

DENMARK

The muted recovery, led so far by exports, government consumption and restocking, is expected to come to a halt despite low interest rates and ongoing fiscal stimulus. The renewed global slowdown will depress exports and postpone private investment. Uncertainty and worsening labour market conditions will act as a drag on household consumption. As a result, activity is not projected to pick up pace before next spring. With continued slack in the economy, inflation is set to remain subdued.

The muted recovery is expected to come to a halt

The recovery has been subdued, partly due to the reverberations of the collapse of the housing bubble and high leverage of households and firms. Private demand has been weak and growth in 2011 has been led by government investment. In response to worsening global conditions, both consumer and business confidence have declined. Corporate hiring expectations foreshadow no significant decline in unemployment. With low wage growth and falling consumption, inflation has been subdued.

Financial conditions add to the uncertain environment

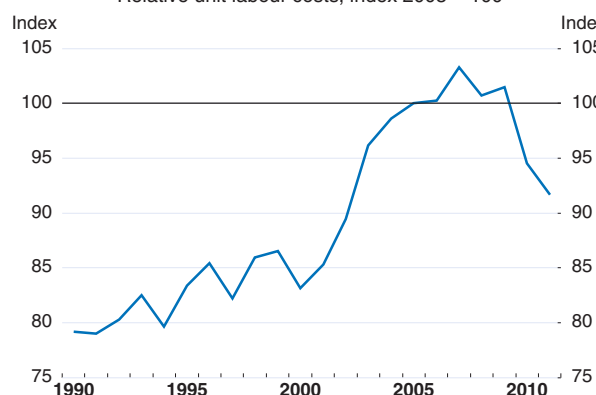
The housing market remains under pressure, with a large number of homes for sale, long times on the market and prices falling anew. With declining global liquidity, Danish banks face funding challenges despite the expansion of the credit facilities at the Central Bank. This holds back bank lending to households and firms. Monetary conditions are, however, expected to become more supportive in 2012-13.

Fiscal policy will be supportive in 2012

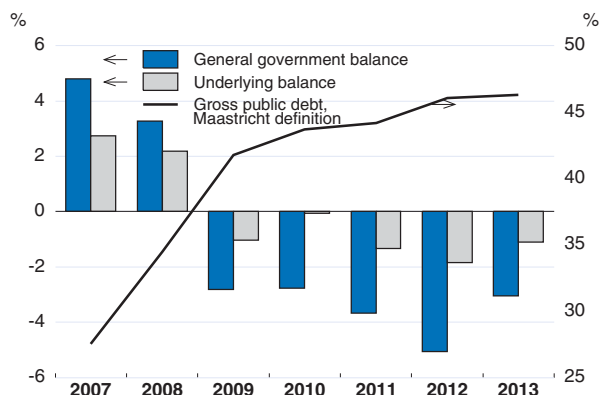
Public consumption growth is set to be kept in check. However, the new fiscal stimulus, in the form of public investment and the pay-out of contributions from the early retirement scheme as part of its reform, will lead to fiscal easing in 2012. The projection assumes that some tightening will take place in 2013 to put the fiscal position on a path consistent with EU targets.

Denmark


The competitiveness lost in the past decade still largely needs to be recovered
Relative unit labour costs, index 2005 = 100



The fiscal stance is easing in 2012
Percentage of GDP



Source: OECD, Economic Outlook 90 database.

StatLink  <http://dx.doi.org/10.1787/888932540999>

Denmark: Demand, output and prices

	2008	2009	2010	2011	2012	2013
	Current prices DKK billion	Percentage changes, volume (2005 prices)				
GDP at market prices	1 740.8	-5.2	1.7	1.1	0.7	1.4
Private consumption	840.3	-4.5	2.3	-0.4	0.6	1.8
Government consumption	464.8	3.1	0.7	0.1	0.2	-0.2
Gross fixed capital formation	362.6	-14.3	-3.3	-0.5	3.5	4.6
Final domestic demand	1 667.6	-4.5	0.7	-0.3	0.9	1.7
Stockbuilding ¹	18.1	-2.0	0.9	0.6	-0.1	0.0
Total domestic demand	1 685.7	-6.5	1.7	0.3	0.9	1.7
Exports of goods and services	959.0	-9.7	3.8	7.0	2.5	4.6
Imports of goods and services	903.8	-12.5	3.9	6.1	3.1	5.5
Net exports ¹	55.2	1.1	0.1	0.8	-0.1	-0.2
<i>Memorandum items</i>						
GDP deflator	—	0.4	3.4	1.4	1.7	2.1
Consumer price index	—	1.3	2.3	2.7	1.8	1.8
Private consumption deflator	—	1.3	2.5	2.5	1.9	1.8
Unemployment rate ²	—	5.9	7.2	7.2	7.2	7.0
Household saving ratio ³	—	-0.5	-1.7	-1.7	-0.9	-1.9
General government financial balance ⁴	—	-2.8	-2.8	-3.7	-5.1	-3.0
General government gross debt ⁴	—	52.4	55.6	56.1	58.0	58.2
General government debt, Maastricht definition ⁴	—	41.8	43.7	44.2	46.1	46.3
Current account balance ⁴	—	3.6	5.3	5.5	4.8	4.7

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 90 database.

StatLink  <http://dx.doi.org/10.1787/888932542500>

Both domestic and external demand will be weak

The deterioration in global conditions will lead to further weakening of export growth as the recently observed gains in competitiveness are not expected to be permanent, with the crisis-induced decline in unit labour costs and the rebound in productivity partly reversing. The pay-out of early retirement contributions to households will support consumption in 2012 and public investment will also contribute to growth. With low growth, labour market recovery will be slow, pointing to continued wage moderation. Employment, private demand and GDP growth are projected to pick up only gradually in 2013.

Downside risks dominate

A sharper-than-projected slowdown in Denmark's partner economies would depress exports. On the domestic side, one risk is that consumption could be weaker as a result of worse-than-expected labour market performance and a further housing market deterioration. In response, highly indebted Danish households, whose net wealth depends mostly on home equity and pension wealth, could step up saving. More expensive loans to the corporate sector by banks facing funding pressures and further deterioration in global conditions would curtail investment.

**Policy orientation should
downside risks materialise**

If downside risks materialised, the OECD has identified, as part of its Strategic Response, key macroeconomic policies, as well as structural reforms which, while desirable in any case, would become essential to raise growth:

- With a new stimulus of 0.5% of GDP already decided and a one-off payout of early retirement pension, there will be some fiscal support in 2012. In the event of a significantly sharper downturn, Denmark would have some fiscal space for further temporary support to the economy beyond the functioning of automatic stabilisers. However, this would require a postponement of the tightening needed to meet EU targets in 2013.
- To strengthen confidence, fiscal stimulus needs to be accompanied by a stronger fiscal framework that, in particular, ensures better control of public spending. Multi-annual spending rules for general government and a system of credible sanctions at the local level would help better control public expenditure growth.
- With slack in the economy and lack of inflationary pressures, there is scope for interest rate reductions in line with developments in the euro area.
- To raise employment and enhance fiscal sustainability, sickness and disability benefits should be reformed by increasing incentives to return to ordinary employment for those with some ability to work and lowering subsidies to the disabled employment.
- Measures to restore competitiveness, which has deteriorated significantly over the past decade, are needed. Strengthening the competition framework and improving competition in the services sector would boost productivity growth.



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