Economic Survey May 2010 – English Summary

Short term outlook

The Danish economy is expanding after the sharp setback until the summer of 2009 that followed the international financial crisis. GDP grew by ¼-½ per cent in the 3rd and 4th quarter driven by private and public consumption, public investments and a gradual turnaround in the inventory cycle. The latest indicators suggest increasing growth in private consumption and exports[1].

GDP growth is expected to continue in 2010 and 2011 at rates of just under 1½ and 1¾ per cent, *cf. figure 1.1a*. In 2010, private consumption is supported by significant cuts in income taxes, very low interest rates (especially on one-year adjustable mortgages) and high annual adjustment of public transfer rates. Growth is also expected in exports due to improved cyclical conditions in the world economy, inventories are rebuilt, public investments are set to increase due to the growth-supportive initatives, and public consumption will rise. On the other hand, business and residential investments are expected to contract, as in the two previous years.

Figure1.1a

GDP growth

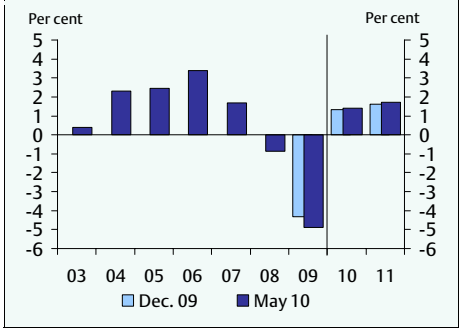
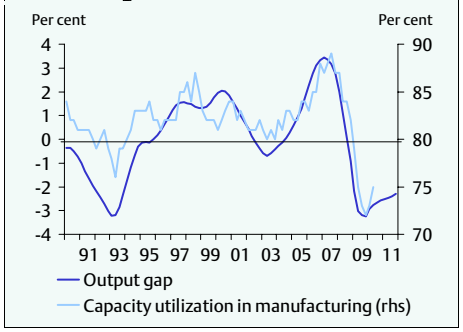


Figure1.1b

Output gap and capacity utilisation in manufacturing



In 2011, GDP growth is expected to become more self-sustained. Private consumption is expected to expand further, due to rising incomes while the increase in the savings rate comes to a halt, and the large drop in business and residential investments until now, is projected to turn into moderate growth. On the other hand, public investments are expected to start returning to a more normal level, after strong growth in 2009 and 2010, and the positive contributions from inventories will fade. Public consumption is expected to be kept stable as part of public finance consolidation.

[1] GDP grew by 0.6 per cent (q-on-q) in the first quarter of 2010, according to the first release from Statistics Denmark (published after the publication of the Economic Survey).

The positive output gap is estimated to have closed by the end of 2008, and to have reached a trough by the end of 2009, *cf. figure 1.1b*. It is expected that the negative output gap will be reduced over the forecast period, but capacity utilisation continues to be rather low..

Compared to the *Economic Survey*, December 2009, estimated GDP growth has been revised up by 0.1 percentage point both in 2010 and 2011, *cf. table 1.1*. According to the first, preliminary, national accounts for 2009, GDP fell by 4.9 per cent, which is 0.6 per cent less than estimated in December. This is mainly due to a larger drop in inventories than expected.

Table 1.1
Key figures compared to the December Survey

	2010		2011	
	Dec.	May	Dec.	May
Real growth, per cent				
Gross domestic product	1.3	1.4	1.6	1.7
Private consumption	2.4	2.4	2.4	2.4
Public consumption	1.0	0.8	1.0	0.0
Export markets, manufacturing	3.6	3.9	6.1	5.8
Per cent of GDP				
Public budget balance	-5.5	-5.1	-4.4	-4.4
Current external account	2.4	2.6	2.4	2.6
1,000 persons				
Employment (increase)	-71	-73	-4	-5
Unemployment	155	130	155	135
Per cent increase				
House prices, single-family house	1.5	1.5	0.5	1.0
Consumer prices	2.0	2.3	1.7	1.8
Hourly compensation, private sector	2.7	2.0	2.5	2.1
Yield on 1-year adjustable mortgage	2.3	1.4	3.1	2.3
Yield on 10-year government bonds	3.9	3.6	4.0	4.0
Oil price, $ per barrel	80.3	84.1	84.5	89.6
Exchange rate, DKK per $	5.0	5.5	5.0	5.5
Oil price, DKK per barrel	403.1	461.7	424.2	495.0

Since November 2009, unemployment (national def.) has been broadly unchanged, and has thus developed more favourably than expected. The average number of unemployed in 2010 has been revised downwards by 25,000 to 130,000 persons (4½ per cent of the labour force). The unemployment gap is estimated to have closed in the autumn of 2009, and unemployment has since then been above its structural level. By the end of 2011, unemployment is expected to be around 1 per cent above the structural level of unemployment. Estimates of the unemployment gap are subject to uncertainty.

Fiscal policy and public finances

As the recovery takes hold in the world economy, the key challenge in most western countries is to start fiscal consolidation and set up credible medium-term fiscal strategies, taking into account that the upturn still seems fragile but also that monetary policies are expected to stay supportive. Public finances are under considerable strain in most countries following the steep recession and the fiscal stimulus that has been launched in order to dampen the negative effects from the crisis.

In Denmark as well, public finances have been hit hard by the international economic crisis and the extraordinary supportive fiscal policy implemented in 2009 and 2010. In total, the expansionary measures in 2009 and 2010 are estimated to constitute close to 3.6 per cent of GDP (measured as a level-effect in 2010 by the direct revenues that enters into the estimation of the fiscal effect). Hence, fiscal policy is more expansionary than in most other – if not all – EU countries.

