concerning export market growth, oil prices, interest rates, import prices and competitors' export prices since August should have a marginal positive impact on activity growth in 2005 but a neutral impact in 2006, *cf. table a*. Slightly lower expected export market growth and slightly higher oil prices (in Dkr.) pulls down GDP growth in 2005, while lower assumed interest rates have a small positive effect on GDP in 2005. In 2006 higher export market growth has a small positive impact on GDP, while slightly higher interest rates have a small negative impact.

Table a

Estimated effects on Danish GDP of changed assumptions

	2005	2006
Percentage points		
Export market growth ¹⁾	0.0	0.1
Foreign prices (excl. oil prices)	0.0	0.0
Prices on energy ²⁾	0.0	0.0
Foreign interest rates	0.0	-0.1
Total	0.1	0.0

1) Including the effects of changes in oil prices on export market growth

2) Excluding the effects of changes in oil prices on export market growth.

Source: Own calculations on the macroeconomic model ADAM.

Domestic developments

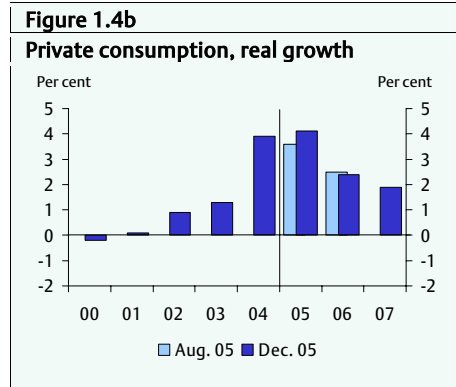
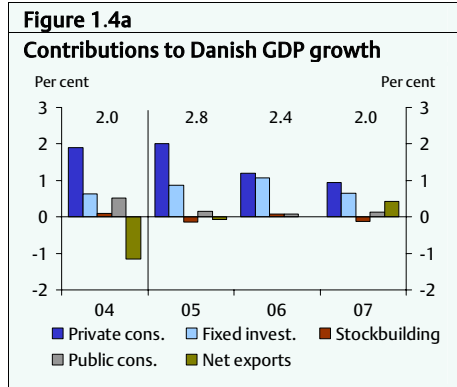
Against the background of fairly high international growth and a sustained expansion in domestic demand, the Danish economy is expected to grow at above-potential rates in 2005-07. With export growth projected to pick up and domestic demand growth abating somewhat, the recovery is expected to become more balanced across sectors.

Domestic demand is expected to remain solid in 2005. The growth in private consumption has been revised upwards to 4.1 per cent from 3.6 per cent in the August survey and is thereby expected to exceed the growth rate in 2004, *cf. figure 1.4a* and *figure 4.1b*.

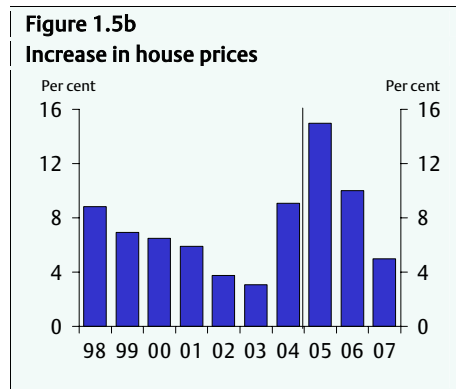
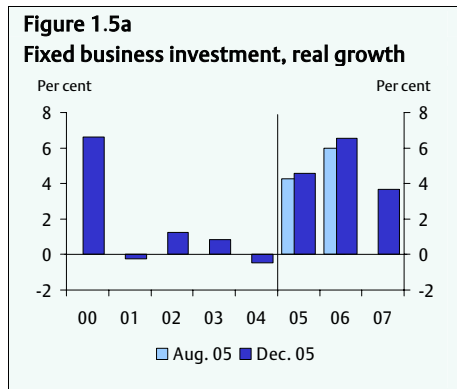
The sustained strong growth in private consumption reflects low interest rates, high growth rates in housing prices, new loan types for owners of real estate – including mortgage loans free of repayment on the principal for up to 10 years – and the increase in employment. In addition, delayed effects of the strong growth in household real disposable income in 2004 boosted by income tax reductions and the suspension

of contributions to the Special Pension Savings scheme³ contributes to the continued growth in private consumption.

