

# English summary

## 1. Short term forecast

A moderate international recovery is still expected to take off towards the end of the year and to gather further momentum in 2004. There are, however, only small and fragile signs of rising activity in USA and especially the euro area.

Economic growth in USA was in 2002 stimulated by large expansions in both monetary and fiscal policy, which also has a positive effect on growth in 2003. The expansion has supported private consumption and investments and postponed the needed adjustment of macroeconomic balances. The fiscal expansion since 2002 and lately related to the war in Iraq has led to a significant increase in the fiscal deficit.

Since the survey in May the depreciation of the dollar has continued, which has a positive impact on net export. On the other hand, growth prospects are weakened by higher oil prices. Combined with moderate growth in the first two quarters of this year GDP growth in USA is expected to be 2.1 per cent on average in 2003, *cf. table 1.1*. A downward revision of 0.3 percentage points compared to May.

**Table 1.1. Present forecast and the previous forecast in selected areas**

|                                       | 2002                 |      | 2003 |      | 2004 |      |
|---------------------------------------|----------------------|------|------|------|------|------|
|                                       | May                  | Aug. | May  | Aug. | May  | Aug. |
|                                       | ----- Per cent ----- |      |      |      |      |      |
| USA, GDP growth.....                  | 2.4                  | 2.4  | 2.4  | 2.1  | 2.5  | 2.5  |
| Euro area, GDP growth .....           | 0.8                  | 0.8  | 1.0  | 0.6  | 2.3  | 2.1  |
| <i>Denmark:</i>                       |                      |      |      |      |      |      |
| GDP growth .....                      | 1.6                  | 2.1  | 1.6  | 1.4  | 2.4  | 2.3  |
| Consumer prices.....                  | 2.4                  | 2.4  | 2.3  | 2.3  | 1.9  | 1.9  |
| Hourly earnings, private sector ..... | 4.1                  | 4.2  | 3.9  | 3.9  | 3.7  | 3.7  |
| Unemployment rate .....               | 5.0                  | 5.0  | 5.6  | 5.9  | 5.3  | 5.6  |

Source: Statistics Denmark, EU-Commission, Ecwin, and own calculations.

In 2004 growth is still expected to rise to about 2.5 per cent in USA. The pick-up is mainly related to increasing private consumption, which among other things is due to rising stock- and property values and tax cuts. The strength of the recovery depends on rising business investments, which have declined since the start of the current downturn.

In the euro area structural problems in both labour and product markets combined with low productivity growth have contributed to constrain growth rates to around 1 per cent in 2002. This year growth rates are expected to stay low at around ½ per cent. A downward adjustment of almost ½ percentage point compared to the last survey.

The less favourable outlook in the euro area in 2003 is the result of close to zero growth in GDP in the first two quarters of 2003 mainly due to falling investments. The appreciation of the euro vis-à-vis the dollar has furthermore lowered the competitiveness of European companies and is thereby expected to dampen net exports. The higher forecast for oil prices is to a large extent offset by the stronger euro.

For 2004 the growth rate reaches 2.1 per cent in the euro area supported by monetary policy. The moderate increase in GDP in 2004 is also linked to the structural problems in the labour markets. This has diminished the negative impact of rising unemployment on inflation, which in turn limits the room for a more significant cut in interest rates.

The international slowdown has also had a negative impact on the Danish economy. However, measured in terms of GDP-growth and unemployment, Denmark has been weathering the international downturn relatively well compared to both USA and the euro area.

In Denmark, real GDP growth is expected to slow from 2.1 per cent in 2002 to 1.4 per cent in 2003, *cf. figure 1.1a*. The estimate of GDP-growth for 2003 has been revised downward by 0.2 percentage points compared to the Economic Survey, May 2003. This is mainly due to a downward revision of growth in private and public consumption and fixed business investments.

Growth in 2004 is forecasted at 2.3 per cent, which is above the estimated potential growth rate of about 2 per cent. Compared to the last survey this is a downward revision of 0.1 percentage points. The accelerating GDP growth is supported by fiscal stimulus from the agreed tax package, low interest rates and the expected improvement in foreign demand. However, it is mostly private consumption and business investment that contributes to the higher growth rate in 2004.

On the whole growth prospects for the Danish economy are broadly unchanged compared to the survey in May and total growth in the period 2002 to 2004 is even a bit higher than the forecast in May.

Figure 1.1a. Real GDP growth in Denmark and the euro area

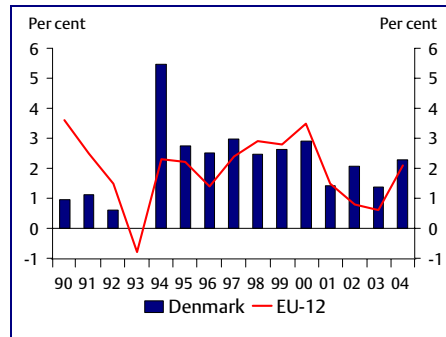
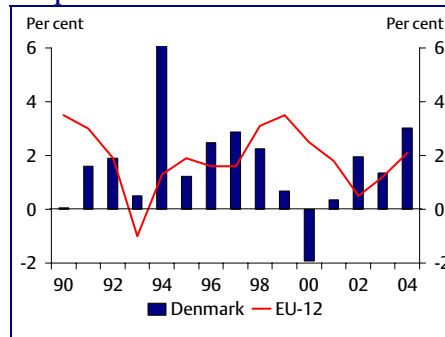


Figure 1.1b. Real growth in private consumption in Denmark and the euro area



Source: ADAM's databank, EU-Commission, and own calculations.

