

DENMARK

Growth has been weak but is projected to gain some strength from the second half of 2013, supported by low interest rates. The labour market is likely to remain weak, but unemployment is projected to start to decline in 2013. Private consumption is being held back by uncertainty and deleveraging but is expected to gather strength as confidence improves.

Fiscal policy is expected to tighten somewhat from 2013, although the effects of the past measures will continue to support growth, which is appropriate. To limit risks arising from high household debt, financial supervision and prudential policies should be strengthened.

Domestic demand remains weak

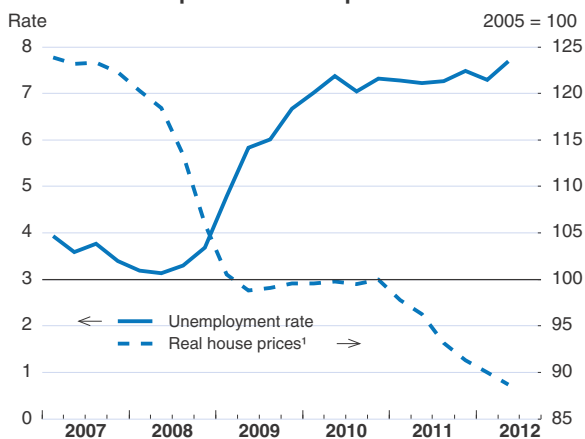
With both exports and domestic private demand weakening, output growth slumped during 2012. Residential investment contracted sharply, while business investment remained anaemic. Despite the boost from the pay-out of past contributions to the early retirement scheme as part of its phasing-out, private consumption has been weak, held back by continued uncertainty and stagnant housing and labour markets. The unemployment rate rose in 2012 reflecting falling employment, including in the public sector. Wage growth continues to be subdued and below inflation.

Monetary conditions are accommodative

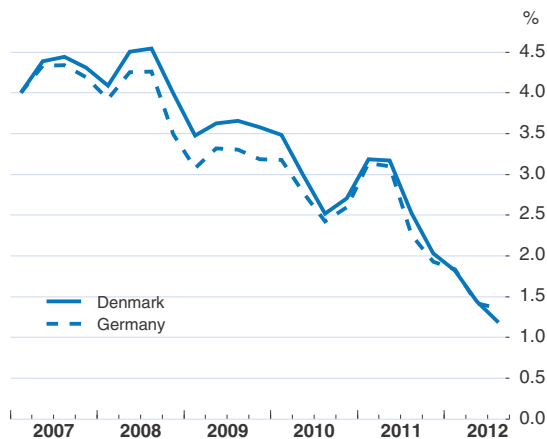
In July, in response to upward pressure on the krone, the Danish National Bank cut its lending rate to 0.2% and the rate on certificates of deposits to -0.2%. Long-term interest rates have fallen below Germany's due to Denmark's safe haven status, which reflects sound public finances and a more limited exposure to the euro area crisis. However, lending conditions are tight due to low risk appetite by banks. The housing market shows signs of stabilisation, but remains weak, with high supply and modest turnover.

Denmark

Labour and housing market conditions constrain private consumption



Long-term interest rates are exceptionally low



1. House prices are deflated by the private consumption deflator.
Source: OECD Economic Outlook 92 database.

Denmark: Demand, output and prices

	2009	2010	2011	2012	2013	2014
	Current prices DKK billion	Percentage changes, volume (2005 prices)				
GDP at market prices	1 664.8	1.6	1.1	0.2	1.4	1.7
Private consumption	822.0	1.7	-0.5	1.0	1.6	2.0
Government consumption	495.9	0.4	-1.5	0.6	0.9	0.7
Gross fixed capital formation	300.8	-2.4	2.9	1.9	2.7	3.9
Final domestic demand	1 618.8	0.5	-0.2	1.0	1.6	2.0
Stockbuilding ¹	- 19.0	1.0	0.5	-0.1	0.0	0.0
Total domestic demand	1 599.8	1.6	0.3	0.5	1.4	2.0
Exports of goods and services	793.1	3.0	6.5	2.0	4.0	5.5
Imports of goods and services	728.2	3.2	5.6	2.8	4.3	6.3
Net exports ¹	65.0	0.0	0.8	-0.3	0.0	-0.2
<i>Memorandum items</i>						
GDP deflator	—	4.1	0.6	2.0	1.2	1.6
Consumer price index	—	2.3	2.8	2.4	1.8	2.0
Private consumption deflator	—	2.5	2.5	2.6	1.5	1.7
Unemployment rate ²	—	7.2	7.3	7.5	7.4	7.3
Household saving ratio ³	—	-1.0	-0.6	-0.6	0.0	0.0
General government financial balance ⁴	—	-2.7	-2.0	-4.1	-2.1	-1.7
General government gross debt ⁴	—	54.6	61.5	61.0	61.0	60.7
General government debt, Maastricht definition ⁴	—	42.7	46.4	45.9	45.8	45.5
Current account balance ⁴	—	5.9	5.6	5.6	5.3	4.9


1. Contributions to changes in real GDP, actual amount in the first column.

2. The unemployment rate is based on the Labour Force Survey and differs from the registered unemployment rate.

3. As a percentage of disposable income, net of household consumption of fixed capital.

4. As a percentage of GDP.

Source: OECD Economic Outlook 92 database.

StatLink  <http://dx.doi.org/10.1787/888932744888>

Fiscal policy will be less supportive in 2013-14

In 2012, a burst of public investment and a one-off payout from the early retirement scheme (linked to its phasing-out) resulted in a temporary fiscal impulse. The fiscal stance will therefore tighten somewhat in 2013, although some stimulus effect may remain as delays in project implementation may shift some investment backward and households may spend some of their pension rebate in 2013. The fiscal stance is set to be broadly neutral in 2014, which is appropriate.

Recovery will be gradual, driven by private demand

As world trade regains momentum and confidence returns, private demand is projected to pick up gradually, replacing public spending as the driver of growth. Investment will also be supported in 2013 by a temporary budget provision for more generous depreciation allowances. The recovery in exports is likely to fall short of export market growth, despite recent improvements in competitiveness. With higher imports in 2013-14, the current account surplus will edge down. Stronger labour demand will push down the unemployment rate in 2013-14 and re-invigorate private consumption. Wage growth will gradually pick up, but remain moderate. With persisting economic slack, core inflation should stay subdued.

*Risks are mainly on the
downside*

An intensification of the euro area crisis or smaller-than-expected improvements in competitiveness would depress private demand and exports. However, pent-up private consumption and investment demand could materialise faster than projected were confidence to improve swiftly.



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