Ministry of Economic Affairs
Ministry of Finance

Denmark's Convergence Programme

1. Introduction

Denmark hereby submits the first convergence programme in accordance with the Council Regulation[1] concerning the Stability and Growth Pact. The first convergence programme was submitted in 1994 in accordance with the former procedural practice.

This convergence programme is based on *Denmark 2005 – Towards new results*[2], in which the Government determines the targets for economic developments through 2005.

The economic targets are:

- Average annual increase in employment of 30,000 persons.
- Unemployment reduced to 5 per cent.
- The number of recipients of transfer payments reduced by approximately 150,000 persons.
- Elimination of foreign debt within the next 10 years.
- Reduction of public debt to around 40 per cent of GDP.
- Slightly decreasing tax burden
- 1 per cent average annual growth in public expenditure

These targets are in compliance with the Stability and Growth

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1) Council Regulation (EC) no. 1466/97 of 7 July 1997, which establishes that euro-participating countries must present stability programmes while the other countries must present convergence programmes.

2) August 1998.

Pact.
By the Edinburgh-decision Denmark will not be joining the single currency. Denmark will continue the fixed exchange rate policy, which in the future will be oriented towards the euro and thereby obtain a close connection to the euro area. As of 1 January 1999, Denmark will participate in the new exchange rate mechanism ERM II with a ±2 ¼ per cent fluctuation band.

Economic policy is adjusted to ensure the stability of the Danish economy, and at the same time ensure the continued structural improvements of especially the areas of taxes and labour market, to attain the targets mentioned above.

The Danish economy is very dependent on international developments especially in the EU area, which accounts for almost 70 per cent of Danish foreign trade. Therefore the Government attatches great importance to ensure a stable development in Europe benefiting growth and employment based on the broard economic guidelines and the employment guidelines. It may be more difficult to reach the targets if, for example, the effects of the crisis in Asia and Russian and the disturbance in the financial markets turn out be of a more permanent nature.

2. Economic outlook and targets through 2005

The target of the Government is to maintain the budget surplus as an average over the economic cycle, i.e. ensuring a positive structural balance. Thus the aim is to reduce the gross public debt from 61 per cent of GDP at the end of 1997 to less than 40 per cent in the year 2005.

Economic developments in Denmark in 1997 and the beginning of 1998 have been characterised by growth in both private and public expenditure, which has been stronger than expected in the former convergence programme. Part of the explanation for this

Table 1 Convergence in the EU-countries, 1997.

	Inflation[1)]	Interest rates	General government net lending	Government gross debt
	– Annual - increase in per cent –	– Level in per cent –	– Per cent of GDP –	– Per cent of GDP –
Denmark	2.2	6.2	0.5[2)]	64.1[2)3)]
EU-countries	2.1	6.1	-2.3	72.0
Euro-countries	1.8	5.9	-2.5	75.1
Convergence criteria	2.6	8.1	-3.0	60.0

1) The annual change in per cent using the national consumer price index. The decision on the participation in the third phase of the EMU is based on the harmonized consumer price index (HICP).
2) According to the EU definition of the general government net lending and the government gross debt.
3) Since 1996 Denmark has fulfilled the convergence criteria. In June 1996 Denmark was taken of the list of countries with excessive deficits by a decision in the ECOFIN-council. By the end of 1997 the government gross debt was 64 per cent of GDP. By the end of 1993 it was 81 per cent of GDP. The gross debt is expected to be approximately 50 per cent of GDP by end of 2001.
Source: Economic Forecast, The European Commission autumn 1998 and own calculations.

is that the interest rate has been lower than estimated and that the growth in public expenditure has been ½-1-percentage point higher than expected. This has led to a deterioration of the balance of payments, which is now expected to show a deficit this year and to reach only balance next year.

At the same time the budget surplus in 1997 has been less than expected. The public debt ratio at the end of 1997 was lower than estimated. Finally, the increase in consumer prices has been slightly less than estimated at the time, and the Danish Krone has been stable, close to the central rate against the D-mark.

As shown in table 1, Denmark fulfils the convergence criteria by a large margin in 1997, and compared to the average of the other Member States especially the budget balance is significantly better. This last fact should be seen in the context that Denmark, among other things, is further ahead in the economic cycle than the majority of the other Member States.

Table 2 Assumptions on the development abroad.

