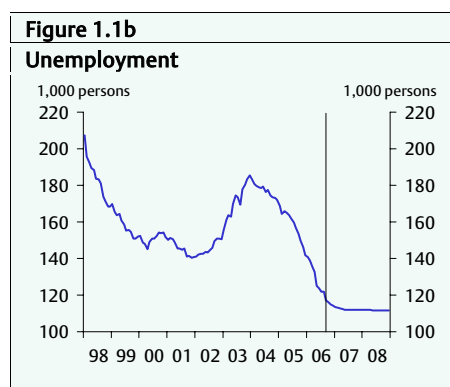
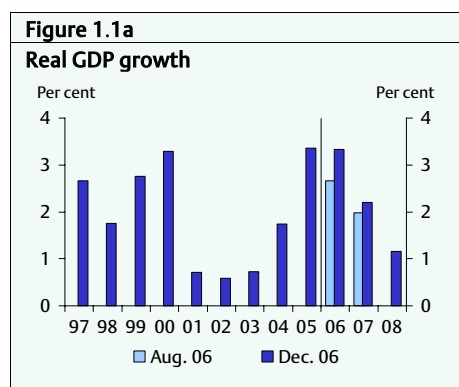


Economic Survey December 2006 – English Summary

1. Short term outlook

Reaching an annualized growth rate of 3.5 per cent in the first half of 2006, GDP growth in Denmark has turned out considerably stronger than expected in the August survey. The forecast for the year as a whole has been revised upwards by 0.6 percentage points. Growth has been broad based, with private consumption, investment and exports exceeding expectations. Strong domestic demand has brought higher employment, but also a sharp rise in imports, due to capacity constraints and a tightening labour market.



Due to supply side constraints, rising interest rates, a cooling housing market and slightly weaker export demand, the economy is expected to slow down during the forecast period. Unemployment will level off at around 4 per cent and the output gap will remain at 2 per cent of GDP until 2007, where after it is expected to fall to 1.2 per cent.

Inflation is expected to hold steady at around 2 per cent during the forecast period.

GDP growth is expected to continue at an almost unchanged pace of 3.3 per cent in 2006 slowing to 2.2 per cent in 2007. This is 0.6 and 0.2 percentage points more than expected in the August projection for 2006 and 2007, respectively, see figure 1.1a and *table 1.1*. For 2008 a GDP growth of 1.2 per cent is foreseen.

Property prices increased rapidly in 2005 through the second quarter of 2006, which has stimulated activity in the construction of private dwellings. Signs of less buoyant housing markets are emerging, especially in Copenhagen.

Key vulnerabilities to the projected soft landing and overall balanced developments include global imbalances that may pose risks to global growth. On the domestic

side, the anticipated levelling off of house price increases may not materialize in due time and labour shortages may impact on the upcoming central wage negotiations in the first quarter 2007 or subsequently at the decentralized negotiations at the plant level.

	2006		2007		2008
	August	December	August	December	December
Real growth, per cent					
Gross domestic product	2.7	3.3	2.0	2.2	1.2
Private consumption	3.1	4.2	2.0	2.2	2.2
Public consumption	1.1	1.1	1.0	1.3	1.1
Export markets, manufactures	6.9	8.2	5.6	5.9	6.1
Per cent of GDP					
Public budget balance	3.1	3.4	2.8	3.3	3.2
Current external account	1.6	2.3	1.7	2.0	2.2
1,000 persons					
Unemployment	127	125	120	112	112
Per cent increase					
House prices, single-family house	22.0	21.0	6.0	6.0	2.0
Consumer prices	2.0	1.9	1.8	1.9	2.1
Hourly compensation, private sector	3.6	3.8	4.2	4.3	4.3
Yield on 10-year government bonds	4.0	3.8	4.4	4.2	4.3
Oil price, USD per barrel	70.0	65.0	63.0	64.0	63.0
Exchange rate, DKK per USD	6.0	5.9	5.9	5.8	5.8
Oil price, DKK per barrel	418.3	381.4	370.2	372.2	366.4

Source: Statistics Denmark and Ministry of Finance.

Public finances are expected to benefit from stronger activity and higher revenues from oil and gas production. The budget surplus was 4.6 per cent of GDP in 2005.¹ The surplus is expected to amount to 3.4 and 3.3 per cent of GDP in 2006 and 2007, respectively. Based on more technical assumptions a surplus of 3.1 per cent of GDP

¹ The data is based on the new national accounts introduced in the summer of 2005, 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 affects neither the assessment of fiscal policy challenges, nor the sustainability of public finances.

is forecast for 2008. The projected decline in the surplus from 2005 to 2007 is mainly a result of lower expected revenue from the highly volatile pension yield tax.

