

Factsheet Denmark

JUNE 2006

ECONOMY

Denmark has a small, open economy highly dependent on trade with other countries. As foreign trade accounts for most of the gross domestic product (GDP), Denmark has a strong interest in the free exchange of goods and services between countries.

Consequently, Denmark has joined economic organisations such as the EU, OECD and WTO and, within the framework of these, striven to remove the obstacles to free trade.

Foreign Trade

Foreign trade accounts for almost 2/3 of GDP. Around 3/4 of the total foreign trade is with other EU member states. Germany is Denmark's main trading partner, but Sweden, the Netherlands and the UK are also important. Outside the EU, Norway, the US, China and Japan are important trading partners. Among the new market economies in Central and Eastern Europe, the main trading partners are Poland and Russia.

While agricultural products used to dominate, industrial products now account for the vast majority of Danish exports. The principal Danish export goods are industrial machinery and instruments, followed by chemical products and industrially processed agricultural products.

Denmark needs to import a wide range of goods. Consumer goods constitute around 30% of imports, while raw materials and semi-manufactures, including energy, machinery, other capital equipment and means of transport, account for the rest.

High Growth

While growth was weak at the start of the new millennium, partly as a result of the international recession, the economy really took off in 2004 and 2005. The development was mainly driven by a significant rise in private consumption, supported by a major increase in the population's spend-



The Copenhagen Stock Exchange was built by the Danish King Christian IV as part of his active and outward-looking commercial policy. The building was completed in 1640 and thus became an early testimony to Denmark's international orientation. Photo: Søren Kuhn.

ing power as a result of large capital gains in the housing market and income tax reductions.

Housing prices had increased dramatically in the wake of falling interest rates, a tax freeze and the option of taking out interest-only loans, introduced in autumn 2003. The Government then kick-started the economy in spring 2004 through the so-called spring package 'More people in work – lower unemployment'. Among other things, it included early implementation of already agreed income tax reductions amounting to a value of approx. DKK 4 billion in 2004 and the suspension of the special pension contribution, which likewise increased the household disposable income by approx. DKK 4 billion in 2004 and 2005.

Towards the end of 2005, the growth structure of the economy changed, with signs of a slowing down of consumer spending, while on the other hand business investments and exports grew.

The improved economy resulted in a decrease in unemployment from 6.5% at the end of 2004 to 4.8% in March 2006, adjusted for seasonal variation. This corresponds to approx. 130,000 full-time unemployed people, which means that Denmark

is approaching full employment status. Unemployment is highest among women at 5.6% as against 4.1% for men. It is highest on Bornholm (9.6%) and lowest in Frederiksborg County (3.3%).

Wages and Inflation

The Danish labour market is to a large extent dominated by collective bargaining. Around 80% of the wage earners and approx. half the private employers are organised, mainly in the Danish Confederation of Trade Unions (*Landsorganisationen i Danmark, LO*) and the Danish Employers' Confederation (*Dansk Arbejdsgiverforening, DA*) respectively. Since the late 1980s, wage rates have increasingly been fixed by local bargaining, while the main organisations, apart from regulating for instance minimum wage rates, handle more general issues such as holidays, working conditions and pensions. In spring 2004, the DA/LO area entered into a new three-year agreement, while public employees entered into new three-year agreements in spring 2005.

In contrast to earlier periods with low unemployment, the wages have so far been kept under control. Thus wages in both private and public sectors increased



The National Bank of Denmark is located in the centre of Copenhagen. Here Danish coins and notes are designed.
Photo: The National Bank of Denmark.



Value of the Danish Krone

as of 1 January 2004

	DKK
Euro (EUR)	744.46
American Dollar (USD)	595.76
Pound Sterling (GBP)	1,058.07

Source: The National Bank of Denmark.

by just 3% in 2005. This is due to several factors, including the tax freeze and income tax reductions, which themselves increased disposable incomes. Furthermore, the average increase in consumer prices has only been 2% a year since 2000. This affects inflation expectations and therefore also the employees' wage demands. Finally, globalisation may play a part, as wage increases may be kept down by industry's relocation of workplaces to low-wage countries in for instance Central and Eastern Europe or Asia, and the use of labour from the Baltic region in the building and construction sector.

Large Surpluses

The Danish trade balance has shown a surplus since 1987 and the current account has also shown a surplus since 1990, with the single exception of 1998. In 2005, the trade balance surplus was around DKK 85 billion, while the current account surplus was around DKK 45 billion, corresponding to approx. 3% of GDP. It is unusual for Denmark to achieve such large surpluses on the external balances during a boom period, when the imports of consumer goods, machinery and semi-manufactures normally increase significantly. The explanation lies in the high oil prices, which increase the surplus, as Denmark is a net exporter of oil, as well as the favourable development in sea transport income as a result of high growth in world trade and the strengthened US dollar, used for invoicing sea carriage.

