

## DENMARK

Growth in 2012 will be driven mainly by fiscal stimulus. Weak external demand will slow exports, while a stagnant labour market and renewed declines in house prices will constrain household consumption. In 2013, as the international environment becomes more supportive and confidence improves, private demand will gradually replace public investment as the driver of growth. With continued slack in the economy, core inflation is projected to be subdued.

Following earlier decisions on fiscal stimulus in 2012, the adoption of four-year expenditure ceilings in March 2012 to be implemented in 2014-17 will reinforce policymakers' commitment to contain spending at all levels of government and contribute to fiscal sustainability. Reforms to improve competitiveness and boost labour supply would strengthen growth and fiscal prospects over the long run.

### Domestic demand remains weak

The stagnation in the last quarter of 2011 was driven by low government consumption and private investment. Despite weak external demand, exports increased, aided by improved competitiveness. Private consumption expanded in late 2011 but continues to be constrained by rising unemployment and falling real wages. In early 2012, business and consumer confidence indicators firmed, although they remain below pre-crisis levels.

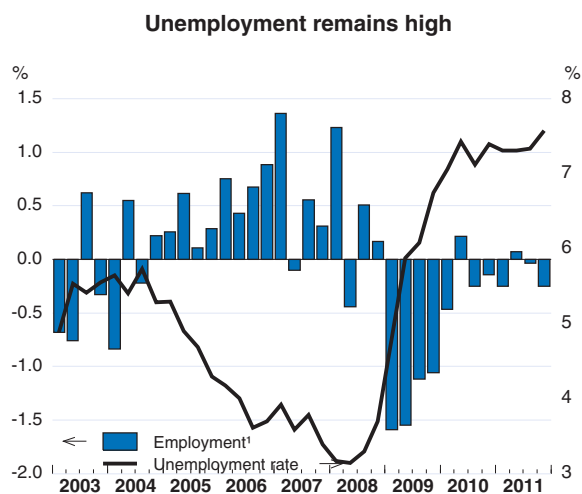
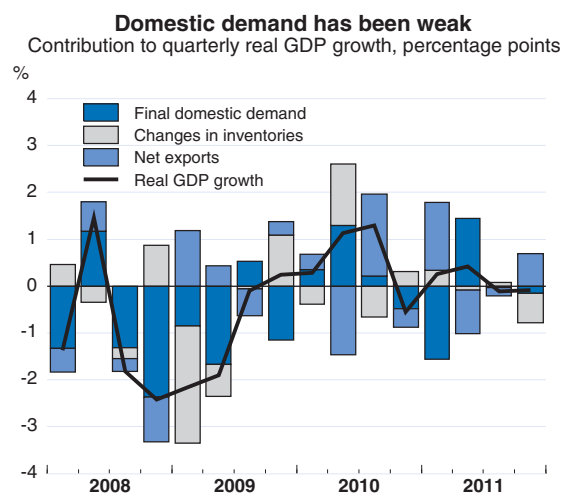
### Financial conditions have not normalised yet

Despite the introduction of a temporary three-year loan facility by the Danish National Bank in December 2011, bank lending to companies remains low, partly due to weak demand. Declines in house prices intensified in the second half of 2011, despite record-low interest rates, adding to the uncertain environment. Interest rates are set to remain supportive in 2012-13.

### Fiscal policy is supportive in 2012

The fiscal stance is supportive in 2012 due to strong public investment and the paying out of contributions to the early retirement

## Denmark



1. Quarter-on-quarter percentage change.

Source: OECD Economic Outlook 91 database.

Denmark: **Demand, output and prices**

|   | 2008                          | 2009  | 2010 | 2011 | 2012 | 2013 |
|---|-------------------------------|---|------|------|------|------|
|   | Current prices<br>DKK billion | Percentage changes, volume<br>(2005 prices) |      |      |      |      |
| <b>GDP at market prices</b>                                 | 1 753.2                       | -5.8  | 1.3  | 1.0  | 0.8  | 1.4  |
| Private consumption   | 840.0                         | -4.2  | 1.9  | -0.5 | 0.7  | 1.7  |
| Government consumption                                      | 465.4                         | 2.5   | 0.3  | -1.0 | 1.3  | 0.2  |
| Gross fixed capital formation                               | 368.8                         | -13.4                                       | -3.8 | 0.4  | 2.9  | 1.7  |
| Final domestic demand                                       | 1 674.2                       | -4.3  | 0.3  | -0.5 | 1.3  | 1.3  |
| Stockbuilding <sup>1</sup>                                  | 23.4                          | -2.3  | 1.0  | 0.4  | -0.2 | 0.0  |
| Total domestic demand                                       | 1 697.5                       | -6.6  | 1.3  | -0.1 | 1.0  | 1.3  |
| Exports of goods and services                               | 959.6                         | -9.8  | 3.2  | 6.8  | 2.0  | 4.7  |
| Imports of goods and services                               | 904.0                         | -11.6                                       | 3.5  | 5.2  | 2.5  | 4.7  |
| Net exports <sup>1</sup>                                    | 55.6                          | 0.7   | 0.0  | 1.1  | -0.2 | 0.2  |
| <i>Memorandum items</i>                                     |                               |   |      |      |      |      |
| GDP deflator  | —                             | 1.0   | 3.9  | 0.8  | 1.8  | 1.6  |
| Consumer price index  | —                             | 1.3   | 2.3  | 2.8  | 2.7  | 1.9  |
| Private consumption deflator                                | —                             | 1.3   | 2.5  | 2.5  | 2.0  | 1.6  |
| Unemployment rate <sup>2</sup>                              | —                             | 5.9   | 7.3  | 7.4  | 7.6  | 7.5  |
| Household saving ratio <sup>3</sup>                         | —                             | -0.4  | -0.2 | -1.3 | -0.9 | -1.8 |
| General government financial balance <sup>4</sup>           | —                             | -2.7  | -2.7 | -1.9 | -3.9 | -2.0 |
| General government gross debt <sup>4</sup>                  | —                             | 51.2  | 54.8 | 61.8 | 63.0 | 64.8 |
| General government debt, Maastricht definition <sup>4</sup> | —                             | 40.6  | 42.9 | 46.5 | 47.7 | 49.6 |
| Current account balance <sup>4</sup>                        | —                             | 3.5   | 5.5  | 6.5  | 5.4  | 5.4  |

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook Sources and Methods* (<http://www.oecd.org/eco/sources-and-methods>).


1. Contributions to changes in real GDP (percentage of real GDP in previous year), 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 91 database.

StatLink  <http://dx.doi.org/10.1787/888932610235>

scheme as part of its reform. By contrast, in 2013, implementation of the commitment to bring the deficit below the EU target of 3% of GDP will imply a sizeable fiscal tightening.

### Private domestic demand will pick up gradually in 2013

Private consumption will be held back in 2012 by adverse housing and labour market conditions, but is projected to pick up in 2013 as confidence firms. Improved competitiveness, driven by subdued wage growth and a rebound in productivity, will allow exports to grow more in line with export markets and to pick up in 2013 as external demand regains momentum. Consequently, private investment will rebound in 2013. Headline inflation will rise in 2012, reflecting higher commodity prices, but core inflation is set to remain subdued as slack persists through the projection period.

### Risks are broadly balanced

The recovery could be stronger if confidence were to return more rapidly than expected, releasing pent-up private consumption and investment. However, the labour and housing markets might deteriorate more than expected, putting pressure on highly-leveraged households.



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