On average the structural budget surplus is estimated at approximately 1¼ per cent of GDP in 2004 through 2008, i.e. in the high end of the operational target range in force in recent years, which calls for an average surplus in the range of ½-1½ per cent of GDP through 2010, *cf. Convergence Programme for Denmark 2006*.

The international environment and its impact on the Danish economy

Global GDP-growth remains very strong and is expected to reach 5.1 per cent in 2006. This forecast has been revised upwards from 4.7 per cent in the August survey. The US economy has slowed down, while growth in the euro area now finally seems robust, thus giving rise to a more balanced growth pattern. This is an important prerequisite for a “soft landing” for the world economy and a gradual reduction of the risks associated with global imbalances.

Growth rates in Asia remain high, in some cases exceeding expectations, particularly in China. The picture in Africa and Latin America remain broadly positive, supported by high commodity prices, including oil prices.

The world economy is expected to slow somewhat in 2007-08, due to the impact of the slow-down in the United States and to capacity and labour market constraints.

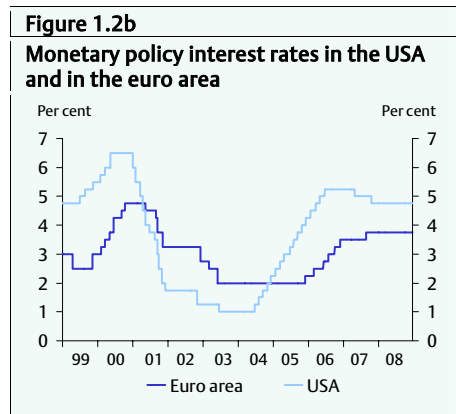
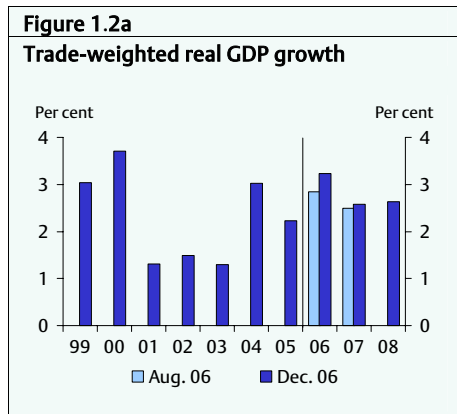
The strong growth forecast also applies to Denmark’s trading partners and the outlook for Danish export markets is therefore favourable. The recent strengthening of the euro area as well as sustained strength in Sweden, Norway and the UK are expected to contribute to this.

Important risk factors still remain for the world economy. With the recent slowdown in the United States and the upswing in Europe, a more balanced growth pattern has emerged. This is an important first step toward reducing the risks stemming from global imbalances. However, the US current account deficit remains high, and steps aiming at the gradual elimination of its structural causes may be needed in order to reduce vulnerability to changes in world financial markets, particularly weakened investor confidence in the US economy.

In a number of Asian economies, particularly China, growth is being led by booming exports. In these countries, steps should be taken to reduce the dependency on exports, thus making the economies more robust in the event of an unfavourable shift in the external environment.

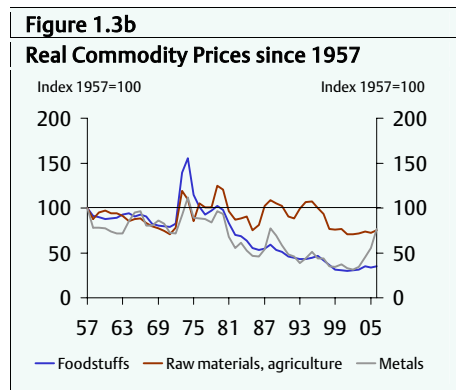
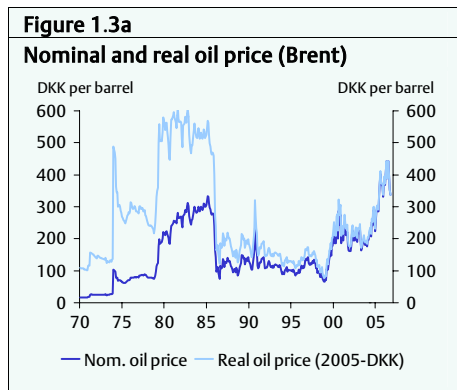
Since the August survey, the ECB has raised its policy rate by 25 basis points to 3.25 per cent. Short term interest rates are considerably lower than in the United States and relatively low judged in relation to the cyclical position of the Danish economy. In view of increased inflation risks in the euro area, the forecast assumes that the

policy rate of the ECB will be raised by 25 basis points in December 2006 and by a further 25 points in mid-2007.