Together with profits due to exchange fluctuations from Danish investors' holdings of foreign securities, the large current

account surpluses have eliminated the foreign debt, which used to constitute an independent problem when shaping economic policy. At the end of 2005, Denmark thus achieved the status of net creditor in relation to other countries for the first time since the Second World War.

Economic Policy

Denmark participates fully in the economic collaboration in the EU and the economic policy is therefore largely based on the guidelines jointly agreed by the EU member states to ensure long-term viable development and employment.

Denmark thus attaches great importance to meeting the objectives agreed at the Lisbon Summit in March 2002. There it was decided to make the EU the most competitive and dynamic knowledge-based economy in the world by 2010. Among other things, this has led the Danish Government to establish long-term initiatives within research and development and endeavour to create optimum conditions for entrepreneurs. More generally, Denmark strives to make the internal market function optimally by liberalising for instance the telecommunications and energy sectors. In addition, the Danish Government actively promotes the integration of the financial markets within the EU.

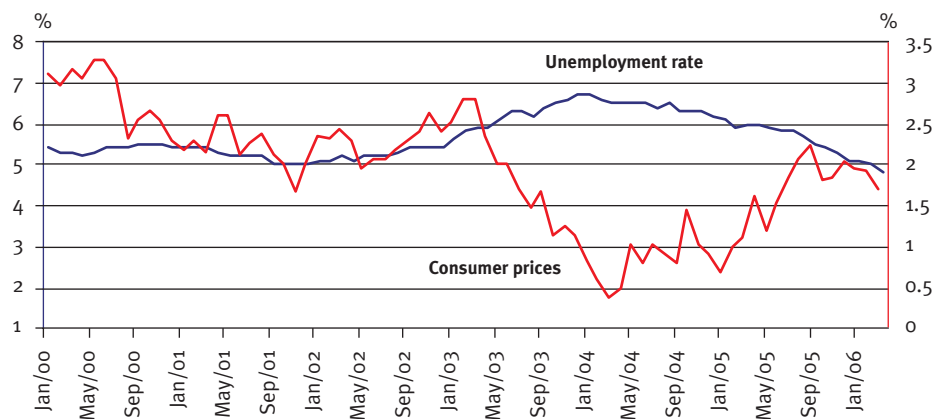
The Labour Market

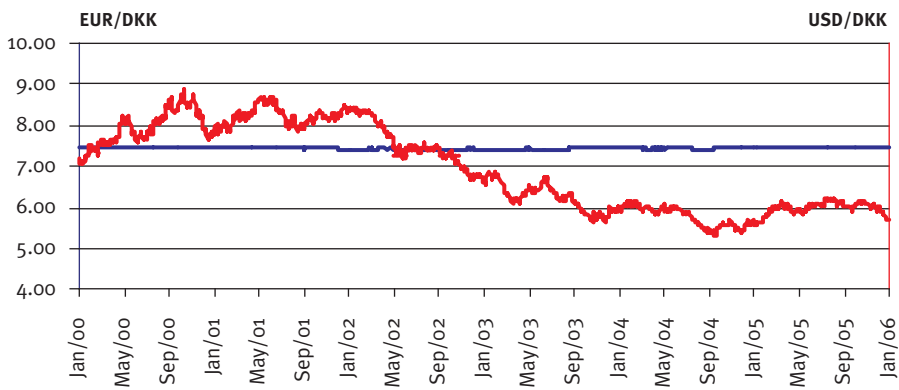
The special Danish labour market model, which supports a flexible labour market

while at the same time maintaining a fine-meshed social safety net in the case of unemployment, combined with initiatives to get more unemployed people back to work, is referred to as the 'flexicurity model'. In recent years, it has attracted considerable international attention.

An overall objective of the labour market and education policies is to ensure that Denmark continues to have an adequate and well-qualified workforce at its disposal in the future, so that it can maintain its position as one of the world's very richest countries. For like most other EU countries, Denmark is facing major labour market challenges, because the net intake is dropping dramatically as a result of demographic developments. The workforce thus has to be boosted by almost 300,000 people by 2020-30, if the current level of public services is to be maintained without major tax increases.