Annual growth in per cent:	1998	1999	2000-2001	2002-2005
Real GDP abroad	2.8	2.5	2.3	2.3
Export markets for manufactures (volume)	7.0	6.2	4.6	4.6
International wage costs	3.2	3.1	3.8	3.8
Interest rate (10-year bond). Germany/Euro[1)]	4.6	4.6	5.4	5.6

1) Level.

This Convergence Programme has been based on the revised medium-term projection *Denmark 2005, towards new results,* which was published by the Danish Government in late August 1998. The medium-term economic policy strategy remains unaltered compared to the former projection in *Denmark 2005*, of April 1997, which served as the foundation of the last Updated Convergence Programme of June 1997. The new projection has been fitted to actual developments since the last projection, which has entailed certain shifts in the pace in which the different targets will be reached.

The 1998 and 1999 estimates have been updated according to the latest prognosis, where the assumptions regarding interest rates, exchange rates and market growth reflect the latest developments.

The external assumptions behind the new medium-term projections can be seen in table 2.

Table 3 sums up central figures in the new projections.

It is the target of the Government to reduce the public debt from 61 per cent of GDP[3] at the end of 1997 to less than 40 per cent by the end of 2005. The aim is an improvement of the balance of payments, rising from balance in 1999 to approximately 2 per cent

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3) Calculated by the ESA95 definition the debt ratio is 61 per cent in 1997. By the ESA79 definition the debt ratio is 64 per cent. The difference is due to a higher GDP resulting from the ESA95 definition.

Table 3 Key figures in the convergence programme.

	1996	1997	1998	1999	2000-2001	2002-2005
Annual increase in per cent						
Real GDP	3.2	3.3	2.6	1.7	2.0	2.2
Consumer prices	2.1	2.2	1.8	2.3	2.2	2.1
Per cent of GDP						
External current account	1.7	0.6	-0.6	0.0	1.1	1.8
Government net lending	-0.9	0.2	1.0	2.3	2.5	2.8
Government structural surplus . . .	-1.5	-0.6	0.5	2.0	2.3	2.8
General government gross debt . . .	65	61[2)]	56	53	46[1)]	35[1)]
Per cent						
Interest rate (10-year bond)	7.2	6.3	5.0	4.9	5.6	5.9
Per cent of the labour force						
Unemployment[3)]	8.6	7.7	6.4	6.1	6.0	5.0[1)]
EU-definition	6.8	5.5	5.0	4.9	4.8	4.3[1)]

Note: 1996-1999 according to *Økonomisk Oversigt, October 1998*. 2000-2005 according to the medium -term projection Danmark 2005 - mod nye resultater, August 1998. ENS95-definition.

1) Level in the last year.

2) Corrected for the Social Pension Fund's stock of mortgage credit bonds, the government deposits in the Central Bank (Danmarks Nationalbank) etc. By the end of 1997 the debt amounted to 49 per cent of GDP.

3) ENS95-definition.

of GDP during the period 2003-2005. Unemployment is targeted to from 7.7 per cent of the work force (national definition) in 1997 to 5 per cent in 2005.

It is estimated, that the annual increase in consumer prices will decline from 2.3 per cent in 1999 to 2.1 per cent in 2001, which is the year targeted in the Stability and Growth Pact, see table 4.

It is assumed, that the annual increase in hourly wages will be radually reduced from 4½ per cent in 1998-99 to around 4 per cent by the end of the projection period. Compared to the assumed increase in wages in other countries, see table 2, and recent exchange rate movements this will lead to a reduction in competitiveness up to, and including, the year 2001. After this point competitiveness is expected to remain virtually unchanged.

Table 4 The GDP and consumer price deflator and the consumer price index and the harmonized consumer price index.

Annual changes in per cent	1996	1997	1998	1999	2000-2001	2002-2005
GDP-deflator	2.0	1.9	1.6	2.7	2.5	2.2
Consumer price deflator	1.7	2.2	1.6	2.7	2.2	2.1
Consumer price index	2.1	2.2	1.8	2.3	-	-
Harmonized consumer price index (HICP)	1.9	2.0	-	-	-	-

When a reduction in wage growth is expected, despite the fall in unemployment, it is due to the further planned improvements in the structure of the labour market.