Unemployment has continued to rise in the last few months and further increases can be expected in the coming months. This has led to an increase in the overall unemployment forecast for 2003 compared with the last survey. Unemployment is expected to peak at the end of the year followed by a slight fall during 2004 reflecting higher growth and activation. In 2003 unemployment is expected to be slightly above the estimated structural level suggesting diminishing labour market pressures. In 2004 labour market pressures may increase as unemployment moves close to the calculated structural level.

### Domestic demand

Private consumption is expected to increase by 1.3 per cent annually in 2003 and by 3.0 per cent in 2004, thereby contributing significantly to domestic demand in the forecast period, *cf. table 1.3*. Compared to the survey from May the growth rate of private consumption in 2003 is reduced by 0.4 percentage points, while it is almost unchanged in 2004 (revised up by 0.1 percentage points).

The revision in 2003 is based on slightly weaker growth in retail sales, car sales and services in the first part of the year than expected in May. The car sales are now expected to fall by 20 per cent in 2003 compared to the 2002 level and to increase by 13 per cent in 2004.

The relatively strong growth in private consumption in 2004 is supported by the tax-cut, low interest rates and a healthy savings-position in the private sector. The forecast implies a slightly decreasing ratio of consumption to disposable incomes.

Real disposable income of households is expected to increase by 1.8 per cent in 2003 and 3 per cent in 2004<sup>1</sup>. The large rise of real disposable income in 2004 is mainly due to the tax cut on labour income and the expected increase in employment in 2004. The financial situation of Danish households is fairly solid with total private savings and financial wealth at relatively high levels.

**Table 1.3. Use and supply of goods and services**

|                                                   | 2002       | 1999                                  | 2000 | 2001  | 2002 | 2003 | 2004 |
|---------------------------------------------------|------------|---------------------------------------|------|-------|------|------|------|
|                                                   | Bill. Dkr. | Percentage changes from previous year |      |       |      |      |      |
| Private consumption .....                         | 653.9      | 0.7                                   | -1.9 | 0.4   | 1.9  | 1.3  | 3.0  |
| Public consumption .....                          | 358.7      | 2.0                                   | 1.1  | 2.1   | 2.1  | -0.2 | 0.7  |
| Public investment .....                           | 24.2       | 4.4                                   | 5.6  | 13.3  | -3.1 | -2.9 | 2.0  |
| Residential construction .....                    | 54.8       | -1.0                                  | 9.9  | -14.2 | 6.6  | 5.0  | 2.0  |
| Fixed business investment .....                   | 189.9      | 1.9                                   | 8.5  | 4.8   | -0.7 | 0.6  | 3.6  |
| Stock building <sup>1)</sup> .....                | 2.8        | -1.1                                  | 0.6  | -0.3  | -0.3 | 0.3  | 0.1  |
| Total domestic demand .....                       | 1,284.2    | 0.1                                   | 1.9  | 0.9   | 1.2  | 1.2  | 2.5  |
| Exports of goods and services ....                | 613.3      | 12.3                                  | 13.0 | 3.0   | 5.8  | 2.9  | 4.5  |
| Of which manufactures .....                       | 295.5      | 8.5                                   | 12.9 | 2.3   | 5.0  | 3.7  | 5.5  |
| Imports of goods and services ...                 | 532.3      | 5.5                                   | 11.3 | 1.9   | 4.2  | 2.8  | 5.4  |
| Of which goods .....                              | 386.3      | 5.5                                   | 9.0  | 0.5   | 3.9  | 3.3  | 5.5  |
| Gross domestic product .....                      | 1365.2     | 2.6                                   | 2.9  | 1.4   | 2.1  | 1.4  | 2.3  |
| GDP at factor costs .....                         | 1167.8     | 3.0                                   | 3.5  | 1.7   | 2.1  | 1.4  | 2.2  |
| Of which in private non-agricultural sector ..... | 780.3      | 3.4                                   | 4.9  | 2.8   | 0.7  | 1.5  | 2.4  |
| GDP per capita (1.000 Dkr.) ....                  | 253.9      | 2.3                                   | 2.6  | 1.1   | 1.7  | 1.1  | 2.0  |

1) The percentages indicate the volume changes in stock building in per cent of volume GDP in the preceding year, both in 1995-prices.

Source: ADAM's databank and own calculations.

Growth in real public consumption is assumed to be 0,7 per cent in 2004 in line with the medium term strategy. In 2003 the growth rate is slightly negative at -0.2 per cent. Growth in public consumption in 2003 has been lowered by 0.9 percentage points compared to the last survey reflecting a stronger than expected growth in 2002, *see section 2*. Public investment is estimated to fall by -2.9 per cent in 2003 in the light of the high investment level in 2001 and to increase by 2.0 per cent in 2004.

<sup>1</sup> Figures are adjusted for special factors concerning pension funds.

The increase in the real estate price of owner-occupied one family houses are expected to increase by 3.5 and 1.5 per cent in 2003 and 2004, respectively, following an increase of 2.7 per cent in 2002. The low interest rates expected throughout 2003 contributes to the belief that property prices will rise more than consumer prices in 2003, whereas the expected slowdown in property prices in 2004 partly reflects the assumed rise in interest rates next year.