Due to continued concerns about inflation and the extent of the economic slow-down, The Federal Reserve has not indicated any clear direction for monetary policy. The target rate has been held steady at 5¼ per cent since July 2006. However, the financial markets currently expect the next interest rate move to be downwards. The forecast assumes two reductions in 2007, totalling 0.5 percentage points. Further signs of weakness in the economy could prompt the Federal Reserve to reduce the target rate sooner than expected.

The price of oil has fallen sharply since the August survey. It peaked in July, reaching 78 USD per barrel and has since then fallen to around 60 USD per barrel (Brent). The August survey assumed a more gradual decline as both the supply and demand sides would gradually adapt to the new high price environment. This process has played some role and is expected to continue, but the recent sharp fall is most likely due to the resolution of more acute political concerns over the Middle East and uncertainties regarding the vulnerability of existing production facilities.



With a lower price, however, the scope for significant price reductions in the short to medium term has been reduced. Furthermore, the International Energy Agency (IEA) has revised its long term assessment of energy market in their annual “World Energy Outlook”, published in November 2006. Although the current price is roughly the same as IEA’s projected price for 2030, the IEA’s projects a slight reduction until 2012, but the scope for reductions relative to current price levels remains limited.

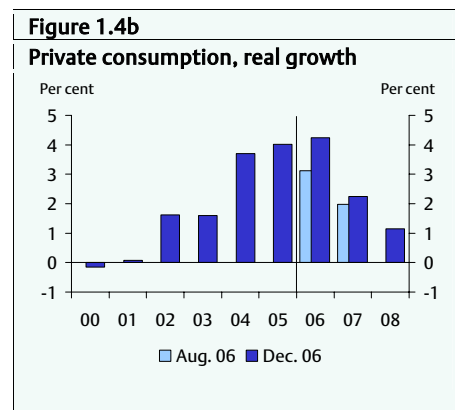
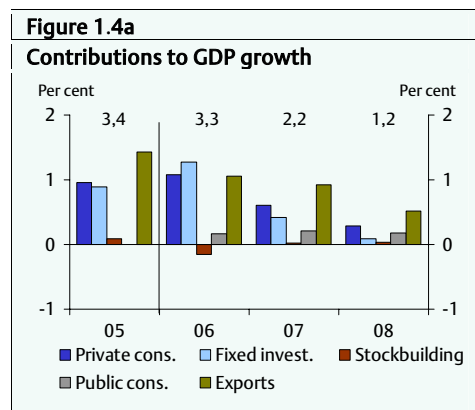
Taking these factors into account, the forecast assumes oil prices for 2007 and 2008 to be roughly in line with the August forecast, i.e. 64 and 63 USD per barrel, respectively.

Commodity prices have also been on an upward trend in recent years, to the benefit of a number of countries, particularly in Africa and Latin America. However, price increases have been limited to metals with other commodity prices roughly constant relative to consumer prices. Being a non renewable resource and important inputs in manufacturing, metals share some characteristics with oil and have experienced similar price developments. Judging by the markets for metal futures, metal prices are close to a peak, and should fall in the coming years.

Since the August survey, the dollar has depreciated further against the euro. The assumed dollar exchange rate has been revised down for 2006 from DKK 5.98 to DKK 5.89 and from DKK 5.88 to 5.82 for 2007-08.

Domestic developments

Demand growth in the first half of 2006 has been considerably stronger than expected in the August survey. It has been broad based, involving both domestic consumption demand, investment and exports. Figure 1.4a decomposes the growth by demand components, using an input-output method, cf. box 1.



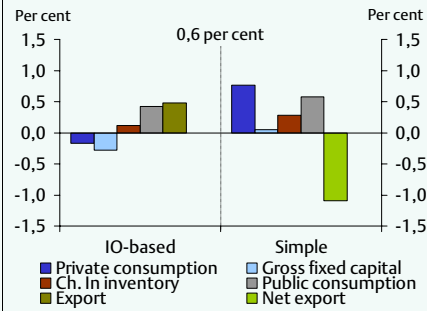
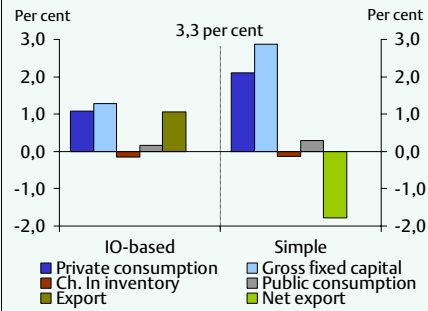
Box 1**Input-output-based contributions to growth**

It is often useful to calculate the contribution to growth from different demand components. This can be done in two ways.