The long-term interest rate spread against the euro countries is expected to be reduced to ¼ percentage points during the projection period. Compared to the assumption of the development of the interest rate in the euro area, see table 2, this entails that the Danish 10 year interest rate increases gradually up to approximately 5¾ per cent p.a. in 2001. It is assumed that during the entire period the Danish Krone will be vis-à-vis the euro.

Compared to the former convergence programme, the main reasons for the revision of the economic forecasts, are firstly the higher than expected growth in demand. Secondly the revision is a result of economic policy changes, not least the June 1998 adjustment of the tax system etc. for the period 1999-2002. This tax reform can be seen as an extension of the former reforms of the tax system, in 1987 and 1994.

The main content of the new tax reform is a continued, and quite substantial, reduction of the tax value of interest rate deductions for the households, a reduction of the marginal tax rates for the lowest incomes, a continuation of the special ATP-savings,

Table 5 The development on the labour market.

	1997	1998	1999	2001	2005
Employment (1,000 persons)	2,646	2,695	2,711	2,770	2,872
- private sector (1,000 persons) . . .	1,843	1,877	1,887	1,933	2,002
- public sector (1,000 persons) . . .	803	818	824	837	870
Unemployment (1,000 persons) . .	220	185	175	178	150
- in per cent of the labour force . . .	7.7	6.4	6.1	6.0	5.0
Participation rate	78.4	78.7	78.8	80.7	82.1
Labour force (1.000 persons)	2,866	2,880	2,886	2,949	3,022
Hours worked.(millions).	4,051	4,098	4,141	4,233	4,388

initiated in 1998, and a further increase in the green taxes. A more detailed overview of the implemented economic policy changes is given in the appendix.

The adjustment of the tax system entails a structural strengthening of the private sector savings and an increase of the initiative to work aimed at the lowest incomes. As a whole this dampens the growth rate of the economy, which is done to prevent overheating. The stimulating effects on the propensity to save stemming from the adjustment of the tax system, along with the agreement between central government and the local authorities and the Government's proposal for the 1999 Federal Budget, will result in a total dampening of the activity of ½ per cent of GDP in 1999, which is equal to the tightening resulting from fiscal policy et cetera in 1998

Next to the tax adjustment a further strengthening of the labour market policy is a central part of the Government's economic policy strategy. The main target for the continued reforms in this area is to secure at significant increase in the labour force supply and a lower structural unemployment, see table 5. This will be done by, among other things, increasing the average age of retirement, and creating a broader labour market with improved employment possibilities for groups, who would otherwise be

Table 6 Central and local public finances.

Per cent of GDP	1996[1)]	1997[1)]	1998[2)]	1999[3)]	2000[4)]	2001[4)]	2005[4)]
Central government	-1.4	-0.2	0.1	1.1	1.1	0.9	1.8
Local authorities	-0.3	-0.4	-0.1	-0.4	0.0	0.0	0.0
Funds	0.9	0.9	1.0	1.6	1.5	1.4	1.5
General government net lending	-0.9	0.2	1.0	2.3	2.6	2.4	3.3
PM. Government investments . .	1.9	1.9	1.7	1.7	1.6	1.6	1.5

Anm.: ENS95-definition.
1) Account figures.
2) Revised budgets.
3) According to the Fiscal Act 1999 and the agreement between the Government and the local authorities concerning the local budgets.
4) Medium-term projection, "Danmark 2005 - mod nye mål".

referred to early retirement. Concerning the economic policy and Denmark's National Action Plan for Employment, see the appendix.

As a consequence of the economic policy changes a.o. it is expected that the budget balance will be even more favourable than foreseen in the former convergence programme. Thus the surplus of the public sector budget is now expected to reach 2.4 per cent of GDP in 2001. The public debt ratio is expected to be at 50 per cent of GDP by the end of 2001.

The structural budget surplus is estimated to increase from 0.5 per cent of GDP in 1998 to 2.4 per cent of GDP in 2001, see table 3 and appendix table 3. This is in accordance with the Government's target of ensuring a budget surplus over the full economic cycle, so that public debt can be reduced. Thus Denmark is expected to fulfil the medium-term goal of the Stability and Growth Pact of a budget balance close to or in surplus, by a fairly large margin.

The expected improvement of the structural public balance in 2001 compared to the former convergence programme is largely due to the implementation of the special ATP pension saving.