The upward adjustment in private consumption growth is mainly due to car sales. Consumption growth is expected to decrease to 2.4 and 1.9 per cent in 2006 and 2007, respectively, reflecting moderate growth in the real disposable income of households, cf. figure 1.4b.



In the light of high and increasing capacity utilization and low interest rates, the growth rate of fixed business investments is expected to pick up to 4.6 per cent in 2005 and 6.6 per cent in 2006, after several years of sluggish growth, cf. figure 1.5a. This is an upward revision relative to the August survey. A reduction in the growth in fixed business investment is expected in 2007 but the investment-to-GDP ratio remains high.



The rise in house prices have accelerated and the price increase for owner-occupied singly-family homes reached 13.1 and 14.2 per cent in the first and second quarter of 2005, respectively, and may have increased further in the third quarter. This is in part

³ 1 per cent of income; the scheme was introduced in 1998 with a view to dampen demand and pre-empt overheating

due to persistently low interest rates. Reflecting these developments, the price increases for owner-occupied single-family homes have been revised up to 15 per cent in 2005 and 10 per cent in 2006 (from 13 and 7 per cent in the August projection), *cf. figure 1.5b*. House price increases are expected to decelerate into 2007 to 5 per cent due to the assumed moderate increase in interest rates and slower growth in real disposable incomes.

After strong growth of around 10 per cent in both 2003 and 2004, residential investment is expected to decelerate in 2005 and 2006 but with still solid growth rates at 4 and 3 per cent, respectively, *cf. table 1.2*. This reflects a marked increase in private housing investments. The forecast for 2005 has been revised upward by 1 percentage points while the forecast for 2006 has been revised downwards by an equal amount. This revision follows from the stimulus of lower interest rates and higher real estate prices, and the expected developments in these magnitudes in 2006.

	2004	2002	2003	2004	2005	2006	2007
	Bill.Dkr.			Real growth, per cent			
Private consumption	710.1	0.9	1.3	3.9	4.1	2.4	1.9
Public consumption	388.7	2.2	0.3	2.0	0.6	0.3	0.5
Public investment	25.8	-6.6	-6.8	11.6	2.7	1.0	1.0
Residential construction	73.4	1.2	9.1	10.9	4.0	3.0	2.0
Fixed business investment	185.3	1.3	0.8	-0.5	4.6	6.6	3.7
Stock building ¹⁾	3.7	-0.2	-0.1	0.1	-0.1	0.1	-0.1
Total domestic demand	1387.1	0.9	1.1	3.3	3.0	2.6	1.7
Exports of goods and services	667.3	4.8	-0.9	3.3	10.0	4.5	4.5
Of which manufactures	297.5	5.7	-1.6	2.4	6.0	6.1	5.6
Total demand	2054.4	2.2	0.4	3.3	5.4	3.3	2.7
Imports of goods and services	594.0	6.5	-0.5	6.5	11.2	4.9	4.1
Of which goods	406.7	5.3	-2.2	7.0	6.9	5.0	4.0
Net exports	73.3	-0.4	-0.2	-1.2	-0.1	0.0	0.4
Gross domestic product	1460.4	0.5	0.8	2.0	2.8	2.4	2.0
Gross value added	1248.4	0.4	0.8	1.3	3.0	2.0	1.8
Of which in private non-agricultural sector	794.2	0.1	0.4	1.5	3.4	2.8	2.2
GDP per capita (1,000 Dkr.)	270.4	0.2	0.5	1.8	2.7	2.3	1.9

1) The percentages indicate the volume changes in stock building in per cent of volume GDP in the preceding year, both in 2000-prices.
Source: Statistics Denmark and own calculations.

In 2005 the real growth rate of public consumption is estimated to be 0.6 per cent. The growth rate is about 0.3 percentage points higher than in the August survey reflecting in part the available local government accounts for parts of 2005. On the basis of the 2006 fiscal agreement with the municipalities and the agreement on the government's fiscal bill for 2006, real public consumption growth is assumed to be

0.3 per cent in 2006 and 0.5 per cent in 2007. This is in line with the medium term requirements in the 2010-framework.