The most simple and commonly used method subtracts growth in imports from growth in exports to obtain the growth contribution from *net exports*. This can be misleading since it does not take imports generated by other demand components into account. For example, if private households spend more while travelling abroad, this is recorded as a contribution to GDP growth from private consumption, where in fact domestic production is unaffected. The contribution to growth from private consumption is overstated and the contribution from net exports is understated.

A more correct method should subtract the import content from each demand category. This is done using an input-output-table where total imports are divided into imports for final demand and imports of intermediate goods used as inputs.

The input-output-based contributions to growth are very different from the contributions calculated using the simple method. For instance, the contribution from private consumption to growth in 2002 changes from positive to negative, *cf. figure a*. In addition, the calculations show that exports contribute considerably to growth in 2006 - a fact that is not revealed in the contributions to growth based on the simple method, *cf. figure b*.

Figure a**Contributions to growth, 2002****Figure b****Contributions to growth, 2006**

Note: The calculations are based on the input-output table of the macroeconomic model of Danish economy, ADAM, and are hence based on the industry and consumption categories in the model. The input-output table is provisional for 2003 to 2005. The IO-table is affected by the projected economic situation and relative prices in the forecast period. The numbers at the top of each figure are GDP growth rates.

Source: Statistics Denmark and own calculations.

Private consumption grew by $4\frac{3}{4}$ per cent from the first half of 2005 to the same period this year. Both fixed investment and exports grew by just over 13 per cent. Due to capacity constraints, the added demand has, to a significant extent, been directed at foreign suppliers. Imports of goods and services have risen by 18 per cent.

Domestic production, however, also grew relatively quickly, adding $3\frac{1}{2}$ per cent to its 2005 level. For the year as a whole, the GDP growth rate is forecast at 3.3 per cent, an upward revision of 0.6 percentage points relative to the August forecast.

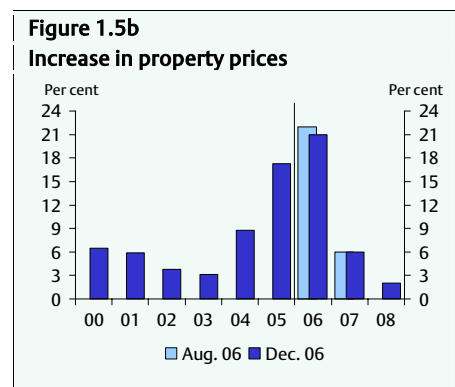
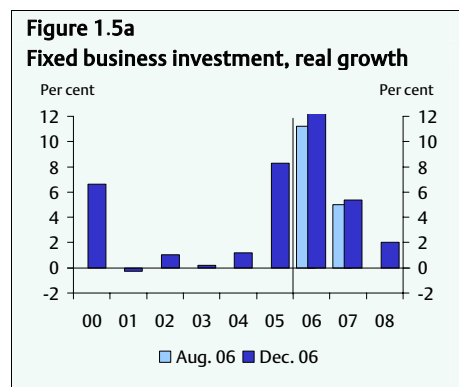
This is roughly the same as in 2005, i.e. the slowdown expected for 2006 has not happened.

Due to capacity constraints and a positive output gap, GDP growth is expected to slow to 2.2 per cent in 2007, a slight upward revision relative to the August forecast. A further slowdown to 1.2 per cent and a reduction of the output gap is expected in 2008.

The rise in domestic demand has been driven partly by increases in households' real disposable incomes, forecast to grow by 2.8 per cent in 2006. This is an upward revision of 0.8 percentage points. During the expected slowdown in 2007 and 2008, the rate is expected to fall correspondingly, reaching 2.2 per cent and 1.4 per cent, respectively.

During the upswing in recent years, private consumption has grown faster than incomes, implying a reduction in the savings rate. This is also expected to be the case in 2006, where private consumption is expected to grow by 4.2 per cent. As in a number of other countries, rising property values seem to be the most important reason for this development. Property values have increased by 50 per cent since 2003. This has provided room for increases in mortgage debt, but the remaining equity is significant and could give rise to stronger-than-expected consumption growth in the short run.

Since the summer of 2006, there have been clear signs that the housing market has cooled. The number of properties for sale has risen sharply, especially in Copenhagen, where price increases have been most significant.