All subsectors – the central government, the local authorities and the social funds – are expected to attain a surplus or balance in 2001, see table 6. The table also shows the public investments. Table 7 shows the primary balance of the budget, the balance, and the debt ratio according to the EU definition (ESA79).

3. The convergence criteria and the economic development

Public finances

Since 1997 Denmark has had a surplus on the general government budget, and the structural balance is estimated to reach a surplus by 1998. Thus Denmark fulfils both the budgetary convergence criteria of budget balance and the medium-term target of the Stability and Growth Pact, concerning a budget balance close to balance or in or surplus budget no later than in the year 2001.

Table 7 Public finances.

Per cent of GDP	1996	1997	1998	1999	2000	2001	2005
Primary expenditure	52.5	51.1	50.3	49.7	48.9	48.6	47.1
Primary income	54.3	54.1	53.6	54.2	53.4	52.8	51.4
Primary net lending	1.9	3.0	3.3	4.5	4.5	4.2	4.3
Net interest payments	2.8	2.7	2.4	2.2	2.0	1.8	1.0
Government net lending	-0.9	0.2	1.0	2.3	2.6	2.4	3.3
Government net lending. EU-definition	-0.7	0.5	1.1	2.5	2.8	2.6	3.5
Primary net lending. EU-definition	1.8	3.1	3.5	4.8	4.8	4.4	4.5
Government gross debt	65	61	56	53	49	46	35
Government gross debt. EU-definition	68	64	59	56	51	49	37

Note: ENS95-definition.

Satisfying the convergence criterion of budget balance is not considered by the Danish Government to be sufficient to ensure the desired long-term development in the public sector debt. In order to reduce the public debt to less than 40 per cent no later than in 2005, fiscal policy must be designed so as to ensure a solid budget surplus of around 3 per cent of GDP as an average through the years 1998-2005. The objective is, among other things, to meet the pressure on expenditure stemming from the ageing population.

During the years following 1999 the budget surplus is expected to rise in line with the reduction in the transfer payment recipients, higher employment, expansion of the tax base and a reduction in interest payments. The continued improvement of the budget balance is mainly due to a reduction of the public expenditure in per cent of GDP of approximatly 7 percentage point from 1998 to 2005.

The reduction in the in public expenditure in per cent of GDP will be made possible mainly by a reduction of transfer payments and by a decline in interest payments on public debt. At the same time the tax burden will be reduced by approximately 2 per cent of GDP. The 1999 increase in the tax burden comes mainly from the special mandatory pension contributions (the so-called ATP) of 1 per cent of wages and salaries for the labour force, which is calculated as a part of the tax burden.

Public sector debt

The public sector debt fell markedly between 1993 and 1997. Calculated by the Maastricht definition the debt was reduced to 64 per cent of GDP by the end of 1997 from 81 per cent of GDP at the end of 1993[4].

In the projection, the considerable reduction of the public expenditure level is used primarily to increase the surplus on the general government budget. Thus the marked improvement of the budget surplus and economic growth will entail a further substantial reduction of the debt ratio to less than 40 per cent of GDP in 2005.

Inflation

It is a guideline of the fiscal policy to keep annual inflation at approximately 2 per cent. This inflation target supports the Government's fixed exchange rate policy and the fiscal strategy.

Adhering to the convergence criterion entails that inflation does not exceed by more than 1½ percentage point that of, at most, the three best performing Member States in terms of price stability.

Since submitting the first convergence programme in 1994,

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4) Using the new ESA95 guidelines for the national accounts when calculating GDP, the debt ratio has been reduced from 78 per cent of GDP at the end of 1993 to 61 per cent of GDP by the end of 1997. The debt ratio is expected to drop to app. 47 per cent of GDP in 2001 and to less than 40 per cent of GDP in 2005.

Denmark has fulfilled this convergence criterion. The economic policy will ensure that Denmark will continue to fulfil the inflation criterion in the years to come.

According to the projection the annual rise in consumer prices will remain around 2 per cent throughout the period. It is pointed out that the 1993 tax reform and the “Whitsun-package” of 1998 entails an increase in green taxes which contributes to a increase in consumer price inflation.