Stock-building is expected to contribute -0.1 percentage point to GDP growth in 2005, and 0.1 and -0.1 per cent of GDP in 2006 and 2007, respectively.

Overall, the real growth rate of domestic demand is expected to moderate from 3.0 per cent in 2005 to 2.6 and 1.7 per cent in 2006 and 2007, respectively. The strong rise in domestic demand in 2004-2006 should be seen in the light of previously low growth of just 0.6 per cent on average in 2001-2003.

International trade and the current account

Exports have increased strongly in 2005⁴. Goods exports have been growing strongly, especially to the USA and to a lesser extent to Sweden and the UK. Manufacturing exports are estimated to increase by more than 6 per cent in 2005. In 2006 and 2007 export growth is projected to remain a similar level owing to the expected cyclical improvement in the euro area.

Export growth appears to have been positively affected by the weakening of the euro against the dollar and other currencies, and thus of the effective exchange rate of the Danish krone. Accordingly, wage competitiveness is expected to be roughly unchanged in 2005 and 2006 after some deterioration in the last four years. Wage competitiveness is expected to deteriorate slightly in 2007.

Imports of goods and services are also expected to grow strongly in 2005. Goods imports are expected to grow by some 7 per cent in real terms, broadly in line with the growth rate in 2004, reflecting both the growth and composition of domestic demand. For 2006 and 2007, import growth (for goods) is projected to subside to around 5 per cent and 4 per cent, respectively, in line with receding domestic demand growth.

Overall, the substantial negative contribution to GDP growth from net foreign trade in 2004 (-1.2 per cent of GDP) is projected to decline to -0.1 percentage points in 2005 and turn positive in 2007.

Despite strong domestic demand, the current account surplus is expected to increase to 3.2 per cent of GDP in 2005 and 2006, which is 0.7 percentage point more than in 2003. The current account may have improved structurally in recent years due to an improvement in the terms of trade and growing exports of maritime services. The current account is projected to improve further in 2007 to 3.4 per cent of GDP as a consequence of a combination of high export growth, receding import growth, and a reduction in interest payment to other countries as the net foreign liabilities recedes.

⁴ The statistical basis for overall exports and imports of goods and services is affected by technical factors concerning the services items.

Employment, unemployment and labour force

After modest growth in 2004, employment growth has picked up in 2005. Output typically impacts employment with some delay as productivity increases are typically relatively high at the beginning of an economic expansion.

Employment is expected to increase by 22.000 and 14.000 persons in 2005 and 2006, respectively, compared to 16.000 and 15.000 persons in the August survey, *cf. figure 1.6a* and *table 1.3*. A modest increase in employment of 3.000 persons is projected for 2007 due to more moderate output growth.

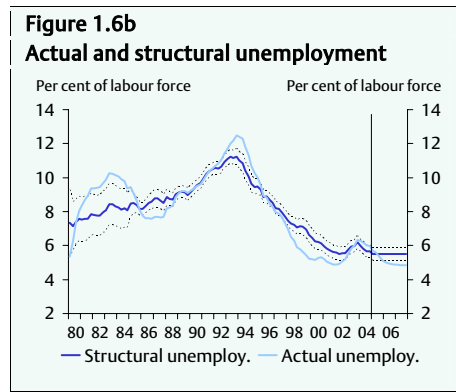
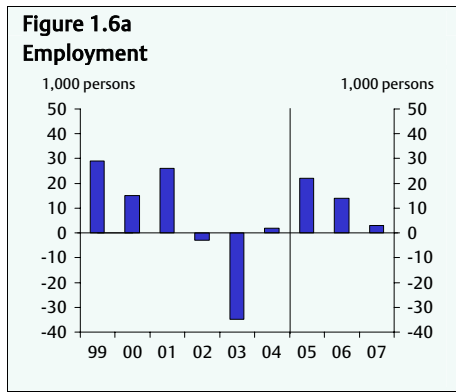
Total employment growth is driven primarily by higher private sector employment in 2005 and 2006, while public sector employment is assumed to increase by 1.500 persons in both years.