The strong upward trend in prices has tapered off. However, since that trend has prevailed for most of 2006, the recent developments will have little impact on the figures for 2006 as a whole. The rate of price increase for 2006 is revised downward by one percentage point to 21 per cent. For 2007 and 2008, however, the rates of increase are expected to fall significantly, reaching 6 and 2 per cent, respectively.

Spurred by capacity constraints and low interest rates, *fixed business investment* grew significantly in the first half of 2006. For the year as a whole, the increase is expected to reach 15 per cent, an upward revision of 3½ percentage points. Along with other demand components, this rate is expected to fall to 5½ per cent in 2007 and further to 2 per cent in 2008.

Due to strong export demand in a global high growth environment, export growth is expected to exceed 10 per cent in 2006, an upward revision of more than 4 percentage points relative to the August forecast. The increase is, however, partly due to the acquisition of a foreign shipping company by a Danish company. This acquisition has also entailed a significant upward revision to 15 per cent of the expected growth rate for imports in 2006.

In 2007-08, the expected slowdown in the world economy along with domestic capacity constraints are expected to lead to less buoyant export growth, i.e. 4¾ per cent in 2007 and 2¾ per cent in 2008. Import growth is also expected to slow along with domestic demand.

Table 1.2
Use and supply of goods and services

	2005	2003	2004	2005	2006	2007	2008
	Bill. kr.			Real growth, per cent			
Private consumption	754.3	1.6	3.7	4.0	4.2	2.2	1.2
Public consumption	402.0	0.2	1.7	1.2	1.1	1.3	1.1
Public investment	27.6	-6.7	11.7	4.4	8.1	-10.0	1.0
Residential construction	86.8	11.6	10.6	12.4	11.0	6.0	1.0
Fixed business investment	209.7	0.2	1.2	8.3	14.7	5.4	2.0
Stock building ¹⁾	1.2	-0.7	0.1	0.1	-0.1	0.0	0.1
Total domestic demand	1481.6	0.6	3.4	4.4	5.3	2.5	1.3
Exports of goods and services	753.5	-1.1	2.6	9.2	10.3	4.7	2.8
of which manufactures	328.5	-2.1	2.9	8.8	9.1	4.7	3.8
Total demand	2235.1	0.0	3.1	6.1	7.0	3.3	1.8
Imports of goods and services	681.1	-1.7	6.4	12.1	14.7	5.5	3.1
of which goods	457.2	-3.1	7.8	7.8	14.8	4.8	3.2
Net exports ¹⁾	72.4	0.2	-1.5	-0.9	-1.8	-0.3	-0.1
Gross domestic product	1554.0	0.7	1.7	3.4	3.3	2.2	1.2
Gross value added	1318.3	0.7	1.1	2.9	3.7	2.2	1.2
of which in private non-agricultural sector ²⁾	829.4	0.5	0.6	4.0	5.2	2.6	1.4
GDP per capita (1.000 DKK)	286.8	0.4	1.5	3.1	3.0	1.9	0.9

1) The percentages indicate the contribution to GDP growth in 2000-prices.

2) Excluding oil, gas, shipping, and housing.

Source: Statistics Denmark and own calculations.

International trade and the current account

Denmark's terms of trade are expected to improve slightly during the forecast period. Combined with a projected slowdown in domestic demand, the trade balance is expected to improve from DKK 53 billion in 2006 and 2007 to DKK 57 billion in 2008.

Net income from foreign assets is expected to continue its slow but steady rise. This is partly offset by higher contributions to the EU budget and increased development assistance.

The current account balance is thus expected to show a surplus of DKK 37 billion in 2006, 2.4 per cent of GDP, down from DKK 46 billion² in 2005, 3.0 per cent of GDP. This development reflects the cyclical state of the economy. The fact that a solid surplus remains cannot be taken as a sign that leeway for further expansion exists. It reflects net income from foreign assets and shipping activities, i.e. derived mainly from foreign resources that are not available to accommodate higher domestic demand in Denmark.

The current account surpluses will lead to further accumulation of foreign assets. Net foreign assets are expected to reach 3¾ per cent of GDP by the end of 2008.

Employment, unemployment and labour force

The upswing has led to a significant increase in *employment*, which is expected to grow by 39.000 persons in 2006, corresponding to 1.4 per cent of the labour force. In 2007 it is expected to grow by a further 15.000 persons, after which a slight reduction of 2000 persons is expected in 2008. The increase will primarily be in the private sector, with the public sector accounting for an increase of 1000 persons in each of the years 2007 and 2008.