Residential investment is expected to rise by 5 per cent in 2003 and 2 per cent in 2004. The rise in residential investment growth follows from the low interest rates and increasing real disposable incomes. A number of political initiatives moving forward investments in municipal housing projects from 2004 to 2003 as well as the construction of private dwellings contribute to a higher expected growth rate of residential investments in 2003 compared to 2004.

Business investments fell by 0.7 per cent in 2002. The fall in business investments partly relates to the decline in the international economy, since investments have been sluggish in most western countries during the last couple of years. Business investments are expected to increase by 0.6 per cent supported by low interest rates, and to gain further strength in 2004 reflecting higher growth in domestic and foreign demand.

Following a decrease in inventory investments of 0.3 per cent of GDP in 2002, inventory changes are expected to be positive in 2003, contributing around 0.3 percentage points to GDP growth. In 2004 no contribution from inventory changes to GDP growth is assumed.

Figure 1.2a. Total investments in Denmark and EU

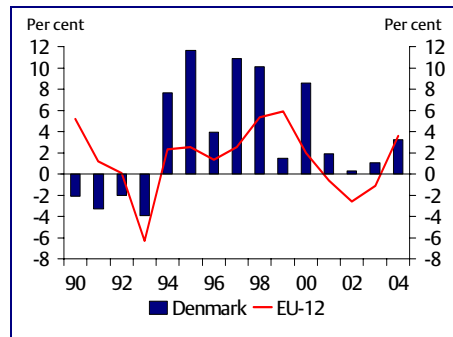
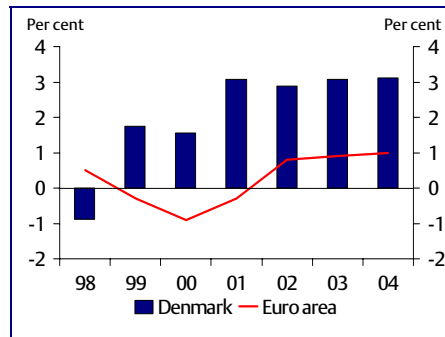


Figure 1.2b. External current account in Denmark and EU



Source: ADAM's databank, EU-Commission, and own calculations.

### **International trade**

Real growth in exports of goods and services is expected to stay at around 3 per cent in 2002 and 2003. In 2004 growth is expected to increase to 4.5 per cent due to a more favourable international economic environment. Compared to the last survey the forecast for export growth is reduced by 0.9 percentage points in 2003. The adjustment reflects partly lower export market growth and partly exchange rate movements.

Exports of manufactured goods are expected to increase by 3.7 per cent in 2003 and by 5.5 per cent in 2004. A combination of fairly strong productivity increases and slow growth in domestic demand, has contributed to export growth having been quite resilient to the international slowdown.

The gradual increase in domestic demand growth is expected to lead to an acceleration in imports. Thus, the growth in imports of goods and services are expected to rise from 2.8 per cent in 2003 to 5.4 per cent in 2004, respectively.

As a result the surplus on the external current account is expected to remain stable at around 3 per cent of GDP from 2002 to 2004, *cf. figure 1.2b*. Consequently, net foreign liabilities will be reduced from 18.3 per cent of GDP in 2002 to around 10.9 per cent of GDP in 2004, excluding hard-to-predict valuation effects.

### **Employment, unemployment and labour force**

Employment is expected to fall by 17.000 persons in 2003 following a reduction of 10.000 persons in 2002, *cf. table 1.4*. In 2004 a rebound in employment is expected as employment rises by 15.000 persons. The change in employment in 2003 has been revised downwards by 12.000 persons compared to the Survey from May. As public employment is assumed to be unchanged in 2003 the fall in employment is entirely due to falling private sector employment. In 2004 private and public employment is expected to increase by 12.000 and 3.000 persons respectively.

Compared to the survey in May private employment is revised downward by 9.000 persons in 2003 and 4.000 persons in 2004. This revision reflects lower growth and that employment was less resilient than expected in the first part of the year. Since the reported increase in productivity was high in the first quarter – and the preliminary employment figures are considered uncertain – only part of the recorded drop is assumed to carry through into the employment forecast. The employment forecast still implies high productivity growth in 2003.