From 2005 to 2007 labour force growth is projected to be stagnant. Behind this projection is a negative impact from demographic developments and positive impacts from the upswing on labour force participation and positive impacts of various labour market reforms, reductions in income taxes, and lower than expected take-up rates in the early retirement scheme.

	2004 level	Avg. 1990- 2004	2004	2005		2006		2007
				Aug.	Dec.	Aug.	Dec.	Dec.
	Change, 1,000 persons							
Private sector	1877	3	1	15	21	14	13	2
Public sector	830	4	1	2	2	2	2	2
Total employment	2707	7	2	17	22	16	14	3
Labour force	2883	0	8	-1	4	5	0	0
Unemployment	176	-7	6	-18	-19	-11	-14	-3

Consequently, rising employment should lead to a corresponding drop in unemployment. The level of unemployment is expected to decrease from an expected 158.000 persons (5.5 per cent of the labour force) in 2005 to 143.000 persons in 2006 and 140.000 persons in 2007 (4.9 per cent of the labour force, national definition).

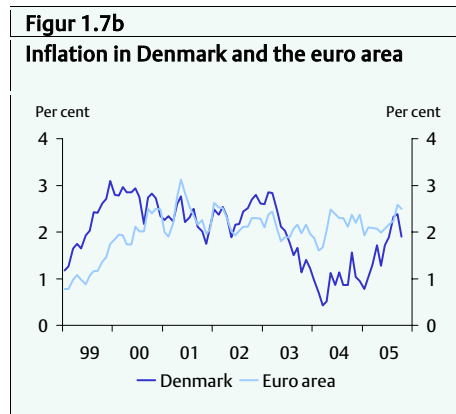
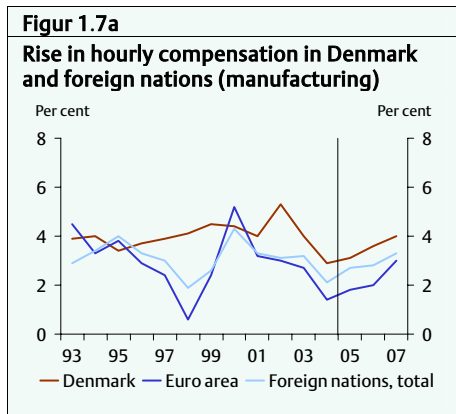
During 2005 through 2007, the unemployment rate is expected to fall below and remain below the estimated structural level of unemployment indicating that labour market pressures could begin to emerge, *cf. figure 1.6b*.



Wage and price inflation

The unemployment rate was above the estimated structural level in 2003 and 2004 contributing to dampen hourly wage growth from 4.2 per cent in 2002 to 2.8 per cent in 2004. Labour market pressures are expected to emerge gradually during the forecast period and wage growth is expected to pick up to 3.0 per cent in 2005 and 3.5 per cent in 2006. The anticipated wage increases for 2005 and 2006 are slightly lower than projected in August. Wage growth in 2007 is projected to increase to 4.0 per cent in 2007, reflecting, in part, actual unemployment being below the estimated structural level.

Hourly compensation of employees in the manufacturing sector continues to grow faster than for an average of trading partners, *cf. figure 1.7a*. However, wage competitiveness is expected to improve in 2005 and 2006 due to a depreciating effective exchange rate. In 2007, a slight deterioration in wage competitiveness is foreseen.



The inflation rate (HICP) has been historically low in 2004 and the beginning of 2005, *cf. figure 1.7b*. Low inflation owes partly to falling import prices in 2004, which have more than offset the price increases on energy. Developments in the last

months indicate that the impact of the decline in import prices is gradually diminishing.

For 2005 as a whole, inflation (HICP) is expected to pick up from 0.9 per cent in 2004 to 1.7 per cent and is projected to rise to 1.9 per cent in 2006. The increase is mainly due to growing import and energy prices in 2005 and domestic inflation pressures in 2006, as output is expected to be above potential. The projected inflation rate is close to the August projection. Inflation is expected to recede in 2007, reflecting the assumed decrease in oil prices, which more than counteracts the expected increase in wage inflation.