	2004 level	Avg. 1990- 2005	2005	2006		2007		2008
				Aug.	Dec.	Aug.	Dec.	
	1.000 persons	Change, 1,000 persons						
Private sector	1879	4	23	33	39	7	14	-3
Public sector	821	3	-3	0	0	0	1	1
Total employment	2700	7	20	33	39	7	15	-2
Labour force	2876	0	1	3	7	1	2	-2
Unemployment	176	-8	-19	-30	-32	-7	-13	0

² After the elaboration of the current forecast, Statistics Denmark has revised the figures for the current account balance for 2005 to DKK 56,1 billion

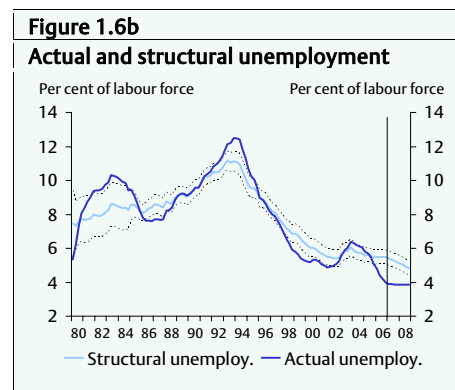
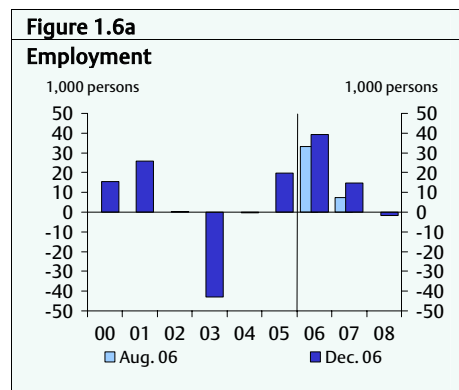
Table 1.4						
Key figures for the Danish economy						
	2003	2004	2005	2006	2007	2008
Percentage change from previous year						
Real GDP	0.7	1.7	3.4	3.3	2.2	1.2
Trade-weighted GDP abroad	1.3	3.0	2.2	3.2	2.6	2.6
Markets for Danish manufactures	2.1	6.2	5.3	8.2	5.9	6.1
International competitiveness	-4.2	-1.7	-0.5	-0.8	-1.3	-0.7
Export of manufactures, volume	-2.1	2.9	8.8	9.1	4.7	3.8
Hourly wages	3.7	2.8	3.6	3.8	4.3	4.3
Consumer price index	2.1	1.2	1.8	1.9	1.9	2.1
Price index for single-family houses	3.1	8.8	17.2	21.0	6.0	2.0
Merchandise export prices	-1.1	1.1	4.0	3.5	1.7	1.4
Merchandise import prices	-0.3	1.0	4.1	3.4	1.1	0.8
Merchandise terms of trade	-0.9	0.1	-0.1	0.1	0.6	0.6
Productivity in private non-agricultural sector	2.8	-0.1	1.8	2.7	1.9	1.6
Real disposable income of households ¹⁾	3.4	3.3	1.5	2.8	2.2	1.4
Labour market:						
Labour force (thousands)	2,871	2,876	2,877	2,884	2,886	2,884
Employment (thousands)	2,700	2,700	2,719	2,759	2,774	2,772
Of which in private sector	1,880	1,879	1,902	1,941	1,955	1,952
in public sector	820	821	818	818	819	820
Percentage change in total employment	-1.6	0.0	0.7	1.4	0.5	-0.1
Unemployment (thousands)	171	176	157	125	112	112
Early retirements 60-64 year (thous.)						
Unemployment rate (per cent)	5.9	6.1	5.5	4.3	3.9	3.9
Unemployment rate, EU-def. (per cent)	5.4	5.5	4.8	3.8	3.4	3.4
Long term bond yields, exchange rate:						
10-year government bonds	4.3	4.3	3.4	3.8	4.2	4.3
30-year mortgage credit bond	5.4	5.3	4.4	5.3	5.5	5.6
The effective krone rate (1980=100)	101.2	102.2	101.6	101.6	101.8	101.8
Balance of payments:						
Goods and services (bill. DKK)	85.6	72.0	72.4	53.2	52.7	57.1
Current account (bill. DKK)	45.8	33.3	46.3	37.1	35.0	39.5
Current account in per cent of GDP	3.2	2.3	3.0	2.3	2.0	2.2
Net foreign assets, ultimo (bill. DKK)	-170.3	-124.1	20.2	-12.5	24.2	65.4
Net foreign assets in per cent of GDP	-12.1	-8.5	1.3	-0.8	1.4	3.7
Public finances:						
Government net lending (bill. DKK) ²⁾	-1.4	27.9	71.8	56.2	56.0	56.2
Government net lending per cent of GDP ²⁾	-0.1	1.9	4.6	3.4	3.3	3.1
General government gross debt, year-end, bill. DKK.	625.1	624.9	557.5	461.5	409.9	347.0
General government gross debt, year-end, per cent of GDP	44.4	42.6	35.9	28.1	23.8	19.4
Tax burden (per cent of GDP) ¹⁾	47.8	49.0	49.8	48.0	47.2	47.0
Expenditures (per cent of GDP)	53.8	53.6	51.6	50.1	49.2	48.9
1) Adjusted for special factors concerning pension funds.						
2) Excluding the labour market supplementary pension scheme ATP.						