The expansionary measures imply that in 2010 the structural primary balance is in deficit for the first time since 1982, *cf. figure 1.2a*. The structural primary balance is the public balance adjusted for temporary effects from cyclical developments and a number of other temporary factors and excluding net interest expenditures. The deficit reflects that revenues are systematically lower than expenditures. This is an imbalance that has to be corrected. The rebalancing plan, which was launched after this survey was finalised, is addressing exactly that challenge, and also meets the likely recommendations from the EU regarding fiscal consolidation.

Figure 1.2a

Structural primary balance, 1980-2011

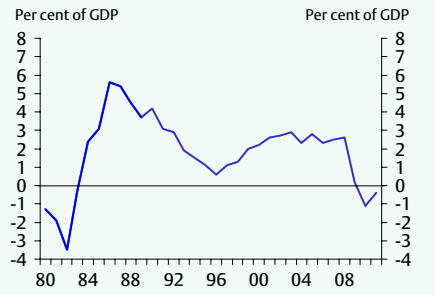
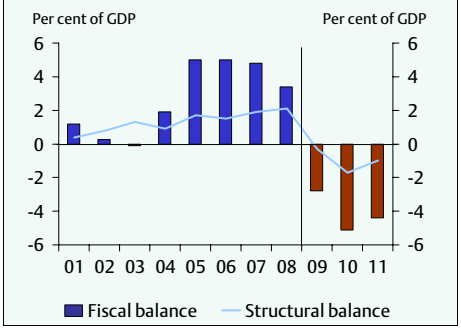


Figure 1.6b

Fiscal and structural balance, 2001-2011



The fiscal deficit is estimated to DKK 88 bn. in 2010 (5.1 per cent of GDP) and is expected to decrease to DKK 79 bn. in 2011 (4.4 per cent of GDP) with the assumed fiscal policy incorporated, *cf. figure 1.2b*.

The estimate of the general government balance in 2010 is based on the Fiscal Bill for 2010, ministerial status reports for central government expenditures in 2010, as well as local and regional government budgets for 2010. The latest information from

Statistics Denmark indicates a higher level of public consumption in 2009 than expected in December. The estimates for both 2010 and 2011 also reflects the political agreements made this spring, including the adjustments in relation to the *Spring Package 2.0* and the *Agreement on Green Growth 2.0*. In addition, the estimate is based on assumptions made in *Convergence Programme 2009*, including zero real growth in public consumption from 2010 to 2011[2].

The structural deficit is estimated at 1.7 per cent of GDP in 2010 and 1.0 per cent of GDP in 2011 with the assumptions made regarding fiscal policy. This is in line with the assessment in the *Convergence Programme 2009*.

Since the public deficit this year is considerably higher than the 3 per cent reference value in the Stability and Growth Pact, the European Commission initiated the EU's "Excessive Deficit Procedure" for Denmark in May.

This means that Denmark soon will receive a recommendation that is expected to imply that the structural balance shall be improved by (at least) 1½ per cent of GDP during 2011-2013, and that Denmark will have to start fiscal consolidation in 2011 at the latest, in order to bring the actual balance below 3 per cent of GDP by 2013.

In *Denmark's Convergence Programme 2009* it is estimated that fulfilling this recommendation requires structural budget improvements of DKK 24 bn., *cf. table 1.2*. This is still the case based on the estimate of the structural balance included in this survey, and the estimated effects of the *Public Health Package*, from April (i.e the adjustments in relation to the *Spring Package 2.0*).

Table 1.2

Required consolidation in order to fulfil central targets (Convergence Programme 2009)

	Required consolidation
Expected EU recommendation 2013	24 bn. DKK
Structural balance 2015	31 bn. DKK

Fulfilling the expected EU recommendation up to 2013 amounts to around ¾ of what is needed to reach the key objective in the 2015 plan of structural balance in 2015, *cf. Convergence Programme 2009*. The target of structural balance in 2015 prevents continued debt accumulation and rising interest expenditures that otherwise would add to the challenges related to the demographic transition and lower revenues from extraction of oil in the North Sea..

The target of structural balance is sufficient to ensure long-term fiscal sustainability with the assumptions included in the long-term projections, *cf. Convergence Programme*

[2] The agreement on a recovery plan in late May 2010 is not included.

2009. Ensuring structural balance in 2015 requires new initiatives for a total of DKK 31 bn. up to 2015.

The necessary fiscal consolidation is planned to start in 2011, provided that the cyclical conditions strengthen in line with expectations in *Economic Survey*, December 2009. The estimated GDP growth for 2010 and 2011 is broadly in line with the estimate from December, while unemployment seems to increase less than expected.

The output gap is estimated to around -3 per cent of GDP in 2009, decreasing to -2½ per cent in 2011, *cf. figure 1.3a*. Output gap estimates are subject to considerable uncertainty in light of the steep global setback and the possible impact on growth potential.

In 2010-2011 unemployment (national def.) is expected to be moderately higher than the estimated structural unemployment level (by around 1 percentage point). Unemployment is still relatively low in a historical perspective – lower than in all years from 1975 to 2005 – and is expected to decrease slightly in the course of 2011. The deterioration of wage competitiveness in recent years is expected to come to a halt due to exchange rate developments and lower wage increases, but core inflation still remains higher than in the euro area, *cf. figure 1.3b*.

Figure1.3a

Output gap i Denmark, the euro area and the EU

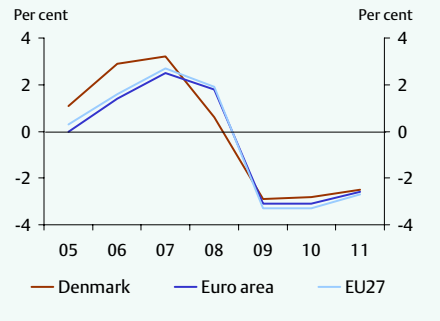
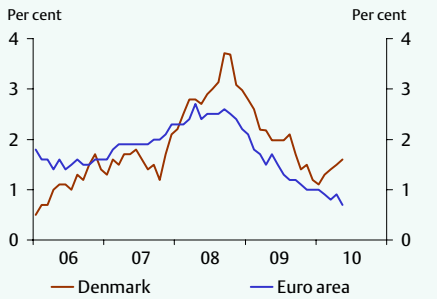


Figure1.3b

Core inflation in Denmark and in the euro area (HICP inflation excl. energy og unprocessed food)



Note: The output gap in figure 1.3a is own estimates for Denmark and the European Commission's estimate for EU27 and the euro area.
Source: Eurostat.