Table 1.4. Key figures of the Danish economy

|                                                               | 1999                                            | 2000  | 2001  | 2002  | 2003  | 2004  |
|---------------------------------------------------------------|-------------------------------------------------|-------|-------|-------|-------|-------|
|                                                               | ---- Percentage changes from previous year ---- |       |       |       |       |       |
| Real GDP .....                                                | 2,6                                             | 2,9   | 1,4   | 2,1   | 1,4   | 2,3   |
| Trade-weighted GDP abroad .....                               | 3,0                                             | 3,7   | 1,3   | 1,5   | 1,5   | 2,5   |
| Markets for Danish manufactures .....                         | 6,3                                             | 13,0  | 0,1   | 1,4   | 4,0   | 7,5   |
| International competitiveness .....                           | -0,4                                            | 3,1   | -2,2  | -2,3  | -4,6  | -1,5  |
| Export of manufactures, volume .....                          | 8,5                                             | 12,9  | 2,3   | 5,0   | 3,7   | 5,5   |
| Hourly wages .....                                            | 4,8                                             | 3,6   | 4,2   | 4,2   | 3,9   | 3,7   |
| Consumer price index .....                                    | 2,5                                             | 2,9   | 2,4   | 2,4   | 2,3   | 1,9   |
| Real estate prices for one-family houses .....                | 6,9                                             | 6,5   | 6,0   | 2,7   | 3,5   | 1,5   |
| Merchandise export prices .....                               | -0,6                                            | 6,9   | 2,5   | -0,5  | 0,1   | 0,3   |
| Merchandise import prices .....                               | -3,9                                            | 7,0   | 1,5   | 0,0   | -0,3  | 0,4   |
| Merchandise terms of trade .....                              | 3,4                                             | -0,1  | 1,0   | -0,5  | 0,4   | -0,1  |
| Productivity in private non-agricultural sector .....         | 2,6                                             | 3,2   | 3,2   | 1,6   | 2,5   | 1,7   |
| Real disposable income of households <sup>1)</sup> .....      | -0,4                                            | 1,3   | 2,6   | 0,7   | 1,3   | 4,0   |
| <i>Labour market:</i>                                         |                                                 |       |       |       |       |       |
| Labour force (thousands) .....                                | 2.874                                           | 2.884 | 2.895 | 2.885 | 2.893 | 2.901 |
| Employment (thousands) .....                                  | 2.716                                           | 2.734 | 2.750 | 2.740 | 2.723 | 2.738 |
| Of which in private sector .....                              | 1.896                                           | 1.913 | 1.921 | 1.900 | 1.883 | 1.895 |
| in public sector .....                                        | 820                                             | 821   | 829   | 840   | 840   | 843   |
| Percentage change in total employment .....                   | 1,3                                             | 0,7   | 0,6   | -0,4  | -0,6  | 0,5   |
| Unemployment (thousands) .....                                | 158                                             | 150   | 145   | 145   | 170   | 163   |
| Early retirements (thousands) .....                           | 149                                             | 156   | 159   | 169   | 180   | 192   |
| Persons on leave (thousands) .....                            | 32                                              | 26    | 22    | 17    | 5     | 3     |
| Unemployment rate (per cent) .....                            | 5,5                                             | 5,2   | 5,0   | 5,0   | 5,9   | 5,6   |
| Unemployment rate, EU-def. (per cent) .....                   | 4,8                                             | 4,4   | 4,3   | 4,5   | 5,1   | 4,8   |
| <i>Long term bond yields, exchange rate:</i>                  |                                                 |       |       |       |       |       |
| 10-year government bonds .....                                | 4.9                                             | 5.6   | 5.1   | 5.1   | 4.2   | 4.8   |
| 30-year mortgage credit bond .....                            | 6.8                                             | 7.4   | 7.1   | 6.3   | 5.3   | 5.7   |
| The effective krone rate (1980=100) .....                     | 99.6                                            | 95.6  | 96.8  | 97.7  | 101.5 | 102.2 |
| <i>Balance of payments:</i>                                   |                                                 |       |       |       |       |       |
| Goods and services (bill. Dkr.) .....                         | 57,8                                            | 76,6  | 85,7  | 81,0  | 91,1  | 92,7  |
| Current account (bill. Dkr.) .....                            | 21,2                                            | 19,9  | 40,7  | 39,3  | 43,5  | 46,0  |
| Current account in per cent of GDP .....                      | 1,8                                             | 1,6   | 3,1   | 2,9   | 3,1   | 3,1   |
| Net foreign debt, ult. (bill. Dkr.) .....                     | 163,0                                           | 189,0 | 228,0 | 250,0 | 206,5 | 160,6 |
| Net foreign debt in per cent of GDP .....                     | 13,5                                            | 14,8  | 17,2  | 18,3  | 14,6  | 10,9  |
| <i>Public finances:</i>                                       |                                                 |       |       |       |       |       |
| Government net lending (bill. Dkr.) <sup>2)</sup> .....       | 38,8                                            | 31,7  | 36,6  | 26,6  | 16,6  | 18,7  |
| Government net lending in per cent of GDP <sup>2)</sup> ..... | 3,2                                             | 2,5   | 2,8   | 2,0   | 1,2   | 1,3   |
| General government gross debt, ult. (bill. Dkr.) ....         | 639,7                                           | 606,3 | 601,4 | 621,6 | 603,8 | 606,5 |
| General government gross debt ult. in per cent of GDP .....   | 53,0                                            | 47,3  | 45,4  | 45,5  | 42,7  | 41,2  |
| Tax burden (per cent of GDP) <sup>2)</sup> .....              | 51,5                                            | 49,5  | 49,8  | 49,2  | 48,5  | 48,1  |
| Expenditures (per cent of GDP) .....                          | 55,4                                            | 53,8  | 54,2  | 54,4  | 54,0  | 53,2  |

1) Adjusted for special factors concerning pension funds.

2) For the years 1999-2001 government net lending and the tax burden include the net savings respectively gross savings in the Special Pension fund (app. ½ per cent of GDP).

Source: Statistics Denmark and own calculations.