The labour force is projected to grow by 7000 persons in 2006. This is partly attributable to the cyclical state of the economy, in which employment opportunities are good. Furthermore, improved incentives to join the labour force and increased labour migration from the recently acceded EU Member States constitute a more structural increase in the labour force. These effects more than outweigh the underlying demographic tendency for the labour force to fall. The labour force is expected to be roughly unchanged in 2007-08.

Unemployment is projected to fall to 125.000 in 2006 from 157.000 in 2005. In 2007 a further decrease to 112.000, 3.9 per cent of the labour force, is expected after which it will level off in 2008.

The current level of unemployment is very low by historical standards, and very likely below the level consistent with stable inflation (NAIRU). According to the current estimate the NAIRU is 5½ per cent. Even allowing for a sizeable margin of uncertainty around this estimate, it seems likely that unemployment is below the NAIRU, indicating a tight labour market.

Surveys of employers as well as news reports seem to confirm this. The surveys point to wide spread difficulties obtaining sufficient qualified labour, especially in construction, where 40 per cent of employers report such difficulties.



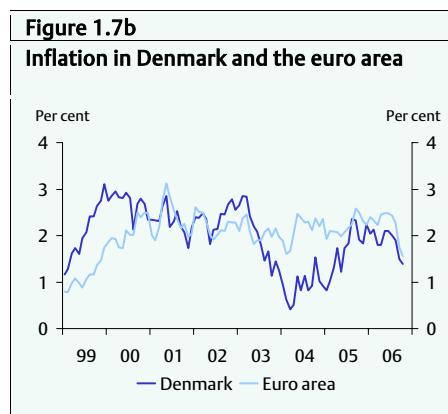
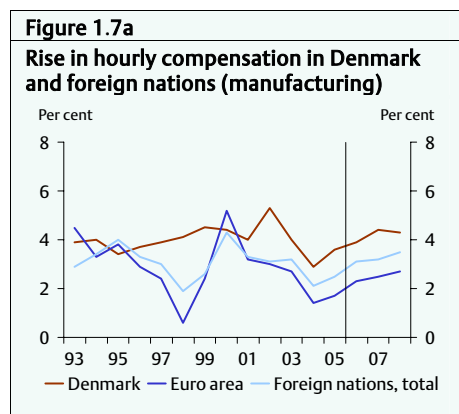
Wage and price inflation

The tight labour market has led to a moderate increase in wage inflation, especially in construction, where wages increased by 4¾ per cent in the third quarter (y/y). In manufacturing, a sector more directly exposed to foreign competition, wage increases were more moderate, reaching 3 per cent in the third quarter. The overall rates of increase are moderate at 3¾ per cent in 2006 following 3.6 per cent in 2005.

Wage developments in the coming years are difficult to assess at this time, since important wage bargaining processes in the coming months will have an important im-

pact. The forecast assumes that wage increases will reach 4¼ per cent per year in 2007-08, somewhat above the average for the euro area.

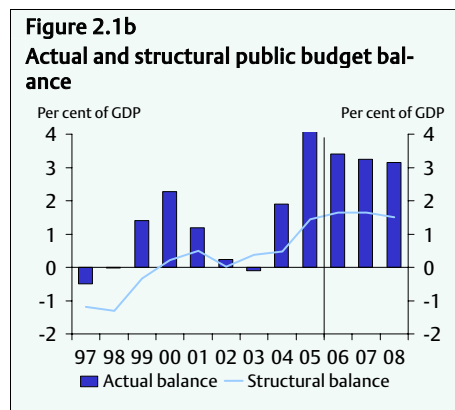
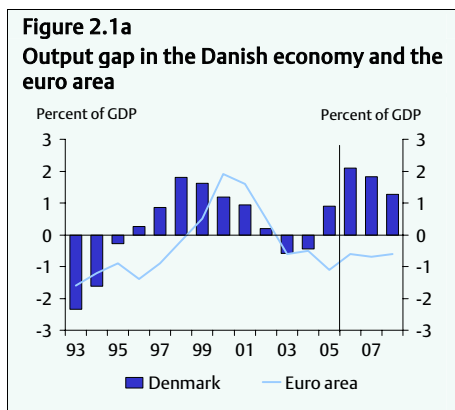
CPI-inflation is expected to hold steady at about 2 per cent per year, with a possible slight increase from 1.9 per cent in 2006-07 to 2.1 per cent in 2008. The so called tax freeze implies that all excise duties levied as nominal per unit amounts will remain fixed at their current levels. Furthermore, projected rent reductions in public housing as well as lowered prices for public child care will reduce overall consumer prices. These price reductions counteract an underlying tendency towards rising inflation.