The short-term outlook indicates quite solid growth in private consumption in 2010 and 2011 and increasingly also in business investments. The prospect of a gradually more self-sustained recovery during 2010 and 2011 supports that fiscal consolidation may begin in 2011 as assumed in the *Convergence Programme 2009*.

The need for credible fiscal consolidation has been underlined by recent events in Europe. The focus in financial markets on the management of fiscal challenges has increased, and the costs from loosing credibility can be high and show up quite quicky.

The planned consolidation from 2011 should help to improve confidence and reduce interest rates and is also expected to limit the risk that Denmark will become exposed in the event of renewed turmoil in financial markets. These effects are difficult to quantify but they can be sizeable and will help to counter the contractionary impact on demand from the consolidation efforts, Fiscal consolidation from 2011 and a credible fiscal exit strategy are also paramount in order to create room for manoeuvre in fiscal policy in the years ahead.

The consolidation of public finances up to 2013 (DKK 24 bn.) include that the planned real public consumption growth from 2010 to 2013 is cancelled, which improves public finances by approx. DKK 13.5 bn. compared with *Convergence Programme 2008*. In addition, expenditure reductions of approx. DKK 10½ bn. are required in other areas compared to previous assumptions.

In addition, the implementation of the financing elements of the tax reform as well as an expected normalisation of public investments from the extraordinary high level in 2009-2010 also improves public finances, *cf. more details in the Convergence Programme*. The contribution correspond to a total of 1¼ per cent of GDP up to 2013, but is for the most part offset by an underlying weakening due to falling North Sea production, rising pension expenditures and fewer in the most active working ages.

The immediate negative impact on demand from consolidation efforts in 2011 is expected to be offset by the last few years' extraordinary expansionary fiscal and monetary polices working with increasing strength in 2011.

The multiannual fiscal effects – taking into account that fiscal policy in a given year also affects economic activity in the following years – indicates that the total effect on growth in 2011 from fiscal policies and interest rate changes since 2008 amounts to around 0.4 per cent, including the fiscal tightenings and an expected increase in interest rates in 2011.

The fiscal contraction in 2011 – measured by the one-year fiscal effect – corresponds to 0.6 per cent of GDP, *cf. table 1.3*. In addition, a negative contribution to growth in 2011 may come from the abatement of positive impacts on activity from the disbursements of the Special Pensions scheme (SP) and certain private pension schemes, although there are uncertainties as to the exact timing over the years of the consumption effect of SP-disbursements.

The activity *level* is estimated to be 4½-5 per cent higher in 2010 than in the absence of the large drop in interest rates and the extraordinary expansionary fiscal policy etc.

since 2008. This contribution to the activity level increases to just over 5 per cent in 2011 due to the gradually increasing effects of the drop in interest rates etc. and despite that the fiscal consolidation in 2011 dampens demand, *cf. table 1.3*.

Table 1.3
Effects on activity from the economic policy etc. from 2009

	2009	2010	2011
Per cent of GDP			
Multi-annual fiscal effect (GDP level)	1.1	2.1	2.0
Disbursion of SP etc. (GDP level)	0.4	0.7	0.4
(1) Fiscal policy from 2009 and SP etc.	**1.4**	**2.8**	**2.4**
Fiscal policy and SP etc. (growth contribution)	1.4	1.3	-0.4
- of this, one-year fiscal effect (growth contribution)	1.1	0.8	-0.6
(2) Changes in interest rates since 2008 (GDP level)	**0.5**	**1.9**	**2.7**
(1)+(2) Total effect of economic policy (GDP level)	**1.9**	**4.7**	**5.2**
- Growth contribution	1.9	2.8	0.4
Employment effect, fiscal policy, SP etc. since 2008, 1,000 persons.	24	53	57
Do., interest rates since 2008, 1,000 persons	6	30	53
Total effect on employment, 1,000 persons	**30**	**83**	**110**
Memo			
Average bond yield	3.8	3.3	4.0

Note.: The multi-annual effects are calculated as the effects on activity from fiscal policies etc. from 2009. The calculation does not include potentiel effects on interest rates from fiscal policy. Due to rounding, the total may differ from the sum of the contributions in the table.

In total, employment in 2010 and 2011 is estimated to be around 55,000 persons higher than by a neutral fiscal policy and in the absence of SP disbursements etc. Taking into account the effects from the fall in interest rates since 2008, the total contribution to employment from the implemented economic policy amounts to around 110,000 persons in 2011.

The estimated effects on activity are subject to uncertainty, including the profile of public investments in 2010 and 2011.

Fiscal challenges and public consumption expenditures

Primary public expenditures (i.e. expenditures excluding interest expenditure) are estimated to rise from 48 per cent of GDP in 2007 to just under 56 per cent of GDP in 2010, the highest level in history, *cf. figure 1.4a*.

The significant rise is to be seen in light of the weakening cyclical conditions with real GDP contracting in 2008-2009. However, in nominal terms total public expen-

ditures have risen by just under 18 per cent over the three years, whereas nominal GDP has been broadly unchanged since 2007, *cf. figure 1.4b*. A part of the growth in expenditures stems from the cyclical weakening – including due to higher expenditures for unemployment benefits and increased interest expenditures on rising debts etc. – but at the same time growth in public consumption and investment expenditures has been significant.