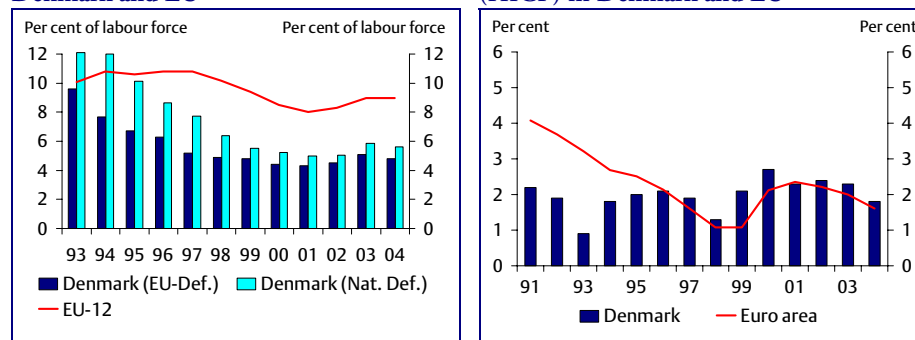
The labour force is expected to grow by around 8.000 persons in both 2003 and 2004. This is in total a reduction of 8.000 persons compared to the Survey in May. This revision follows from a recorded fall in the labour force in first quarter 2003 and the assessment that labour market pressures have eased somewhat compared to the forecast in May. The lower labour force growth in 2003 and 2004 should however also be seen in the light of the recent upward revision of the labour force in 2002 by 4.000 persons.

The prospects for employment and labour force imply an increase in unemployment from 145.000 persons in 2002 to 170.000 persons in 2003. Average unemployment in 2003 has been revised upward by 7.000 persons compared to the Survey in May. Part of the revision is the result of a lower activation level in 2003.

Unemployment is expected to start falling late this year and for 2004 a slight drop in unemployment to around 163.000 persons is expected. This is an upward revision of 8.000 persons compared to May.

This implies that the unemployment rate will increase from 4.5 per cent (standardised figures) in 2002 to 5.1 per cent in 2003 and then fall again to 4.8 per cent in 2004, *cf. figure 1.3a.*<sup>2</sup>

**Figure 1.3a. Unemployment rates in Denmark and EU**      **Figure 1.3b. Consumer price inflation (HICP) in Denmark and EU**



Source: ADAM's databank, EU-Commission, and own calculations.

Though unemployment is expected to increase from 2002 to 2003 the level is still relatively low in a historical perspective and also compared to the average employment rate in the EU, *cf. box 1.1.*

<sup>2</sup> In national figures the unemployment rate will be 5.9 and 5.6 per cent in 2003 and 2004, respectively.

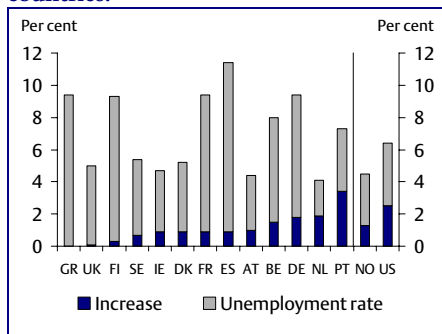


### Box 1.1. The development in unemployment in Denmark and other countries

All EU-countries with the exception of Greece and Italy have experienced increasing unemployment during the last few years. The most recent unemployment rate minimum for most countries is found in one of the first six months of 2001. Germany and Portugal reached their minimum slightly earlier. Finland has on the other hand only had increasing unemployment during the last six months. In Denmark the unemployment rate has increased since March 2002, which is later than in most other EU-countries.

Germany and Holland have experienced an increase in the unemployment rate of approx. 2 percentage points, *see figure a*. The most dramatic increase of more than 3 percentage points has occurred in Portugal. Sweden, Denmark, Ireland and France have experienced an increase of 1 percentage point, while England and Finland have only experienced a marginal increase in the unemployment rate.

**Figure a. The unemployment rate and increase from the minimal rate in chosen countries.**



Source: Eurostat.

Note: Standardized seasonally adjusted monthly observations. The latest observations are from June 2003 with the exception of Denmark from May, Germany, England, Italy and Norway from April as well as Greece from March.

During the last two years unemployment has also been increasing in countries outside the EU. In Norway and USA for example, an increase of 1.3 and 2.5 percentage points has been recorded.

The increase in the unemployment rate in Denmark does therefore not deviate significantly from the increase in most other European countries.

This conclusion is underlined by the fact that approximately 1/3 of the increase in the Danish unemployment rate can be explained by a fall in activation in the last 12 months.

### Wage- and price inflation

Hourly wages in the private sector are expected to grow by 3.9 per cent in 2003 and 3.7 per cent in 2004. Compared to the survey in May the estimates are unchanged. Despite the expected slight decline in wage growth hourly compensation of employees in Denmark increases more than the average of the other EU-countries. This is to some extent offset by relatively high productivity growth in Denmark.

Consumer price inflation is estimated at 2.3 per cent in 2003 and 1.9 per cent in 2004, *cf. figure 1.3b*. The inflation outlook in 2003 and 2004 is unchanged compared to the survey in May.

The fall in inflation between 2003 and 2004 is among other things related to gradually declining inflation rates on services. The currently high levels of inflation on services are to a large extent due to one-off increases in user-charges and cuts in subsidies. However, this only effects inflation in 2003. Thus, inflation on services is expected to return to a more normal level in 2004. The tax freeze contributes to a slightly lower inflation rate in both 2003 and 2004 due to the freeze of indirect taxes set in nominal terms. The fall in excise taxes on soft drinks, cigarettes and alcohol will furthermore reduce the inflation rate by 0.1 percentage point in 2004.

The inflation outlook indicates that the Danish inflation rate continues to stay around the European Central Bank's medium term inflation target of 2 per cent. Because of the fixed exchange rate policy vis-à-vis the euro this target also applies to Denmark.