The nominal tax freeze for excise duties and lower parental co-payment for daycare institutions with the additional lower rental increase and the gradual elimination of airport passenger duty agreed in connection with the fiscal bill for 2006, contribute to dampen inflation.

Overall, the inflation rate continues to stay in line with the European Central Bank's medium term inflation target of below but close to 2 per cent.

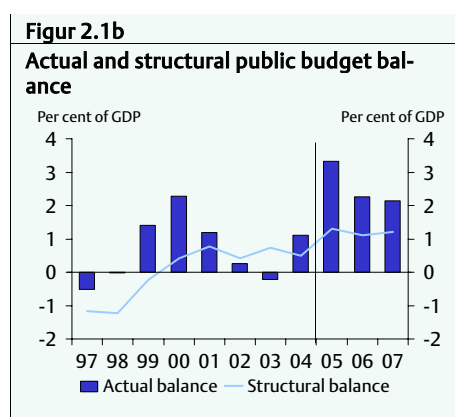
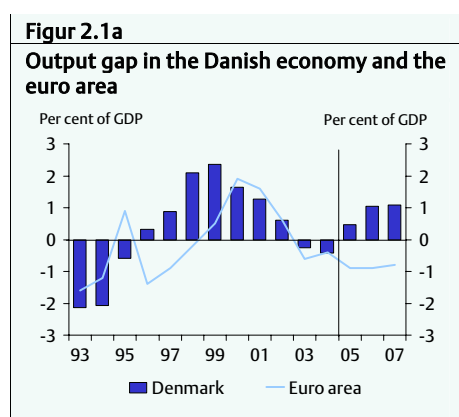
Table 1.4						
Key figures for the Danish economy						
	2002	2003	2004	2005	2006	2007
Percentage change from previous year						
Real GDP	0.5	0.8	2.0	2.8	2.4	2.0
Trade-weighted GDP abroad	1.5	1.3	3.0	2.2	2.6	2.6
Markets for Danish manufactures	1.4	4.1	7.5	6.0	7.0	7.0
International competitiveness	-2.9	-4.2	-1.7	0.3	0.2	-0.7
Export of manufactures, volume	5.7	-1.6	2.4	6.0	6.1	5.6
Hourly wages	4.2	3.7	2.8	3.0	3.5	4.0
Consumer price index	2.4	2.1	1.2	1.8	2.0	1.6
Price index for single-family houses	3.8	3.1	9.1	15.0	10.0	5.0
Merchandise export prices	-1.9	-1.3	1.6	4.6	3.4	-0.4
Merchandise import prices	-0.9	-1.2	1.5	3.2	3.0	0.2
Merchandise terms of trade	-1.0	-0.1	0.0	1.4	0.4	-0.6
Productivity in private non-agricultural sector	0.8	2.5	2.9	2.1	1.8	2.1
Real disposable income of households ¹⁾	-0.2	3.1	4.0	-0.1	0.8	2.0
Labour market:						
Labour force (thousands)	2,884	2,876	2,883	2,887	2,887	2,887
Employment (thousands)	2,739	2,705	2,707	2,729	2,743	2,746
Of which in private sector	1,906	1,876	1,877	1,898	1,910	1,912
in public sector	834	829	830	831	833	834
Percentage change in total employment	-0.1	-1.3	0.1	0.8	0.5	0.1
Unemployment (thousands)	145	171	176	158	143	140
Early retirements 60-64 year (thous.)	114	120	127	135	142	149
Unemployment rate (per cent)	5.0	5.9	6.1	5.5	5.0	4.9
Unemployment rate, EU-def. (per cent)	4.6	5.6	5.4	4.8	4.4	4.4
Long term bond yields, exchange rate:						
10-year government bonds	5.1	4.3	4.3	3.4	3.9	4.2
30-year mortgage credit bond	6.3	5.4	5.3	4.4	4.8	5.0
The effective krone rate (1980=100)	97.7	101.2	102.2	101.5	100.5	100.5
Balance of payments:						
Goods and services (bill. Dkr.)	80.1	84.7	73.3	82.7	86.4	91.1
Current account (bill. Dkr.)	30.3	46.1	35.8	49.3	50.5	57.0
Current account in per cent of GDP	2.2	3.3	2.5	3.2	3.1	3.4
Net foreign debt, ult. (bill. Dkr.)	227.0	178.0	125.0	61.7	11.2	-45.8
Net foreign debt in per cent of GDP	16.7	12.7	8.6	4.0	0.7	-2.7
Public finances:						
Government net lending (bill. Dkr.) ²⁾	3.2	-1.0	24.8	51.3	36.4	35.6
Government net lending per cent of GDP ²⁾	0.2	-0.1	1.7	3.3	2.3	2.1
General government gross debt, year-end, bill. Dkr.	642.9	625.1	624.7	550.7	490.4	453.5
General government gross debt, year-end, per cent of GDP	47.2	44.6	42.8	35.7	30.5	27.2
Tax burden (per cent of GDP) ²⁾	48.3	47.9	49.1	49.6	47.8	47.5
Expenditures (per cent of GDP)	54.1	54.1	54.1	52.0	51.2	50.7
1) Adjusted for special factors concerning pension funds.						
2) Excluding the labour market supplementary pension scheme ATP.						