Figure1.4a
Primary expenditures

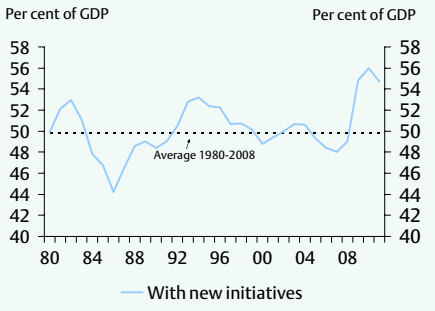
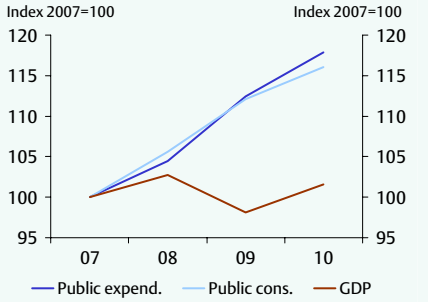


Figure1.4b
Total public expenditures and GDP 2007-2010



Source: Statistics Denmark and own calculations.

For a number of years, growth in public consumption has been higher than assumed in medium term fiscal plans, *cf. Convergence Programme 2009*. This has contributed to public consumption now constituting a larger share of the economy (cyclically adjusted GDP) than ever before, *cf. figure 1.5a*. Public employment is also higher than before, *cf. figure 1.5b*.

Figure1.5a
Public service expenditures in per cent of GDP, 1980-2015

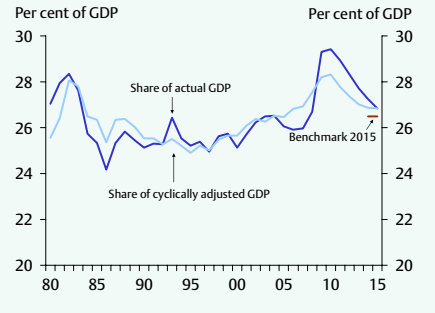


Figure1.5b
Private and public employment

Source: Convergence Programme 2009 and Statistics Denmark.

While private employment has fallen by 175,000 persons from the 1st quarter of 2008 to the 4th quarter of 2009, public employment has grown by around 10,000

persons in the same period. Seen over a longer period, the public employment share of total structural employment has been broadly constant since 1982.

Growth in public consumption has been higher than growth in private consumption for a number of years. This is especially the case for "individual public consumption", i.e. the share of public consumption that directly or indirectly can be attributed to individuals, for example education, health services, child care, social services, elderly care etc., while "collective public consumption" (for example administration, defence, police and judicial system) has risen less. Since the beginning of the 1980s individual public consumption – i.e. the tax-financed share of the consumption – has thus grown significantly in per cent of (cyclically-adjusted) GDP, while private consumption has fallen as a share of the economy over the same period, *cf. figure 1.6a.*

Denmark is also one of the OECD countries where the individual public consumption constitutes the largest share of GDP, while the share of private consumption is correspondingly low, *cf. figure 1.6b.* This partly reflects that in Denmark access to many public services, including education, health is to a large degree free and with equal access, while services within child care and home care etc. is partially tax-financed. Moreover, a large share of services in sectors like education, health and child care etc. is provided by the public (mostly tax-financed), while the same services in many other countries are provided by the private sector, also when the services are tax-financed or covered by private insurance with less than full user charge.

Figure1.6a

Individual public consumption in per cent of cyclically adjusted GDP

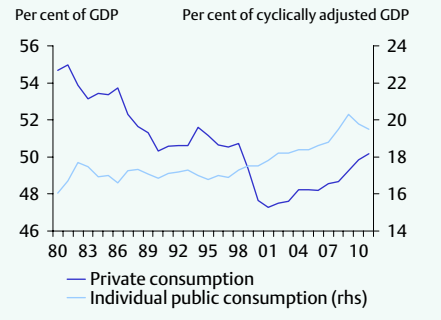
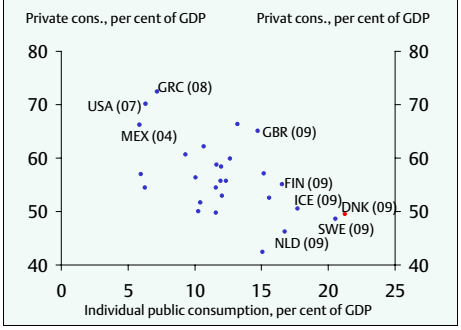


Figure1.6b

Private consumption and individual public consumption in per cent of GDP



Source: Statistics Denmark and own calculations.

Compared to other countries, Danes have therefore a relatively low private consumption per person (compared to the general level of prosperity) while consumption of tax-financed individual services is relatively high and has been increasing for a number of years.

Expanding public consumption in the future at the same real growth rates as until now will be difficult due to considerable strains in public finances in the longer term, cf. the latest 2015 projection in *Denmark's Convergence Programme 2009*. Public finances are thus weakening in the coming years due the demographic development with a rising share of elderly and fewer in the most active working ages, falling revenues from the North Sea activities in line with the depletion of the oil reserves, as well as ambitious targets in the climate and energy polices, leading to a reduction of the energy taxes' share of GDP over time.

In the 2015-projection in the *Convergence Programme 2009* the challenge of ensuring long-term sustainability corresponds to a strengthening of public finances by around 1.3 per cent of GDP (compared to the priorities in the Convergence Programme 2008), even when future growth in public expenditures are expected to be more moderate than in the last 15-20 years.

Lower growth in public consumption is therefore a condition for making fiscal policy add up in the longer term (with an unchanged tax system) and lower real growth in public consumption has been an essential assumption in medium term fiscal plans for many years, including in the original 2010-plan *"Denmark 2010 – A sustainable future"*.