**Table 1.5. A comparison between the present and the previous forecast**

|                                               | 2003                                              |        | 2004 |        |
|-----------------------------------------------|---------------------------------------------------|--------|------|--------|
|                                               | May                                               | August | May  | August |
|                                               | ----- Percentage changes from previous year ----- |        |      |        |
| Private consumption .....                     | 1.7                                               | 1.3    | 2.9  | 3.0    |
| Total government demand .....                 | 0.7                                               | -0.3   | 0.7  | 0.8    |
| of which government consumption .....         | 0.7                                               | -0.2   | 0.7  | 0.7    |
| of which government investment .....          | 0.0                                               | -2.9   | 2.0  | 2.0    |
| Residential construction .....                | 2.0                                               | 5.0    | 4.0  | 2.0    |
| Fixed business investment .....               | 1.3                                               | 0.6    | 4.0  | 3.6    |
| Domestic demand exc. stock building ...       | 1.3                                               | 0.9    | 2.5  | 2.5    |
| Changes in stock building <sup>1)</sup> ..... | 0.2                                               | 0.3    | 0.0  | 0.1    |
| Total domestic demand .....                   | 1.6                                               | 1.2    | 2.6  | 2.5    |
| Exports of goods and services .....           | 3.5                                               | 2.9    | 4.5  | 4.5    |
| Of which manufactures .....                   | 4.3                                               | 3.7    | 6.0  | 5.5    |
| Total demand .....                            | 2.2                                               | 1.8    | 3.2  | 3.2    |
| Imports of goods and services .....           | 3.7                                               | 2.8    | 5.3  | 5.4    |
| Of which goods <sup>2)</sup> .....            | 4.0                                               | 3.3    | 5.5  | 5.5    |
| Gross domestic product .....                  | 1.6                                               | 1.4    | 2.4  | 2.3    |
| GDP at factor costs .....                     | 1.6                                               | 1.4    | 2.3  | 2.2    |
| Of which in non-agricultural sector .....     | 1.6                                               | 1.5    | 2.8  | 2.4    |
|                                               | ----- Changes in thousand persons -----           |        |      |        |
| Labour force .....                            | 13                                                | 8      | 11   | 8      |
| Employment .....                              | -5                                                | -17    | 19   | 15     |
| of which in the private sector .....          | -8                                                | -17    | 16   | 12     |
| of which in the public sector .....           | 3                                                 | 0      | 3    | 3      |
| Unemployment .....                            | 18                                                | 25     | -8   | -7     |
|                                               | ----- Percentage changes from previous year ----- |        |      |        |
| Merchandise export prices .....               | 0.6                                               | 0.1    | 0.0  | 0.3    |
| Merchandise import prices .....               | 0.3                                               | -0.3   | 0.2  | 0.4    |
| Merchandise terms of trade .....              | 0.3                                               | 0.4    | -0.2 | -0.1   |
| Real estate prices for one-family houses .    | 2.5                                               | 3.5    | 2.0  | 1.5    |
| Consumer price index .....                    | 2.3                                               | 2.3    | 1.9  | 1.9    |
| Hourly earnings .....                         | 3.9                                               | 3.9    | 3.7  | 3.7    |
| Real disposable income, private sector ....   | 2.4                                               | 2.0    | 2.5  | 2.6    |
| Productivity in non-agricultural sector ...   | 2.7                                               | 1.8    | 3.4  | 3.0    |
|                                               | ----- Per cent -----                              |        |      |        |
| Savings ratio in the private sector.....      | 29.1                                              | 29.4   | 28.9 | 29.1   |
| 10-year government bond .....                 | 5.7                                               | 6.2    | 6.5  | 6.4    |
| 30-year government bond .....                 | 4.4                                               | 4.2    | 5.1  | 4.8    |

Source: Statistics Denmark and own calculations.

**Table 1.5. A comparison between the present and the previous forecast (continued)**

|                                             | 2003                                              |        | 2004  |        |
|---------------------------------------------|---------------------------------------------------|--------|-------|--------|
|                                             | May                                               | August | May   | August |
|                                             | ----- Percentage changes from previous year ----- |        |       |        |
| Merchandise export prices .....             | 0.6                                               | 0.1    | 0.0   | 0.3    |
| Merchandise import prices .....             | 0.3                                               | -0.3   | 0.2   | 0.4    |
| Merchandise terms of trade .....            | 0.3                                               | 0.4    | -0.2  | -0.1   |
| Real estate prices for one-family houses .  | 2.5                                               | 3.5    | 2.0   | 1.5    |
| Consumer price index .....                  | 2.3                                               | 2.3    | 1.9   | 1.9    |
| Hourly earnings .....                       | 3.9                                               | 3.9    | 3.7   | 3.7    |
| Real disposable income, private sector .... | 2.4                                               | 2.0    | 2.5   | 2.6    |
| Productivity in non-agricultural sector ... | 2.7                                               | 1.8    | 3.4   | 3.0    |
|                                             | ----- Per cent -----                              |        |       |        |
| Savings ratio in the private sector.....    | 29.1                                              | 29.4   | 28.9  | 29.1   |
| 10-year government bond .....               | 5.7                                               | 6.2    | 6.5   | 6.4    |
| 30-year government bond .....               | 4.4                                               | 4.2    | 5.1   | 4.8    |
|                                             | ----- Bill. Dkr. -----                            |        |       |        |
| Current account .....                       | 42.4                                              | 43.5   | 43.8  | 46.0   |
| Government net lending .....                | 18.0                                              | 16.6   | 21.6  | 18.7   |
| Unemployment (thousands) .....              | 163                                               | 170    | 155   | 163    |
|                                             | ----- Per cent -----                              |        |       |        |
| GDP growth in OECD countries .....          | 1.7                                               | 1.5    | 2.7   | 2.5    |
| International market growth .....           | 4.5                                               | 4.0    | 7.5   | 7.5    |
| Dollar exchange rate (Dkr. Per US\$) .....  | 6.9                                               | 6.6    | 6.9   | 6.6    |
| Price of oil (Us-dollar per barrel) .....   | 26.0                                              | 27.5   | 24.0  | 25.0   |
| Price of oil (Dkr. per barrel) .....        | 180.7                                             | 182.3  | 166.8 | 164.5  |

1) The volumes indicate volume changes in stock building in per cent of volume GDP in the preceding year.