The 1993 taxreform, which, among other things, shifted the emphasis from income tax to green taxes, accounted for an isolated annual increase in consumer prices of ¼ percentage point during the 1994-1998 period. The tax raise of the “Whitsun-package” is expected to push up the increase in consumer prices by approximately ½ percentage point in 1999. After the year 2000 the collective system of indirect taxes is expected to contribute marginally to the increase in consumer prices. The inflationary development is in accordance with the inflation criterion.[5]

Interest rates

The yield spread on long-term bonds (10-year) against Germany has narrowed markedly during the past years, and this summer it reached ¼ percentage point. As a result of the financial disturbance stemming from the crisis in Asia and Russia, international investors have turned to German assets as a safe haven. This has caused the spread against Germany to expand, and in mid-October it reached ¾ percentage points.

The level of the long-term interest rate has reached an all time low of around 4.7 per cent p.a. The projection expects the spread

5) In the historic figures and the short-term prognosis (including 1998) inflation has been determined using the consumer price index. For technical reasons inflation has been calculated as the development of the private consumption deflator in the medium-term projection (1999-2005). It should be noticed that in the autumn of 1997 Statistics Denmark commenced the publication of a monthly EU-harmonised consumer price index (HICP) along with the traditional consumer price index.

against Germany – and subsequently the other euro countries – to narrow to approximately ¼ percentage point, following the continued improvement of the budget balance, the continuation of a low inflation economic policy, and the elimination of foreign debt.

Like the inflation criterion, the convergence criterion for interest rates is related to the development in the other Member States, since the long-term interest rate must not exceed by more than 2 percentage points that of, at most, the three best performing Member States in terms of price stability. Denmark has fulfilled this criterion since the first convergence programme was published in 1994, and is expected to continue to do so.

Exchange rate policy

Till now the Danish aim has been to ensure an exchange rate against the D-mark which is very close to the central rate. Through interventions to support the Krone and by raising the repurchase rate and the discount rate Danish Central Bank (Danmarks Nationalbank) has countered pressure on the Danish Krone related to currency outflows. Thus the Danish Krone has remained stable via-à-vis the D-mark since the beginning of 1997.

In the future it is the policy of the Danish Government to keep the Danish Krone stable against the euro. It is therefore satisfactory that an agreement concerning an exchange rate arrangement in the ERM II has been reached with the euro countries and the ECB with narrow fluctuation bands of ± 2 ¼ per cent for the Danish Krone.

4. Sensitivity analysis

The uncertainty associated with projections has been underlined by the stronger than expected development in the economic cycle in 1997. One of the core assumptions in this projection is the labour supply. If the increase in labour supply is smaller than assumed the consequence will be a less favourable development in public services and in the tax burden. Furthermore the assumptions concerning interest rate levels and export market growth are among the most important assumptions for the projection of Danish economy.

The following presents two alternative sensitivity analyses – focused on public sector budget balance and debt – where the assumptions made, regarding interest rates and export market growth, differ from the main scenario. The calculations have been made under the assumption that these changes do not cause economic policy changes.

