DENMARK

GDP is projected to grow at close to 2% in 2018 and 2019, supported by accelerating private consumption and an improved external environment. While rising labour force participation will partly help to meet growing labour demand, wage and price inflation are expected to rise as labour shortages increase. A decreasing trade balance will slowly reduce the considerable current account surplus.

The fiscal policy stance is expected to support growth. A tighter fiscal stance would be prudent, given continued very accommodative monetary policy conditions and intensifying supply-side constraints. The buoyant economic conditions and solid housing market present a welcome opportunity to further shift the tax structure from labour towards immovable capital and ease rent regulation to reduce the price pressure on owner-occupied dwellings.

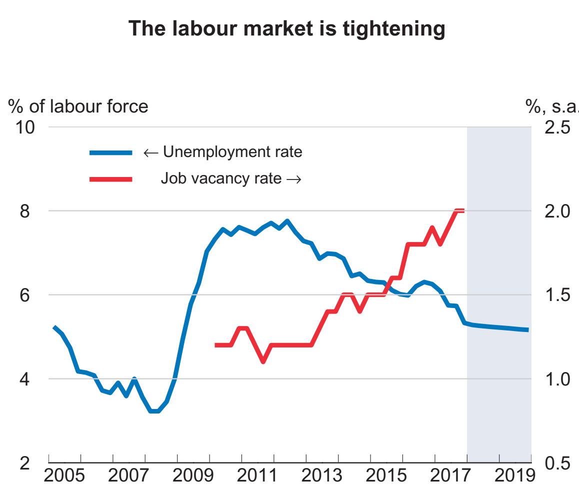
Strong economic growth is driven by domestic demand

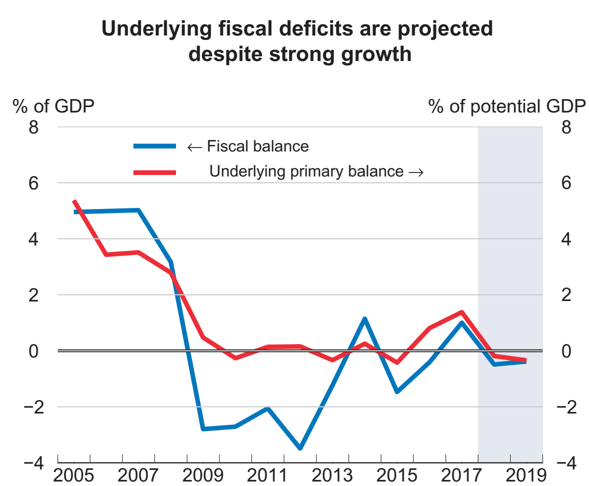
The economy has reached full potential and GDP growth is increasingly supported by strong domestic demand. The unemployment rate has fallen below the estimated structural level and labour shortages are reported in the construction sector and are intensifying more broadly. Consumer price inflation has lately been subdued, reflecting lower contributions from food and rent. Public investment remains high and business investment has recovered.

Tighter fiscal policy would be welcome to ease capacity constraints

Fiscal policy will support growth in 2018 and 2019, partly due to personal income tax cuts, and some one-off transfers related to recent property tax and early retirement reforms. The underlying primary balance is expected to be negative. With economic activity above or close to potential, a tighter fiscal stance would be welcome, especially since monetary conditions will likely remain very accommodative due to the central bank's objective of keeping the krone pegged to the euro.

Denmark





Source: OECD Economic Outlook 103 database; and Statistics Denmark.

StatLink http://dx.doi.org/10.1787/888933729876

Denmark: **Demand, output and prices**

	2014	2015	2016	2017	2018	2019
	Current prices DKK billion	Percentage changes, volume (2010 prices)				
GDP at market prices	1 981.2	1.6	2.0	2.2	1.7	1.9
Private consumption	934.3	1.6	2.1	1.5	2.5	2.6
Government consumption	510.9	1.1	0.3	1.2	0.8	0.6
Gross fixed capital formation	379.7	3.1	6.0	3.7	3.5	4.1
Final domestic demand	1 824.9	1.7	2.4	1.9	2.3	2.4
Stockbuilding[1]	18.4	-0.4	0.0	0.1	-0.2	0.0
Total domestic demand	1 843.2	1.3	2.4	2.0	2.1	2.3
Exports of goods and services	1 082.0	2.3	2.8	4.4	3.0	3.6
Imports of goods and services	944.0	1.9	3.8	4.1	4.0	4.6
Net exports[1]	137.9	0.4	-0.3	0.4	-0.2	-0.2
Memorandum items						
GDP deflator	_	0.7	0.0	1.6	1.1	1.7
Consumer price index	_	0.5	0.3	1.1	0.6	1.5
Core inflation index[2]	_	1.3	0.7	0.9	0.3	1.5
Unemployment rate (% of labour force)	_	6.2	6.2	5.7	5.3	5.2
Household saving ratio, net (% of disposable income)	_	4.7	5.0	5.6	5.9	6.0
General government financial balance (% of GDP)	_	-1.5	-0.4	1.0	-0.5	-0.4
General government gross debt (% of GDP)	_	53.8	52.4	50.3	50.7	51.1
General government debt, Maastricht definition (% of GDP)	_	39.9	37.9	36.4	36.9	37.2
Current account balance (% of GDP)	_	8.8	7.3	7.6	7.4	7.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 103 database.

StatLink http://dx.doi.org/10.1787/888933730940

The recent personal income tax reform will improve incentives for labour market participation and underpin employment growth in the projection period. Shifting the tax burden further away from labour and corporate income by raising taxes on immovable property and reducing the tax deductibility of mortgage interest further would support productivity growth and increase incentives to work longer hours.

Low financial market risk perception and ample liquidity can lead to a repetition of the previous credit cycle, the strong real-estate price increases in Copenhagen pointing already to some risks of asset price bubbles. Following a recommendation by the Systemic Risk Council, the countercyclical capital buffer has been activated to bolster the financial sector with capital to be released in a future recession, which is welcome. Further increases should be considered if the risk build-up continues and would help to stabilise the financial cycle.

The economic upturn will continue and intensify labour market pressures

The economy is projected to continue growing at close to 2% on the back of rising private consumption and private investment growth. Private consumption growth is expected to increase in line with income, with household saving rates staying high by historical standards through the projection period as households are expected to reduce high gross debt levels further. Regarding private non-residential investment, capital intensity has decreased leaving room for pent-up investment needs by businesses. As in many euro area countries, increased labour market tightness will fuel wage growth, with consumer price inflation rising to 1.5% in 2019. The main domestic risks are higher-than-projected private consumption stimulated by increasing housing wealth or larger-than-expected private investments spurred by capacity constraints that could significantly boost demand and wage pressures, which would undermine competitiveness. Owing to Denmark's openness to trade, Brexit continues to be the main external uncertainty for the outlook.

From:

OECD Economic Outlook, Volume 2018 Issue 1

Access the complete publication at:

https://doi.org/10.1787/eco_outlook-v2018-1-en

Please cite this chapter as:

OECD (2018), “Denmark”, in *OECD Economic Outlook, Volume 2018 Issue 1*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_outlook-v2018-1-15-en