Domestic demand

Due to tax cuts, high annual adjustment of public transfer rates and low interest rates, households' *real disposable income*[3] is expected to grow by 4¾ per cent in 2010, despite the fall in the labour force and employment. In 2009 incomes grew by 2 pct. (and 5¾ per cent when the disbursion of the Special Pension Fund is included). Incomes are expected to grow further by 2-3 per cent in 2011, mainly due to continued low interest rates, further conversions to low-yield annual adjustment mortgages as well as a stabilisation of the labour market.

The significant rise in households' income is expected to lead to real growth in *private consumption* by 2½ per cent in 2010, *cf. figure 1.7a*. Available indicators for private consumption – retail and debit card (dankort) sales, car purchases and consumer confidence – support that private consumption will continue to be quite boyant, reflecting that the significant growth in incomes is feeding through to consumption. Growth in private assets due to rising stock markets and an incipient rise in prices of owner-occupied dwellings also add to private consumption. Growth in private consumption in 2011 is expected to be in line with this year, with the rise in the savings rate – which has reached a very high level – is expected to stop.

The average household is quite well consolidated. The level of total assets at the end of 2009 are in line with the level at the beginning of 2005, and the average "directly owned" net assets per household (calculated as assets in owner-occupied dwellings

[3] The adjusted income for households.

and financial net assets excluding pensions) is around DKK 750,000 (close to € 100,000). By including pension savings average assets are DKK 1.1 million (just under € 148,000).

Figure1.7a
Private consumption

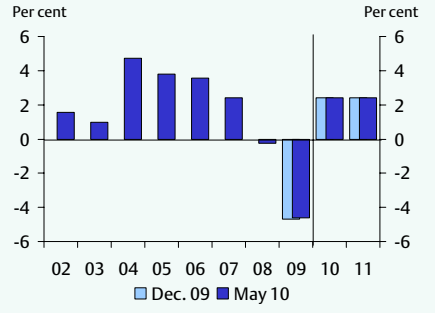
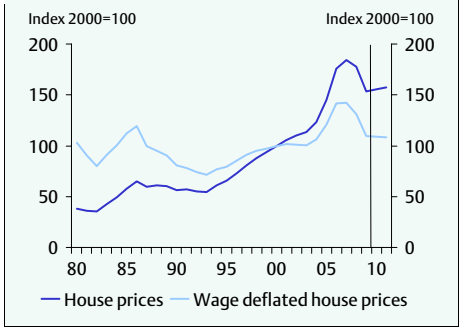


Figure1.7b
Price on single-family dwellings



The housing market stabilised in the second half of 2009 and the *price of single-family houses* are expected to rise moderately by 1½ per cent in 2010 and 1 per cent in 2011 after dropping by just under 14 per cent in 2009, *cf. figure 1.7b*. In 2011, the level of wage-deflated housing prices will be close to the historical average and the level ten years ago.

Table1.4
Use and supply of goods and services

	2009	2006	2007	2008	2009	2010	2011
	DKK bn.	Real growth, per cent					
Private consumption	817.4	3.6	2.4	-0.2	-4.6	2.4	2.4
Public consumption	492.1	2.8	1.3	1.6	2.5	0.8	0.0
Public investment	35.7	16.6	-3.3	-2.9	20.1	19.6	-13.1
Residential construction	84.9	9.6	3.4	-14.2	-16.8	-10.2	1.0
Fixed business investment	192.0	16.5	3.3	-0.1	-14.0	-3.0	4.2
Stock building (growth contr.)	-19.1	-0.3	-0.3	0.3	-2.0	1.1	0.3
Total domestic demand	1,602.6	5.2	1.9	-0.5	-6.3	2.1	1.7
Exports	784.2	9.0	2.2	2.4	-10.4	1.5	3.8
of which manufactures	329.8	4.7	3.1	1.3	-13.6	2.1	4.5
Total demand	2,386.7	6.5	2.0	0.5	-7.7	1.9	2.4
Imports	727.0	13.4	2.6	3.3	-13.2	3.0	3.9
of which goods	460.2	11.5	1.8	0.7	-15.0	3.0	3.6
Gross domestic product	1,659.7	3.4	1.7	-0.9	-4.9	1.4	1.7
Gross value added	1,424.4	3.2	1.8	-0.5	-4.2	1.5	1.8
of which in private non-agricultural sector	907.7	4.7	2.8	-1.0	-7.0	2.3	2.8
GDP per capita (1,000 DKK)	302.1	3.1	1.2	-1.5	-4.9	0.7	1.5

Announced foreclosures have been rising since the beginning of 2007, but the level is still low by historical standards.

Residential investments are expected to fall by 10 per cent in 2010, continuing the double-digit drops in the two previous years. The stabilisation in the housing market is expected to lead to moderate growth in residential investments by 1 per cent in 2011. In 2007, residential investments reached a historical high level of almost 7 per cent of GDP. Despite dropping significantly in recent years, the level of residential investment as a share of GDP is not lower than in years up to 2003, *cf. figure 1.8a.*

Fixed business investments are expected to contract by 3 per cent in 2010 after falling by 14 per cent in 2009, *cf. figure 1.8b*. The abatement is to be seen in light of a turnaround in production. In this vein, and due to continued low interest rates, business investments are expected to grow by just over 4 per cent in 2011.

