

TRADE AND ECONOMIC OVERVIEW

Conclusions by both public and private agencies are that Danish economic recovery is now fully in train and that, after six years of slow growth, the Danish economy turned the corner in latter 1993 and will be strengthening through 1994 and subsequently - GDP growth in 1992 was 1.2%, growth in 1993 is estimated at .5%, and growth for 1994 is expected to be 3%. This is the highest rate of growth since 1986. Consumer spending has taken the lead in the surge: both automotive sales and retail sales have increased significantly since mid-1993 and third-quarter consumer spending was 2.8% higher than the third-quarter of 1992. Final private consumption demand growth for 1993 is expected to increase 1.75% over a 1992 base of Dkr 442.2B and 1994 growth will be 3.25%.

With one exception the major economic indicators are all positive. At 1.2% for 1993, consumer price inflation was historically low and one of the lowest in Europe. While this was extraordinary - due to coinciding factors such as a low rate of growth, low oil prices, duty reductions, and a strengthening of the krone--the anticipated rate for 1994 will be at a still acceptable level of 2 to 2¼%. Higher "green" taxes will contribute ½% to this increased price inflation; the other major contributor will be a weakening in the effective krone rate.

In 1993 Danish exports decreased by some 2%, due primarily to poor growth in major exports markets (notably Germany and Sweden) and loss of Danish wage competitiveness with the strengthening of the krone. Growth trends however returned in late 1993 and expectations are for export increases of over 4% in 1994, supported by low wage inflation and a weaker krone. While GDP growth will translate into import increases of some 5% in 1994 the balance of payments will continue to be in strong surplus - at some Dkr 30B, just under 4% of GDP. This sustained balance of payments surplus will mean continuing decrease in the external debt which is now less than 24% of GDP, compared to 40% in 1988. The Danish central bank discount rate has been lowered several times since the fall of 1993 and now is at a level of 5.5%. Long term interest rates started declining a year previously and the government bond rate is now in the 6% range.

A policy of fiscal relaxation, implemented with the tax reform of January 1, is expected to contribute approximately 1% to GDP growth in 1994. Higher tax revenues from anticipated increased consumer spending will mean a stabilized government deficit position in the longer term; however fiscal relaxation measures will cause some initial weakening in government deficits from Dkr 38B in 1993 (some 4% of GDP) to Dkr 44B in 1994.

The major area of concern is unemployment, which is currently in the range of 12%. Anticipated GDP growth is not expected to be sufficient to appreciably reduce unemployment, especially with expected moderate increases in the labour force. With new leave schemes, stabilized private sector employment by year end, and increased public sector employment, unemployment will be reduced from 350,000 to some 340-345,000.

Danish economic recovery is expected to continue through 1995 at growth levels of 3-3.3%. While recovery was initiated by consumer spending, continuing growth will be much more broadly based - with sustained growth in domestic private demand, increased investment, continuing large balance of payments surpluses, falling interest payments on the external debt, and continuing low inflation.