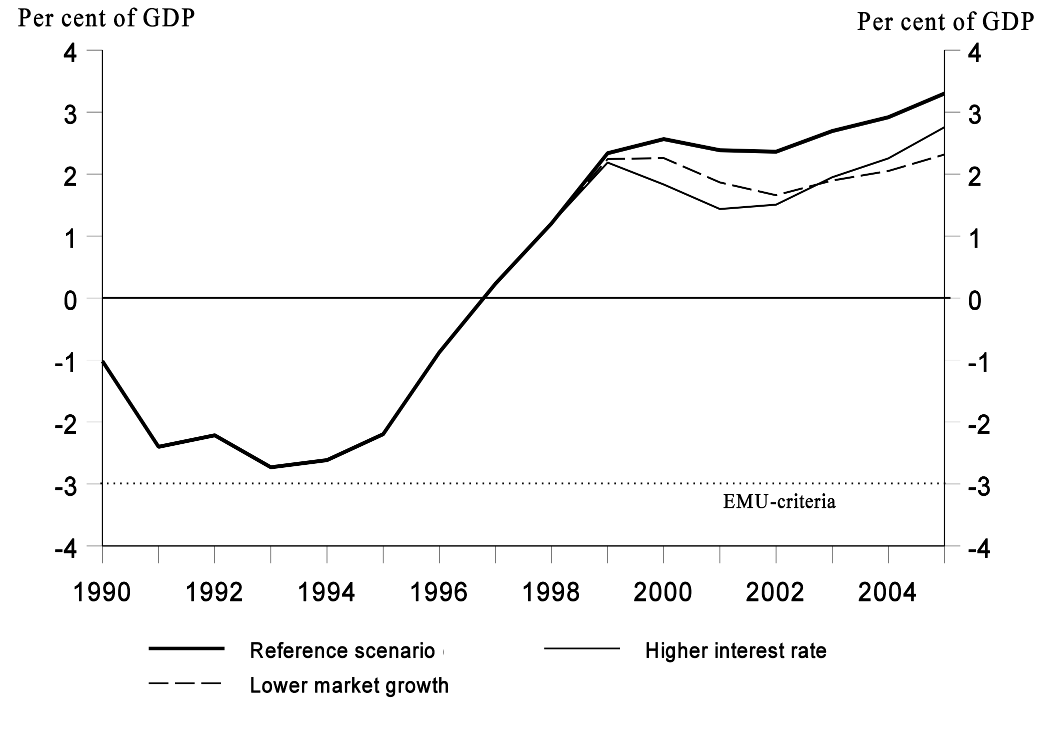
In short, the sensitivity analyses show, that the progress of the past years has made the Danish economy able to sustain such negative chocks, while still keeping a clear distance to the convergence criteria. The movements of the budget balance will clearly be kept in accordance with the Stability and Growth Pact.

Higher interest rate levels

The first scenario is built on the assumption of a 1-percentage point increase in the international interest rate (without any consequences for international growth) beginning in 1999.

The main consequence of the increased interest rate level will be a dampened investment activity and therefore also a dampened economic growth. The decrease in growth is estimated to bring about a reduction of the expected growth in employment by 10 per cent or 20,000 persons in 2005, which means lower tax revenues and higher expenditure levels. Simultaneously the public interest payments will increase with the increase in interest levels. As a whole it is estimated that the budget balance will deteriorate by ½ percentage point of GDP. The result still remains a comfortable budget surplus throughout the period – increasing to 2.8 per cent of GDP in 2005 - considerably above the

Figure 1 Government net lending.



convergence criterion.

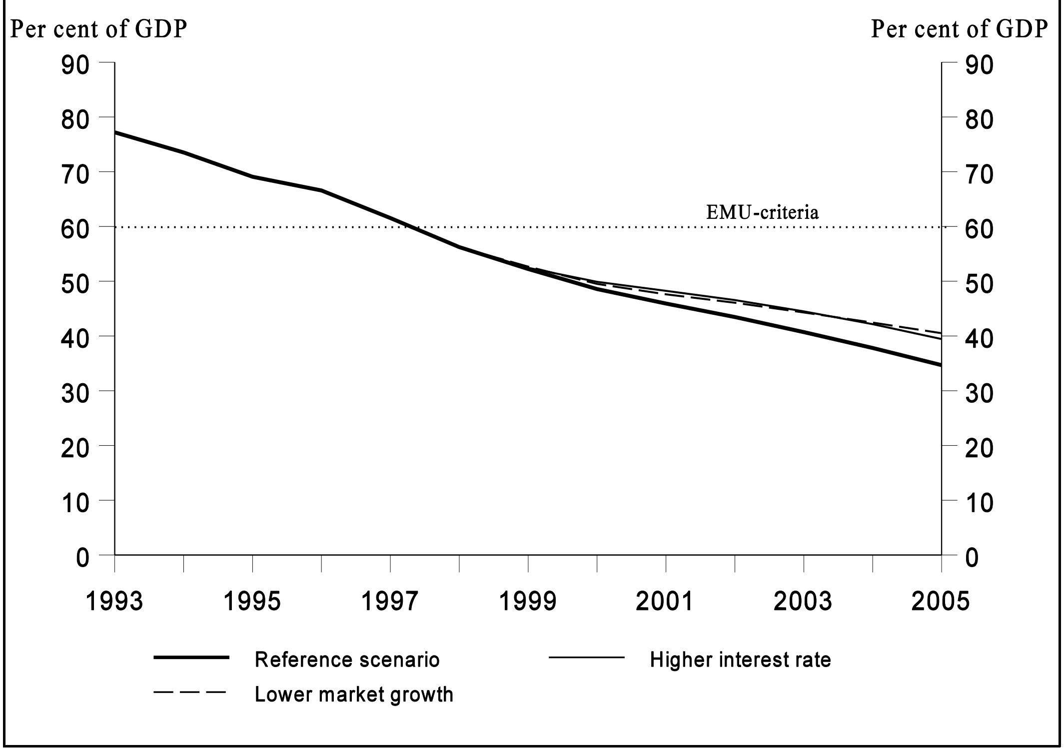
The decrease in the budget surplus naturally slackens the rate at which the debt is repaid. Viewed over the entire period, 5 percentage points less debt will be repaid compared to the main scenario, but the Government's target of a public debt ratio of 40 per cent of GDP in 2005 can still be reached.