Figure1.8a
Residential investments and total investments in construction

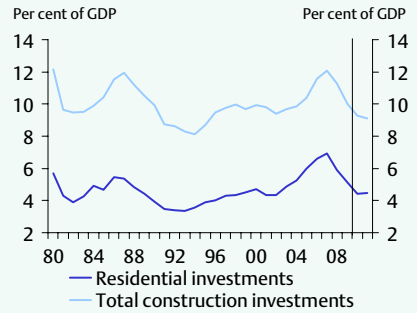
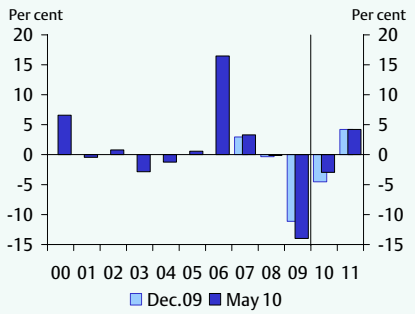


Figure1.8b
Fixed business investments



The reduction of inventories declined sharply in the second half of 2009. In 2010 *stock building* is expected to contribute to GDP growth by just over 1 per cent, following a very large negative contribution in 2009 of 2 per cent. In 2011 the positive contribution is expected to decline to ¼ per cent.

Growth in *public consumption expenditures* is assumed at 0.8 per cent in 2010, down by ¼ percentage point compared to the December survey. This is due to a higher level than expected in 2009 – where real growth is now recorded at 2½ per cent, compared to an estimated 1½ per cent in December. Additional costs to active labour market policies and defence are expected to pull up public consumption expenditures in 2010. In 2011, real public consumption is assumed constant.

Public investments are estimated to grow in real terms by 20 per cent in 2010 following an expansion of the same magnitude in 2009. This reflects the growth supportive measures, which include strengthened maintenance of national roads, moving forward of maintainance of hospitals and energy efficiency measures in national buildings. In 2011 growth in public investments are technically estimated to -13 per cent following the historically high level in 2010. Despite the assumed drop in 2011, the level of public investments will still be 25 per cent higher than in 2008.

The above estimates imply that *total domestic demand* will grow by 2 per cent in 2010 and 1¾ in 2011, after falling by 6¼ per cent in 2009.

Foreign trade and the current external account

The outlook for the world economy has improved since December. *Global GDP growth* is now expected at around 4 per cent in both 2010 and 2011, which is ¾ and ½ percentage point higher than in the December survey. The fall in global production in 2009 is now set to just less than 1 per cent, ¼ percentage point less than in December. The expansion, in particular in 2010, is to a large extent a result of very expansionary economic policies.

In 2010 and 2011, high growth rates are expected especially in China and other Asian economies (except Japan). In Denmark's major export markets – such as the euro area and the rest of the EU – GDP is expected to grow by 1 per cent in 2010 and by 1¾ per cent in 2011 after the large contraction in 2009, when GDP dropped by more than 4 per cent.

Market growth for Danish manufactures is expected at around 4 per cent in 2010, rising to 5¾ per cent in 2011, after a drop of 10½ per cent in 2009, *cf. table 1.5*.

Competitiveness – measured by the difference in wage growth in Denmark and abroad, adjusted for exchange rate developments – is expected to improve slightly following a significant weakening in the three previous years. This reflects a significant slowdown of wage increases in Denmark and a lower effective exchange rate, mainly due to the appreciation of the US dollar against the euro.

In light of developments in market growth and competitiveness, exports in manufacturing are expected to rise by 2 per cent in 2010 and 4½ per cent in 2011, after a 13½ per cent drop in 2009. The estimates imply slightly lower exort market shares.

Service and agricultural exports are also expected to grow in 2010 and 2011 after falling in 2009. Energy exports are estimated to fall by around 10 per cent in both 2010 and 2011, as in 2009, reflecting lower energy production in the North Sea.

Table 1.5
Key figures for the Danish economy

	2006	2007	2008	2009	2010	2011
Percentage change from previous year						
Real GDP	3.4	1.7	-0.9	-4.9	1.4	1.7
Trade-weighted GDP abroad	3.2	2.8	1.3	-0.4	1.3	1.9
Export markets, Danish manufactures	8.9	7.8	1.8	-10.4	3.9	5.8
International competitiveness	-1.1	-3.1	-3.9	-4.8	1.7	-0.1
Export of manufactures, volume	4.7	3.1	1.3	-13.6	2.1	4.5
Hourly wages	3.6	4.1	4.6	3.0	2.0	2.1
Consumer price index	1.9	1.7	3.4	1.3	2.3	1.8
Price index for single-family houses	21.6	4.9	-3.6	-13.8	1.5	1.0
Merchandise export prices	4.4	1.9	6.9	-6.2	3.4	2.2
Merchandise import prices	3.5	2.8	6.5	-9.2	3.6	2.4
Merchandise terms of trade	0.8	-0.9	0.4	3.2	-0.2	-0.2
Productivity, priv. non-agricult. sector	1.9	0.0	-3.0	-0.7	6.6	3.1
Real disposable income of households	3.0	0.0	0.7	1.9[1)]	4.7	2.7
Labour market						
Labour force (thousands)	2,893	2,944	2,953	2,900	2,859	2,859
Employment (thousands)	2,783	2,866	2,902	2,802	2,729	2,724
Of which in private sector	1,958	2,043	2,089	1,974	1,896	1,891
in public sector	826	823	813	828	833	833
Percentage change in total empl.	2.1	3.0	1.2	-3.4	-2.6	-0.2
Unemployment (thousands)	109	78	52	98	130	135
Unemployment rate (per cent)	3.8	2.7	1.8	3.4	4.5	4.7
Unemployment rate. EU-def. (per cent)	3.9	3.8	3.3	6.0	7.5	7.5
Long term bond yields and exchange rate						
10-year government bonds	3.8	4.3	4.3	3.6	3.6	4.0
30-year mortgage credit bond	5.1	5.4	6.1	5.5	5.2	5.7
The effective krone rate (1980=100)	102.0	103.2	105.9	107.8	105.2	105.0
Balance of payments						
Goods and services (DKK bn.)	51.9	41.3	46.7	57.2	46.3	48.6
Current account (DKK bn.)	48.6	25.0	38.0	67.2	45.0	46.3
Current account (per cent of GDP)	3.0	1.5	2.2	4.0	2.6	2.6
Net foreign assets. ultimo (DKK bn.)	-30.9	-118.9	-152.6	99.8	146.0	193.5
Net foreign assets (per cent of GDP)	-1.9	-7.0	-8.8	6.0	8.5	10.9
Public finances						
Government net lending (DKK bn.)	82.3	80.6	59.8	-46.7	-88.2	-78.6
Government net lending (per cent of GDP)	5.0	4.8	3.4	-2.8	-5.1	-4.4
General government gross debt, year-end, (DKK bn.)	523.4	462.8	593.8	689.0	726.9	795.2
General government gross debt, year-end, (per cent of GDP)	32.1	27.4	34.2	41.5	42.3	44.7
Tax burden (per cent of GDP)	49.8	49.1	48.3	48.2	47.3	46.7
Expenditures (per cent of GDP)	50.6	50.0	50.9	57.3	58.1	56.7