2. The fiscal stance and government finances

After a sizeable fiscal stimulus in 2004 fiscal policy – measured by the so-called first-year fiscal effect – is estimated to have a broadly neutral or small negative impact on economic activity in 2005 and 2006⁵.

This neutral stance should be seen in the light of the substantial growth stimulus from low interest rates and the lagged impact of the 2004 policy initiatives, while the unemployment rate is expected to decline to a level below the currently estimated structural rate.

Owing to above-potential growth in 2005 through 2007, labour market pressures can be expected to pick up in the course of 2006 and 2007. Due to the fixed exchange rate vis-à-vis the euro, the short-term (and long-term) interest rates in Denmark are closely tied to those of the euro area. As the cyclical position of the Danish economy is stronger than in the euro area, *cf. figure 2.1a*, the monetary stance of the ECB may turn out to be relatively easy in relation to Danish cyclical conditions.



The planned public expenditure growth in 2005 and 2006 is in line with medium-term goals of relatively low real growth in public consumption of around 0.5 per cent yearly to 2010.

Compared to the August survey, the assumed real growth rate of public consumption in 2005 has been revised up from 0.3 to 0.6 per cent due to higher than expected growth in public consumption in local governments in the beginning of 2005. On the other hand real consumption growth in 2006 has been lowered from 0.5 to 0.3 per cent.

⁵ The extension of the suspension of SP-contributions in 2006 and 2007 is estimated to increase GDP, *ceteris paribus*, by around 0.1 per cent in 2006. SP is classified as a private scheme and hence changes to SP are not included in the estimated fiscal stance.

The assumed growth rate for 2006 of public consumption in local governments is based on the agreement between the Danish government and the municipalities (June 2005). The municipalities' budgets for 2006 show an excess growth in public consumption of 3 bill. Dkr. compared with the agreement. The Danish government is taking steps to ensure that public consumption growth remains in line with the agreement.

The fiscal assumptions for 2007 are in line with the 2010-plan.

Since August the surplus estimate for 2005 is revised up by 0.8 percentage points to 3.3 per cent of GDP owing primarily to higher revenues from corporate taxes and the tax on pension fund returns, both of which are of temporary nature. For 2006 the surplus is revised up by 0.3 percentage points since August, but is expected to decrease to 2.3 per cent of GDP mainly as a result of lower revenues from the pension yield tax. The surplus is projected to decline to 2.1 per cent in 2007, *cf. figure 2.1b*.

On average the structural budget surplus is estimated at approximately 1.0 per cent of GDP in 2004 through 2007, i.e. in the middle of the operational target requiring an average surplus within the range $\frac{1}{2}$ -1 $\frac{1}{2}$ per cent of GDP through 2010, *cf. Convergence Programme for Denmark 2005*.

In spring 2006, the government intends to launch a new multi-annual fiscal plan stretching at least to 2015 based on the reports from the Welfare Commission, the Globalization Council, and the tripartite committee on life-long learning.