Lower export market growth

The second sensitivity analysis is built on the assumption that international growth slackens, with a consequential impact on Danish exports[6]. Compared to the main scenario the annual growth rate in other countries is reduced by ¾ percentage point

6) Traditionally a slackening of international growth leads to a decrease in interest rate levels. This, however, has not been built into the calculations. Furthermore the lower growth in other countries is assumed to be of a structural nature, thus leaving wage- and price developments abroad unaltered.

Figure 2 General government gross debt.



from 2.3 per cent to 1.8 starting in 1999. The reduction in the growth rate abroad is assumed to dampen growth of Danish export markets by 1 percentage point per annum. This is a very large deviation since historically the growth in the EU countries has been at an average of 2.4 per cent during the years 1986-95.

The market growth reduction leads to a decrease in Danish export growth by approximately ½ percentage point throughout the period. The reduction in export growth is less than the reduction in market growth since the dampening of the activity is expected to lessen the increase in wages. The decrease in export growth leads to a reduction of the expected growth in employment by appoximately 9,000 persons each year, equivalent of 54,000 persons over the entire period. This reduced growth in employment, and the resulting higher unemployment automatically increases the public transfers and reduces tax revenue.

Compared to the main scenario, this leads to a lesser improvement of the budget balance. It is estimated that in the year 2005 the surplus on the budget balance will be reduced by approximately 1 percentage point to 2.3 per cent of GDP, see figure 1. Even allowing for a 1 percentage point reduction in export market growth, the Government's target of a public debt ratio of 40 per cent can still be reached, keeping Denmark well under the EMU limit of 60 per cent. The surplus on the external current account is reduced over the period.

Table 8 A comparison for 1996-1999 between this Convergence Programme and the former Convergence programme (June 1997).

	1996		1997		1998		1999	
	Oct. 1998	June 1997	Oct. 1998	June 1997	Oct. 1998	June 1997	Oct. 1998	June 1997
Real growth in per cent:								
Private consumption	2.7	2.6	3.6	2.7	3.1	3.1	1.4	2.7
Total general government demand . . .	3.1	1.7	2.2	1.5	1.3	-0.1	1.0	1.0
of which								
government consumption . . .	2.4	1.9	2.2	1.5	2.1	1.0	0.9	1.0
government investments	12.5	-1.4	2.4	1.3	-8.5	-13.8	2.0	1.0
Residential construction	5.0	8.9	8.8	7.0	1.0	6.0	-0.5	3.4
Business fixed investments	3.7	8.9	12.0	6.5	7.7	4.3	2.8	3.9
Exports of goods and services	4.2	2.3	4.3	4.3	2.5	4.5	2.9	3.6
of which manufactures	3.0	1.1	6.5	5.5	4.3	6.5	4.2	4.2
Imports of goods and services	4.2	1.8	7.6	4.1	4.5	4.2	2.3	2.2
GDP	3.2	2.4	3.3	3.3	2.6	3.0	1.7	3.0
GDP in factor prices in the private non-agricultural sector	3.2	1.3	4.2	3.9	3.0	3.5	1.9	3.3
Changes in 1.000 persons:								
Labour force	-10	-18	33	13	14	18	6	25
Employment	33	25	59	38	49	28	16	40
of which in the private sector	18	12	41	26	34	20	10	32
in the public sector . .	15	12	17	13	15	8	6	8
Unemployment	-43	-42	-25	-26	-35	-10	-10	-15
Percentage changes:								
Consumer prices	2.1	2.1	2.2	2.3	1.8	2.4	2.3	2.5
Wage costs	3.9	3.7	3.7	3.8	4.5	3.8	4.5	3.9
Prices on property	9.4	9.4	11.3	9.0	7.0	7.0	1.5	..
Level in per cent:								
10-year government bond	7.2	7.2	6.3	6.7	5.0	6.6	4.9	6.5
Percent of GDP:								
External current account	1.7	1.3	0.6	1.1	-0.6	1.2	0.0	2.0
Government net lending	-0.9	-1.4	0.2	0.7	1.0	0.7	2.3	1.1
General government gross debt	65	70	61	67	56	64	53	60
Assumption								
GDP growth in OECD (pct.)	2.8	2.5	3.1	2.6	2.4	2.8	2.1	2.3