That is why the focus in recent years has shifted towards the labour market policy in order to increase the workforce. Among other things, efforts are being made to improve the incentives to remain on the labour market until pension age, which is 65. The conditions of early retirement from the labour market have been tightened and the labour market has been made more flexible, partly by tightening the rules for obtaining benefit, partly through a labour market policy aimed at maintaining or improving the qualifications of the unemployed.





The action plan 'More people working' aims to remove bureaucratic barriers which may prevent job creation and is essentially based on the principle that working should be worthwhile. Among other things, this means that the cash benefit system has been adjusted to make it more attractive to find a job. Like the other Nordic countries, Denmark has a high employment rate for both men and women, and the main workforce reserve is therefore among immigrants and refugees. That is why the Government aims to increase this group's involvement with the labour market.

Public Finances

Denmark attaches great importance to pursuing a stability-oriented economic policy based on an annual surplus of 1.5-2.5% of GDP in the public finances. Because the public sector constitutes a large part of the Danish economy, the development of public budgets is highly dependent on the development of economic activity. In boom years, the public finances tend to improve markedly, while the opposite happens in recession years. In 2005, the public budget balance showed a surplus corresponding to 4% of GDP, while public sector debt corresponded to approx. 36% of GDP. This is one of the lowest debt ratios in the EU and the Government aims to reduce the debt ratio even further in its efforts to sustain the welfare society in the long term.

Denmark thus clearly meets the so-called convergence requirements of the

Maastricht Treaty in the development of the public finances, which support the monetary policy. This is handled by the politically independent institution, the Danish National Bank, and its purpose is to support the exchange rate policy objective of a fixed krone exchange rate against the euro. Denmark is participating in the second phase of the EMU and has chosen to tie the krone to the euro within a narrow fluctuation band of 2.25% on either side of the central parity of 7.46038. In practice, however, the krone has fluctuated within an even narrower interval (see table). Although Denmark has not introduced the euro as its currency, it is accepted in many shops and widely used as invoicing currency by Danish companies.

The financial markets generally show great confidence in the fixed exchange rate policy pursued. It means that the National Bank in practice follows the actions of the European Central Bank (ECB) very closely and therefore typically changes its interest rates when the ECB does. However, as a result of significant capital flight, the National Bank had to increase the monetary policy guideline interest rate by 0.1 percentage point at the start of February 2006.

Similarly, the development in government bond rates largely follows the trend on the international bond markets. The interest rate differential between Denmark and Germany may vary slightly and typically increases at times of uncertainty about the krone exchange rate, such as the

period prior to the Danish EMU referendum in September 2000, or if the international interest rate level is increased.

The Stock Market

By international standards, the Danish stock exchange is small. That is why the Copenhagen and Stockholm Stock Exchanges in January 1998 formed the NOREX Alliance. They were joined by the Iceland and Oslo Stock Exchanges in 2000 and by the OMX Exchanges, which in addition to the Stockholm Stock Exchange represent the Stock Exchanges in Helsinki, Tallinn, Riga and Vilnius, in 2004. The NOREX Alliance thus covers the entire Nordic and Baltic region. Through the members of the stock exchanges, it has an extensive network and many of the largest global investment banks belong to it, which provides easy access to the NOREX market, irrespective of the investor's geographic location. In addition, investors can benefit from the increased liquidity and other opportunities offered by an integrated market. For the quoted companies, the common Nordic market offers increased access to the European capital market through the many members of the Alliance.

The twenty shares included in the trend-setting Danish share index, OMX Copenhagen 20, are selected twice a year,

Economic Key Figures (2000)

	DKK billion
GDP, current prices	1,271.5
Product and service balance	75.8
Current account	25.1
	percent
GDP, real growth	2.9
Inflation	3.0
Unemployment	5.3
Hourly wage	3.9
	percent of GDP
Current account	1.9
Public budget balance	2.4
Public sector debt	46.3
Tax incidence total	48.2

Source: Ministry of Economic Affairs.

Economy

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Address: Asiatisk Plads 2, DK-1448 Copenhagen K, Denmark.

Telephone: (+45) 3392 0000. Telefax: (+45) 3254 0533.

E-mail: um@um.dk. Website: www.um.dk.

Editor: Flemming Axmark.

