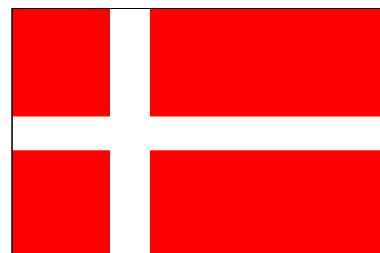


# Country Report *Denmark*

## 1. Structural data

Geographical extension:	43,098 km <sup>2</sup>
Population size (2010):	5.48 million
Population density:	127 inhabitants/ km <sup>2</sup>
Capital:	Copenhagen
Per-capita GDP:	EUR 40,700 (2009)
Currency:	Danish krone (DKK)
Exchange rate:	DKK/EUR 7.46
(November 2010)	DKK/USD 5.37



## 2. Political situation

After the election of Denmark's prime minister of the time, Anders Fogh Rasmussen, to serve as Secretary General of NATO in the spring of last year, the country has been governed by his former Finance Minister, Lars Løkke Rasmussen. It is possible that a centre-left coalition will manage to win the next parliamentary elections, scheduled for 2011. No party emerged a clear victor from the last elections, which had been brought forward to November 2007. At the end of the day, a minority government came into being, comprising the centre-right party "Venstre", headed by the prime minister, and the Conservative People's Party. Given that the coalition commands only 64 of the 179 seats in parliament, the two parties are dependent on the support of the 25 deputies belonging to the Danish People's Party (DF), which is far to the right of the political spectrum. So as not to forfeit the electoral votes of the Danish People's Party, the Cabinet is adopting a decidedly conservative tack, as can be gauged, for example, from its immigration policy. On the domestic-policy front, the government has mainly been preoccupied over the past two years with coming to terms with the repercussions of the international financial crisis and with maintaining and improving the existing welfare system. Relations with Greenland remain a topic on the agenda as well. The foreign-policy agenda is still being determined by Denmark's attempts to refurbish its international image, which was particularly damaged in the aftermath of the publication of the controversial Mohammed cartoons.

### 3. Macroeconomic development

After years marked by above-average growth rates for the gross domestic product – at least by comparison with other European industrialised nations – Denmark slipped into recession in late 2008, only extricating itself again in the spring of this year. The real gross domestic product was down by 0.9% in 2008, and aggregate economic output then went on to contract by 4.7% in inflation-adjusted terms last year. A growth rate of approximately 2% is being projected for 2010, given that the real gross domestic product was up by 1.8% on the level reached in the same period of the previous year in H1 2010. The fiscal-policy measures which the government implemented to combat the recession are making a positive impact. These included not only public-sector investment but also tax cuts, on the income-tax side as well (Denmark has the highest overall tax rate in the entire EU). “Spring Package 2.0” was subsequently passed in the spring of this year, providing for further tax relief, especially for companies. In return, admittedly, some indirect taxes were raised. The recession has not failed to leave its mark on the labour market either: the unemployment rate climbed drastically from 3.3% in 2008 to 6% last year and is probably going to work out at 6.9% in the present year. This development can be explained by the fact that there is little dismissal protection in Denmark but, at the same time, very extensive social-security systems - a combination which lends the Danish job market a certain flexibility. Jobless figures shoot up quickly in phases when economic activity loses momentum, but the other side of the coin is that they decline again comparatively quickly in upswing phases. The jobless rate is expected to drop to 6.3% in 2011.

The inflation rate weighed in at 3.6% in 2008, on an annual average, before receding once again to 1.1% last year. Consumer-price inflation is probably going to come in at 2% in both 2010 and 2011. Unlike the other Scandinavian central banks, the Danish central bank does not pursue an inflation target, instead keeping the Krone exchange rate stable within the prescribed target range of +/- 2.25% vis-à-vis the Euro within the framework of ERM II, in which the country has participated since the beginning of 1999. In a referendum held in 2000, the Danish population voted against the introduction of the single currency, even though the country was satisfying all the convergence criteria laid down in the Maastricht Treaty. It is regarded as certain that the Danish currency would enter the European Monetary Union at the exchange-rate parity currently being aimed at in the event of a future referendum resulting in a “thumbs-up” on euro entry. The government was intending to hold a referendum ahead of the 2011 election on the introduction of the common European currency, but the date has become uncertain on account of the current economic situation.

#### 4. Foreign trade

For the first time since the end of the 1980s, foreign trade registered a deficit (albeit a very small one of just 0.6% as a proportion of GDP) in 2008. However, the merchandise-trade account swung back into the black last year, with the surplus corresponding to 1.9% of GDP, and this trend looks likely to continue in both 2010 and 2011.

The current-account has invariably been in positive territory over the past few years, even though the surplus was admittedly smaller than usual in 2008, at EUR 6.0 billion, which corresponds to 2.7% as a proportion of GDP. The surplus on the current account amounted to approximately EUR 8 billion last year, and this figure should probably increase to around EUR 10 billion in the present year. The surpluses being generated by the current account are primarily attributable to the vigorous increase in tourist revenues observed in recent years. The country remains an attractive location for foreign direct investment, offering very favourable investment conditions.

#### 5. Financial status

On account of the fiscal-stimulus programmes launched to attenuate the effects of the recession, Denmark's government budget recorded a deficit corresponding to 2.7% as a proportion of GDP in 2009. This deficit is projected to widen to 5.1% of GDP in the present year, and a negative balance of 4.3% as a proportion of GDP is being assumed for 2011 as well. The country, which continues to be one of the "star pupils" in the EU from the point of view of public debt, is now being confronted with rising public-sector indebtedness after (in some cases, considerable) surpluses in preceding years. The public-debt ratio came to 41.5% as a proportion of GDP in 2009, and this figure is forecast to rise to approximately 45% in the present year, with the trend still sloping upwards in 2011.

In the Country Credit Rating published in the September 2010 issue of the magazine "Institutional Investor", Denmark came 12th out of a field of 178 countries which received ratings, gathering 86.6 out of a possible total of 100 points.

#### 6. Assessment

The Danish economy has been back on a positive growth trajectory since the spring of this year, and is going to remain on track in 2011 as well, even though momentum will admittedly be somewhat lower. The government is going to gradually roll back its expansionary fiscal-policy stance. A recovery should also

materialise on the labour market. It is being assumed that demand on the part of private households will stimulate economic activity in future, too. If a centre-left coalition were to win the parliamentary elections due to be held in 2011, this would be of importance above all in the social-policy and economic-policy fields.

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