2) Incl. the SP-disbursement, incomes grew by 5.8 per cent in 2009.

Total exports of goods and services are thus estimated to grow by 1½ per cent in 2010 and 3¾ per cent in 2011, after falling by 10½ per cent in 2009, *cf. figure 1.9a*. Compared to the December survey, estimated export growth in 2010 has been revised downwards by just over 1 percentage point.

Figure1.9a
Exports of goods and services

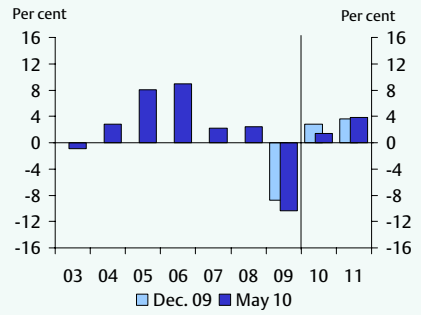
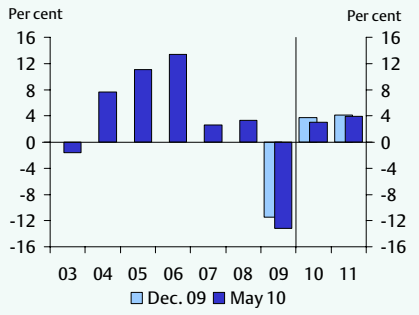


Figure1.9b
Imports of goods and services



Together with the estimates for domestic demand, the estimated export growth implies that *total* demand will grow by 2 per cent in 2010 and 2½ per cent in 2011, after falling 7¾ per cent in 2009.

The turnaround in demand is expected to imply that *imports* will grow by 3 per cent in 2010 and by 4 per cent in 2011, after falling by just over 13 per cent in 2009, *cf. figure 1.9b*.

Terms of trade (goods and services) is expected to be almost unchanged in 2010 and 2011 after a deterioration of just over ½ per cent in 2009.

The current account surplus is expected at around DKK 45 bn. (2.6 per cent of GDP) in both 2010 and 2011, *cf. figure 1.10a*. The surplus in 2009 was according to a preliminary estimate around DKK 20 bn. higher than assumed in the December survey, primarily due to higher investment income from abroad and higher surplus on the trade balance. The estimates for 2010 and 2011 have, on the other hand, only been revised up by around DKK 3 bn.

In 2009, Denmark's financial net position was revised significantly, and it is now estimated that Denmark had *net foreign assets* of DKK 100 bn. (6 per cent of GDP) by the end of 2009, compared to an estimated net foreign liability of broadly the same amount in the December survey, *cf. figure 1.10b*.

Due to the continued current account surplus, net foreign assets are expected to increase to just less than DKK 200 bn. (11 per cent of GDP) by the end of 2011. The estimate is uncertain since revaluations can have a significant impact on the net debt numbers.

Figure1.10a
Current account

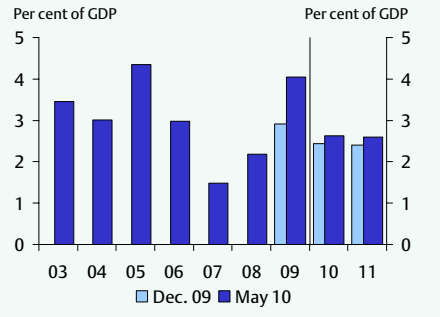
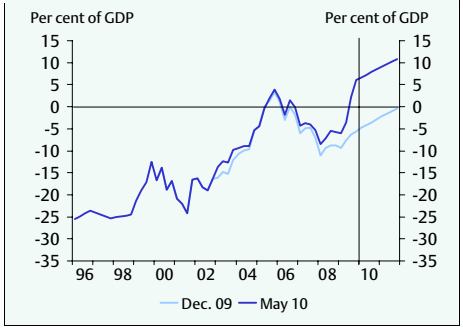


Figure1.10b
Denmark's net foreign assets



Labour market

Total employment fell by 100,000 persons or 3½ per cent in 2009[4], which is some 30,000 persons more than estimated in the December survey. Private employment was reduced by 115,000 persons (5½ per cent) following the large drop in production in the second half of 2008 and the first half of 2009.

The increase in production, which took of in the summer 2009, is close to potential and is expected to be sufficient to stabilise the labour market in the course of 2010.. Employment is thus expected to fall by 73,000 persons (2½ per cent) in 2010 year-on-year, mainly reflecting the significant decrease throughout 2009. This is unchanged compared to the December survey. Employment is expected to grow moderately in 2011, but the annual average is still 5,000 persons lower than in 2010. *Productivity* is expected to recover quite strongly in 2010 and 2011.