2) Excluding production of oil and gas and maritime.

Source: Statistics Denmark and own calculations.

## 2. The fiscal stance and government finances

The general government surplus was 2.0 per cent of GDP in 2002. However, new calculations by the Danish Ministry of Taxation indicate lower tax receipts and – ceteris paribus – the surplus could be overestimated by 0.3 per cent of GDP, *cf. box 2.1*. Hence, for 2002 the adjusted general government surplus is expected to amount to 1.7 per cent of GDP. For 2003 and 2004, respectively the general government surplus is estimated at 1.2 per cent of GDP and 1.3 per cent of GDP, *cf. figure 2.1a*.

Gross public debt is expected to decline to 41.2 per cent of GDP by the end of 2004 compared to 45.5 per cent by the end of 2002, *cf. figure 2.1b*.

Figure 2.1a. General government surplus in Denmark and EU

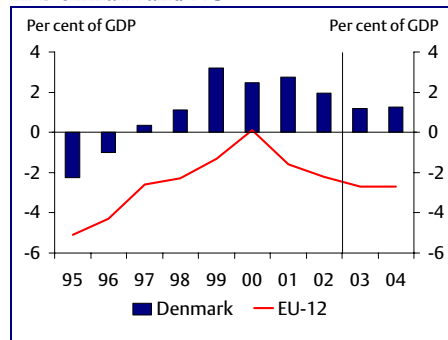
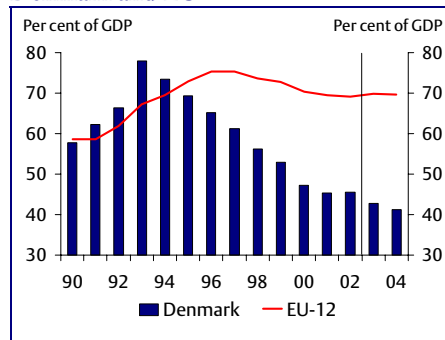


Figure 2.1b. Gross public debt ratio in Denmark and EU



Source: Statistics Denmark, EU-Commission, and own calculations.

For 2002 the national account figures indicate an upward revision of the surplus of 0.1 per cent of GDP, compared to the Survey in May. For 2003 and 2004 the projections imply a downward revision of 0.1 and 0.2 percentage points of GDP, respectively.

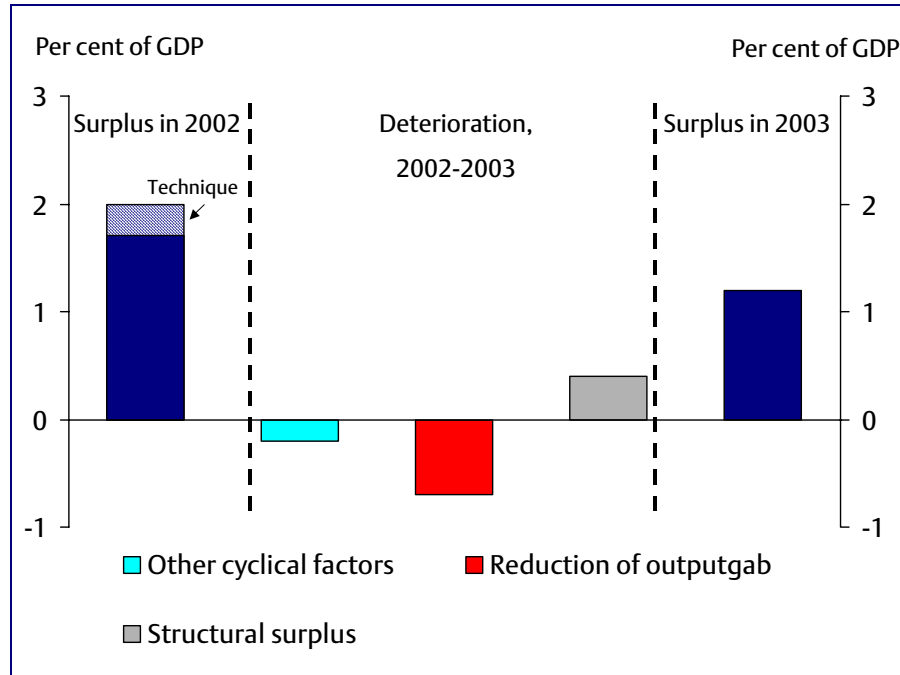
For 2003 and 2004 the downward adjustment of the government surplus is mainly due to cyclical effects induced by the downward revision of the international economy.

### The 2002 general government surplus

For 2002 Statistics Denmark has estimated that the general government surplus was 2.0 per cent. However, the preliminary calculation of personal income tax reports by The Danish Ministry of Taxation indicates that the revenue from personal labour market contributions and personal income taxes is overestimated by 0.3 per cent of GDP. This indicates, ceteris paribus a general government surplus of 1.7 per cent of GDP.

