

DENMARK

Economic growth remains subdued, but is expected to gradually pick up as export demand rises, monetary and fiscal policies remain supportive, and confidence returns.

Fiscal policy is expected to be accommodative in 2014, which is appropriate given the fragile nature of the recovery. Reviving productivity growth should remain a focus of the government and motivate further competition-enhancing reforms, especially in service sectors. High gross household debt, combined with very low interest rates, warrant further measures to enhance financial sector stability.

The underlying pace of activity remains weak

Economic activity in early 2014 has been boosted temporarily by reconstruction following storms. Still, the pace of economic activity remains modest. Consumer confidence and labour market indicators show some improvement, but private consumption still lags. Although business investment is gradually recovering, considerable spare capacity endures and continues to damp inflation.

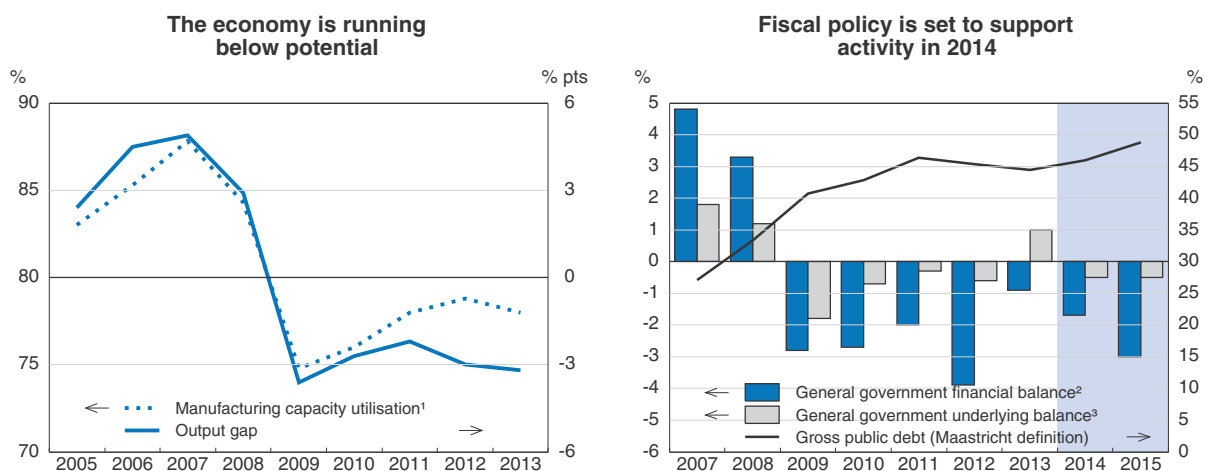
Financial conditions are supportive

Interest rates on outstanding loans to households and businesses remain very low despite the central bank raising the rate on certificates of deposit by 15 basis points in late April 2014 to support the currency. The accommodative stance of monetary policy has helped to stabilise the housing market: dwelling prices in Copenhagen and the other major cities have risen and the number of forced sales has fallen.

The fiscal stance is expansionary in 2014

After supporting economic activity in 2014, the underlying fiscal stance is set to be broadly neutral in 2015. However, the headline general government deficit is expected to rise in 2015 due to the end of one-off

Denmark



1. Calendar year average.

2. In percentage of GDP. Financial deficit contained in 2013 and 2014 by one-off increase in capital receipts (tax pre-payments relating to pension tax reform).

3. In percentage of potential GDP.

Source: OECD Economic Outlook 95 database; and Statistics Denmark.

Denmark: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices DKK billion	Percentage changes, volume (2005 prices)				
GDP at market prices	1 760.1	1.1	-0.4	0.4	1.4	1.8
Private consumption	855.4	-0.7	-0.1	0.0	1.3	1.9
Government consumption	509.6	-1.4	0.4	0.8	1.5	0.6
Gross fixed capital formation	297.8	3.3	0.8	0.6	1.5	1.2
Final domestic demand	1 662.8	-0.2	0.2	0.4	1.4	1.4
Stockbuilding ¹	- 0.3	0.4	-0.3	0.2	-0.4	0.0
Total domestic demand	1 662.4	0.2	-0.1	0.6	1.0	1.4
Exports of goods and services	887.8	7.0	0.4	1.2	3.6	4.5
Imports of goods and services	790.2	5.9	0.9	1.7	3.0	4.2
Net exports ¹	97.6	0.9	-0.2	-0.2	0.5	0.4
<i>Memorandum items</i>						
GDP deflator	—	0.7	2.3	1.4	1.1	1.2
Consumer price index	—	2.8	2.4	0.8	0.7	1.3
Private consumption deflator	—	2.7	2.8	1.0	1.0	1.2
Unemployment rate ²	—	7.6	7.5	7.0	6.8	6.7
Household saving ratio, net ³	—	0.7	-0.7	-0.1	-0.2	0.2
General government financial balance ⁴	—	-2.0	-3.9	-0.9	-1.5	-3.0
General government gross debt ⁵	—	59.9	59.3	55.2	56.5	59.3
General government debt, Maastricht definition ⁴	—	46.4	45.4	44.5	45.8	48.6
Current account balance ⁴	—	5.9	6.0	7.3	7.2	7.3

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.

5. As a percentage of GDP at market value.

Source: OECD Economic Outlook 95 database.

StatLink  <http://dx.doi.org/10.1787/888933051092>

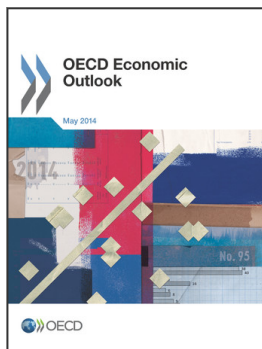
revenues related to changes in pension taxation. In the future, the early retirement reforms of the past few years are expected to benefit public finances.

External conditions will stimulate further recovery

Strengthening growth momentum in major export markets will support further GDP growth, although underlying domestic demand may remain subdued through much of 2014. Accommodative financial conditions and improving confidence should underpin more robust growth moving into next year. Remaining, if diminishing, economic slack will contain inflationary pressures.

Risks derive from both domestic and external sources

High household debt levels and an increasing number of deferred-amortisation mortgages entering the amortisation period pose a risk to financial stability and household demand. On the upside, a steady rise in household wealth with further improvements in labour and housing market conditions could spur private consumption more than currently expected. Such a scenario could also be triggered by a stronger-than-projected recovery in the euro area.



From:
OECD Economic Outlook, Volume 2014 Issue 1

Access the complete publication at:
https://doi.org/10.1787/eco_outlook-v2014-1-en

Please cite this chapter as:

OECD (2014), "Denmark", in *OECD Economic Outlook, Volume 2014 Issue 1*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_outlook-v2014-1-16-en

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