2. The fiscal stance and government finances

The government budget surplus was DKK 71.8 billion in 2005, corresponding to 4.6 per cent of GDP. This is a significant improvement relative to 2003, when a small deficit was registered. The dramatic change shows that the government budget balance is highly cyclical and sensitive to developments in the bond and equity markets (taxation of pension schemes) and to the price of oil (taxation of revenues from domestic oil production). The budget balance is therefore liable to deteriorate quickly as a result of less favourable economic developments. Even so, the structural budget balance, net of cyclical and one-off effects, exhibits a surplus of about 1.3 per cent of GDP, reflecting the need to ensure long term fiscal sustainability in the face of important demographic challenges.

In the forecast period, a solid budget surplus is expected to be maintained, albeit somewhat lower than in 2005 due to reduced revenues from pensions taxation. In each of the years 2006-08, the surplus is forecast at around DKK 56 billion, corresponding to 3.1 per cent of GDP in 2008. Accordingly, gross public debt (EMU definition) is projected to decrease from 36 per cent of GDP in 2005 to 19½ per cent in 2007. *Net public debt*, standing at 9½ per cent of GDP in 2005, is projected to reach zero during the forecast period, leaving the government with *net assets* valued at 2 per cent of GDP in 2008.



Judging from the 2007 budgets for central and local governments, the total impact on economic activity is approximately neutral in 2007. This is partly due to a reduction in public investment in 2007 from an exceptionally high level in 2006. Since the August survey, the so called first year fiscal effect for 2007 has been revised upwards from -0.1 per cent of GDP to zero, owing to higher projected service expenditure after the adoption of the 2007 central government budget, cf. box 2. The real growth rate of public consumption is revised upwards from 1 per cent to 1.3 per cent.

Box 2

Central and local government budgets for 2007

An agreement on the central government budget for 2007 was reached on November 7 2006, including the following elements:

- DKK 2 bn. in 2007 allocated to research, education and innovation.
- DKK 9 bn. to improve railways and roads for the period 2007-2014.
- DKK 500 m for health services in 2007.
- Additional pension benefits of DKK 400 m. per year
- Improved day care for children of DKK 600 m in 2007-2009 and lower day care fees from 2007.
- DKK 2 bn. for the police in 2007-2010.
- DKK 500 m for environmental protection in 2007-2009.

Local government budgets for 2007 are now also adopted. A reform reducing the number of municipalities and abolishing counties as separate jurisdictions in favour of larger regional jurisdictions, has complicated budgetary planning for 2007. Budgets for the new regional jurisdictions are in line with agreements with the central government. Municipal budgets exceed the agreed figures by DKK ¾ bn. due to one-off costs and higher than expected expenditure needs for social services, as responsibilities are being transferred from the counties. Compared to the key fiscal numbers from August, the budget agreements for 2007 imply:

- Real growth in public consumption is revised upwards from 1 per cent to around 1¼ per cent in 2007.
- The total public surplus (net lending) is reduced by approximately DKK 1½ bn. in 2007 (0.1 per cent of GDP).
- The estimated fiscal effect in 2007 is revised from -0.1 per cent of GDP to zero in 2007.

The neutral fiscal stance should be seen in the context of the currently tight labour market and buoyant domestic demand. Fiscal policy has been relatively loose in recent years with tax reductions in 2004 and higher-than-projected growth in public spending.

By the same token, monetary conditions have also been easy, seen from a Danish perspective. The economies of the euro area are only now gaining momentum, and the monetary tightening seen in the euro area and hence in Denmark, should preferably have begun somewhat sooner.

The output gap is estimated at around 2 per cent of GDP for 2006-07, indicating tight supply side conditions and thus leaving little room for further expansion and emphasizing the need for fiscal restraint. As the economy slows down further in 2008, supply side conditions are expected to ease somewhat, bringing the output gap to 1.2 per cent of GDP.