Public employment rose by around 15,000 persons in 2009[5]. In 2010 public employment is expected to rise further by just less than 5,000 persons. Following the cyclical downturn it has become easier to recruit to job openings in the public sector, and fewer public employees apply for vacancies in the private sector. In 2011, public employment is assumed to be unchanged, in line with the assumption of unchanged public consumption.

The *labour force* fell by 54,000 persons or 1¾ per cent in 2009. This was just over 30,000 persons more than estimated in the December survey. For 2010 as a whole, the labour force is estimated to fall by another 40,000 persons. This is twice as much as estimated in December, which primarily reflects a larger fall during 2009.

[4] All numbers for employment and labour force are excluding persons on leave.
[5] The relatively large rise in public employment excluding leave in 2009 is to be seen in light of public sector strikes in the 2nd quarter of 2008 that led to lower estimates (by just over 5,000 persons) for public employment in the national accounts for 2008 as a whole.

The drop in the labour force in 2009-2010, partly reflecting discouraged worker effects, amounts to a bit more than half of the fall in employment, which is a higher number than in earlier downturns. The significant fall in the labour force mainly reflects fewer foreign workers and commuters as well as increased influx into education among young people, while inflow to the early retirement rather surprisingly has been fairly stable. Structurally, the labour force is reduced due to the the demographic transition.

Figure1.11a
Employment (annual change)

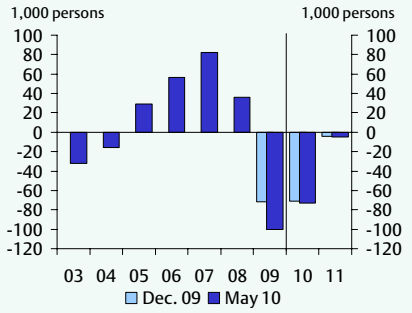
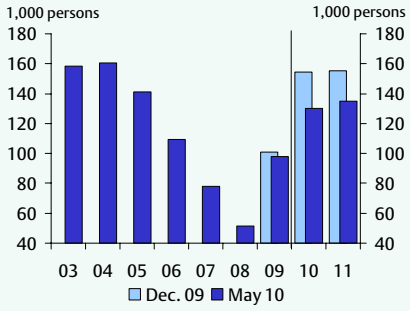


Figure1.11b
Unemployment



As for employment, the fall in the labour force is expected to come to an end during 2010, and in 2011 the improved cyclical condition is expected to lead to stabilisation in the labour force.

The estimates for employment and labour force (and the number of people in activation schemes) imply a rise in unemployment from 98,000 persons in 2009 to 130,000 persons in 2010 (4½ per cent of the labour force), *cf. figure 1.11b*. Compared to the December survey the estimate for 2010 has been revised downwards by 25,000 persons. This reflects a more favourable development than expected, with a fairly unchanged level of unemployment since November 2009. In 2011, unemployment is expected to reach 135,000 persons, which imply slightly falling unemployment during the year.

Unemployment reached the estimated structural unemployment level in the autumn of 2009. Going forward, unemployment will stay above the structural level by the end of 2011, but significantly closer to the structural level than estimated in December.

Wages and prices

In light of the new collective agreements *hourly wages* in the *private* sector are expected to increase by around 2 per cent in both 2010 and 2011, compared to 3 per cent in 2009 and 4½ per cent in 2008, *cf. figure 1.12a*[6].

[6] Hourly wages excluding inconvenience premium according to StrukturStatistik from the Confederation of Danish Employers (DA).

Compared to the December survey the estimated wage growth has been revised downward by ¾ percentage point in 2010 and ½ percentage point in 2011. Wage growth is thus expected to be more or less in line with wage developments in Danish export markets in 2010 and 2011. Along with the fall in the effective exchange rate depreciation, this implies that competitiveness is moderately improved, following a sizeable deterioration in the previous three years.

Figure1.12a
Hourly wage growth

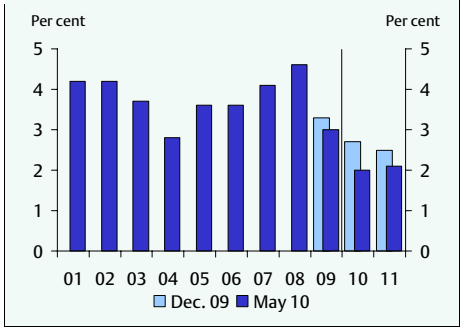
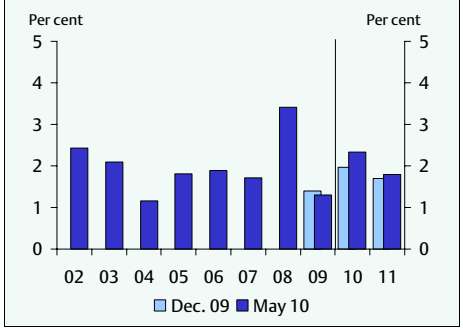


Figure1.12b
Inflation



Public sector wage growth is expected at 3 per cent in 2010, in light of the collective agreements, following a wage increase of 5 per cent in 2009. In 2011 when collective agreements are to be renegotiated, wages have technically been assumed to rise by ½ per cent, following the moderate wage growth in the private sector, which affect public sector wages through the so-called regulation-mechanism in public sector wage agreements.

C*onsumer price inflation* is estimated at 2.3 per cent in 2010, after 1.3 per cent in 2009, *cf. figure 1.12b*. Inflation has increased mainly due to higher oil prices and an increase in indirect taxes in January 2010 as part of the tax reform. In 2011 consumer prices are expected to rise by 1.8 per cent, partly due to lower contributions from indirect taxes and energy. Since June 2008, inflation has been higher in Denmark than in the euro area.

Compared to the December survey, the estimated inflation for 2010 and 2011 has been revised upwards by 0.3 and 0.1 percentage point(s) respectively. The upward revision in 2010 is mainly due to higher oil prices.