The projected decline in the adjusted general government surplus from 1.7 per cent of GDP in 2002 to 1.2 per cent of GDP in 2003 is mainly due to the cyclical reduction of the output gap and other cyclical factors. However, the structural surplus is improved mainly due to lower net interest expenditures and small contributions from fiscal policy, cf. figure 2.2.

**Figure 2.2. Change in the government surplus from 2002 to 2003. per cent of GDP**



Source: Own calculations.

The fiscal effect, which measures the first year impact on GDP from discretionary fiscal policy is estimated at -0.1 per cent in 2003, cf. table 2.1, whereas a positive fiscal effect of 0.1 per cent of GDP for 2003 was estimated in the survey in May. The downward revision of the fiscal policy growth contribution for 2003 is due to an uprevision of the real growth of public consumption expenditures for 2002 and a corresponding downward revision of the real growth rate for 2003. This means that the level of GDP and employment is not changed by the revised profile for the real growth of public consumption in 2002 and 2003.

The fiscal policy for 2004 is based on the central government budget agreements with the local governments and the central government budget proposal for 2004.

The 2004 tax reductions and the tax freeze contributes to GDP-growth in 2004. The expenditure policy is expected to have an overall neutral impact on GDP growth in 2004.

GDP-growth is also influenced by lagged fiscal policy measures in previous years including continued structural effects from the saving incentives due to the adjustment of income taxation adopted in June 1998 (*Whitsun package*). The cumulated activity effect of economic policy and structural saving effects are gradually drying out and is slightly negative in 2001-2003 and positive in 2004. However lower interest rates are expected to increase GDP-growth by 0.5 percentage points in 2003 and 1.0 percentage point in 2004. For 2004 both cumulated effects of fiscal policy and effects of interest rates contributes to a higher GDP-growth.

**Table 2.1. Activity effect of fiscal policy and structural saving effects**

|                                                  | 1999                          | 2000 | 2001 | 2002 | 2003 | 2004 |
|--------------------------------------------------|-------------------------------|------|------|------|------|------|
|                                                  | ----- Per cent -----          |      |      |      |      |      |
| Fiscal effect.....                               | 0.2                           | -0.1 | 0.5  | 0.3  | -0.1 | 0.4  |
|                                                  | ----- Percentage points ----- |      |      |      |      |      |
| Cumulated activity effect of economic policy.... | -1.1                          | -1.1 | -0.2 | -0.1 | -0.3 | 0.2  |
| Effects of interest rates.....                   | 1.1                           | 0.8  | -0.1 | 0.3  | 0.5  | 1.0  |

Source: Statistics Denmark and own calculations.

The level of fiscal tightness is considered to be broadly appropriate in view of the short-term outlook. However, due to a very moderate output gap and the possibility that growth will be higher than expected, business cycle considerations can not to any significant extent justify a more expansive fiscal stance in 2004.

The estimated level of the output gap is expected to be negative and peaking for 2003, and remaining slightly negative in 2004, *cf. figure 2.3a*. The annual wage increases are expected to be higher than abroad even though the spread is expected to be reduced in 2003 and 2004, *cf. figure 2.3b*.

Figure 2.3a. Output gap

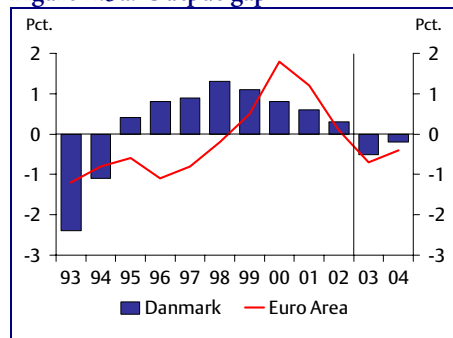
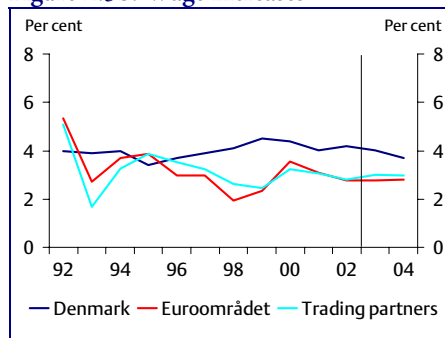


Figure 2.3b. Wage increases



Source: Statistics Denmark, EU-Commission, and own calculations.

The overall target is to maintain a sustainable fiscal policy. This implies that the general government surplus must be large enough to finance the expected future increase in net public expenditures due to ageing and to ensure a sustainable development in general government debt, without triggering a need for fiscal tightening at some later point.

Fiscal policy is considered to be broadly sustainable. For 2003 and 2004 the general government structural surplus amount to 2.0 and 1.7 per cent of GDP and is within the target range of 1½ to 2½ percent of GDP, which is estimated to be largely sufficient in order to maintain fiscal sustainability.

The calculated measure of fiscal sustainability shows a small deficit in the amount of 0.1 per cent of GDP. This is a reduction of 0.2 per cent of GDP compared to CP2002, but the changes are limited given the uncertainties involved in the calculations. The changes are among other things due to reduced growth in the labour force.

The sustainability of fiscal policy has been assessed on the assumption that the fiscal targets for employment, public-sector services and taxes until 2010 has been fulfilled, whereas stylised assumptions are used for the years following 2010.