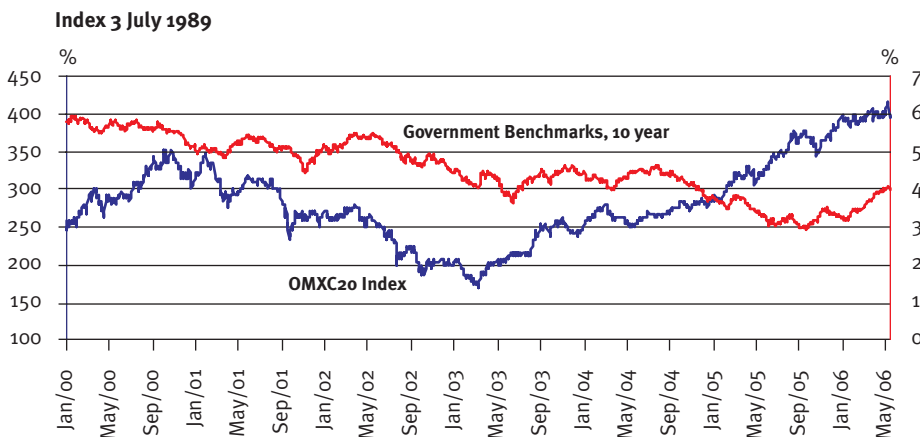
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at the start of June and December respectively, on the basis of their turnover via the stock exchange transaction system during the preceding six months. In early 2006, the selected OMXC20 shares included A.P. Møller, Danske Bank, Nordea, Novo Nordisk, Vestas, Lundbeck, Novozymes, Carlsberg, Danisco and TrygVesta. In recent years, several large Danish limited companies such as ISS and TDC have been taken over by private capital funds and they are therefore no longer quoted on the stock exchange.

The development of the Danish stock market to some extent follows the development of the international stock markets. Thus OMXC20 dropped significantly through 2001 and 2002 and in early 2003 reached its lowest level since 1997. Since then, the low interest and good economic outlook have turned the trend and the index grew to new record heights in spring 2006.

Direct Investments

As a result of globalisation, Danish companies increasingly operate abroad, while many foreign companies establish themselves in Denmark. At the end of 2003, the value of Danish direct investments abroad thus amounted to just under DKK 375 billion, while total foreign investments in Denmark amounted to approx. DKK 350 billion. Most of both incoming and outgoing direct investments are made within

financing and business services. Although Danish investments abroad increasingly target Asia, the majority are made in other European countries. Similarly, most of the foreign investments in Denmark come from Europe.

Denmark does not attempt to attract foreign investors with special establishment incentives. The same rules apply to Danish and foreign companies. When Denmark is nonetheless regarded as an attractive country for business establishment, it is partly because it offers a well-educated and highly motivated workforce as well as stable economic and political conditions. Total wage costs are lower than in most neighbouring countries and, in an international context, the company taxation of 28% is not high. In addition, the well-developed infrastructure and Denmark's geographic location can be seen as attractive. These are some of the reasons why surveys undertaken by among others the International Institute for Management Development and the World Economic Forum show that Denmark is among the most competitive countries in the world.

The country forms a natural bridge between continental Europe and the Nordic countries. In addition, the Baltic region offers huge opportunities after the enlargement of the EU with, among others, Poland and the Baltic States, Estonia, Latvia and Lithuania. In summer 1999, the Oresund Bridge between Denmark and

Sweden was opened. This brings major opportunities for the Oresund region, which has around 3.5 million inhabitants and accounts for approx. 25% of the total production value of Denmark and Sweden.

In connection with the Oresund Bridge, other major infrastructure investments were made in Copenhagen, including a new motorway and a metro which, when completed, will link the city centre to the airport. The metro will also connect to a completely new city sector, the Orestad; organisations relocating there include Copenhagen University, which in future is likely to collaborate closely with the universities in Malmo and Lund. It is estimated that, in the long term, the Oresund Bridge may increase the production value of the region by at least 5%, corresponding to more than DKK 40 billion.

Helge Pedersen

Chief Economist, cand.polit.

Further Information

Ministry of Economic Affairs
Ved Stranden 8
DK-1061 Copenhagen K
(+45) 3392 3322
www.oem.dk
oem@oem.dk

Ministry of Finance
Christiansborg Slotsplads 1
DK-1218 Copenhagen K
(+45) 3392 3333
www.fm.dk
fm@fm.dk

Copenhagen Stock Exchange
Nikolaj Plads 6
DK-1007 Copenhagen K
(+45) 3393 3366
www.xcse.dk
xcse@xcse.dk

The National Bank of Denmark
Havnegade 5
DK-1093 Copenhagen K
(+45) 3363 6363
www.nationalbanken.dk
nationalbanken@nationalbanken.dk

Statistics Denmark
Sejrøgade 11
DK-2100 Copenhagen Ø
(+45) 3917 3917
www.dst.dk
dst@dst.dk