Note: In the Convergence programme June 1997 the figures for the period 1996-98 were according to the latest short-term forecast while 1999 was the first year in a medium-term projection.
The figures for October 1998 according to Økonomisk Oversigt. October 1998. The June 1997 and the October 1998 figures are not directly comparable. The June 1997 figures are according to the former national account principles. while the new figures are according to ENS95.

Table 9 The development in the Danish economy.

	1992-1994	1995	1996	1997	1998	1999	2000-2002	2003-2005
Average annual real growth in per cent								
Private consumption	3.7	3.2	2.7	3.6	3.1	1.4	1.8	2.4
Government consumption	2.6	2.4	2.4	2.2	2.1	0.9	1.0	1.0
Residential investments	4.5	3.2	5.0	8.8	1.0	-0.5	0.6	2.9
Business fixed investments	-0.4	15.9	3.7	12.0	7.7	2.8	2.8	3.1
Government investments	10.4	3.5	12.5	2.4	-8.5	2.0	1.0	1.0
Exports	4.5	4.7	4.2	4.3	2.5	2.9	4.2	4.1
of which manufactures		8.8	3.0	6.5	4.3	4.2	4.9	4.8
Imports	3.9	10.8	4.2	7.6	4.5	2.3	3.7	4.2
GDP	2.6	3.2	3.2	3.3	2.6	1.7	2.0	2.2
GDP at factor prices in the private non-agricultural sector	..	3.7	3.2	4.2	3.0	1.9	..	..
Average annual increase. In per cent								
Consumer prices	1.8	2.1	2.1	2.2	1.8	2.3	2.2	2.2
Wage costs	3.6	3.7	3.9	3.7	4.5	4.5	4.0	3.7
Employment. *1.000 persons*	2521[1)]	2555	2588	2646	2695	2711	2795[1)]	2872[1)]
Unemployment. *per cent of labour force*	12.0[1)]	10.1	8.7	7.7	6.4	6.1	5.9[1)]	5.0[1)]
Per cent of GDP								
External current account	1.8[1)]	1.1	1.7	0.6	-0.6	0.0	1.6	2.8[1)]
Government net lending	-2.6[1)]	-2.2	-0.9	0.2	1.0	2.3	2.4	3.3[1)]

Note: See table 3.

1) Level in the last year.

Table 10 Fiscal policy in 1994-2005, per cent of GDP.

	General government lending (1)	Business cycle effect (2)	Special items[1)] (3)	Structural surplus (1)÷(2)÷(3)
1994	-2.6	-0.3	0.1	-2.4
1995	-2.2	0.1	-0.4	-1.9
1996	-0.9	0.5	0.1	-1.5
1997	0.2	1.0	-0.1	-0.7
1998	1.0	1.0	-0.2	0.2
1999	2.3	0.6	0.1	1.6
2000	2.6	0.3	0.1	2.2
2001	2.4	0.1	-0.2	2.5
2002-2005 . . .	2.8[2)]	0.0[2)]	0.0[2)]	2.8[2)]

Note: The output gap is determined by using a HP-filter (λ=100) on yearly data. The business cycle dependent government income is determined using an elasticity of 0.78. The elasticity is weighted by the tax components. The business cycle dependent government expenditures are determined using an elasticity of 0.26 (which is determined by the inverse Okun-coefficient and the marginal expenditure on unemployment benefit wrt. unemployment. The method and the elasticities are in accordance with EU’s technical note: "The commission services´ method for the cyclical adjustment of government budget balances."(1995).

1) Net interest payments, current and capital transfers, real interest duty, profits from public owned companies etc.

2) Average for the years 2002-2005.