

DENMARK

The Danish economy has started to recover from the recession, but the upturn is expected to be muted. Policy stimulus will continue to support growth in 2010, and the recovery is projected to broaden in 2011.

Budget deficits are set to remain large by historical standards over the next two years, and the government should implement consolidation from 2011 to move back to a more sustainable position and contain upward pressure on long-term interest rates. The consolidation measures would need to be accompanied by structural reforms to increase the supply of labour.

A subdued recovery is under way

The Danish economy began to recover slowly from the recession in the second half of 2009. The upturn has so far been driven by government demand and private consumption, which has picked up on the back of strong fiscal and monetary stimulus. Exports have increased only modestly, owing to the erosion of competitiveness caused in previous years by relatively high wage inflation coupled with poor productivity growth and exchange rate appreciation. Going forward, business confidence in industry and services points to further expansion, but the construction sector is set to contract.

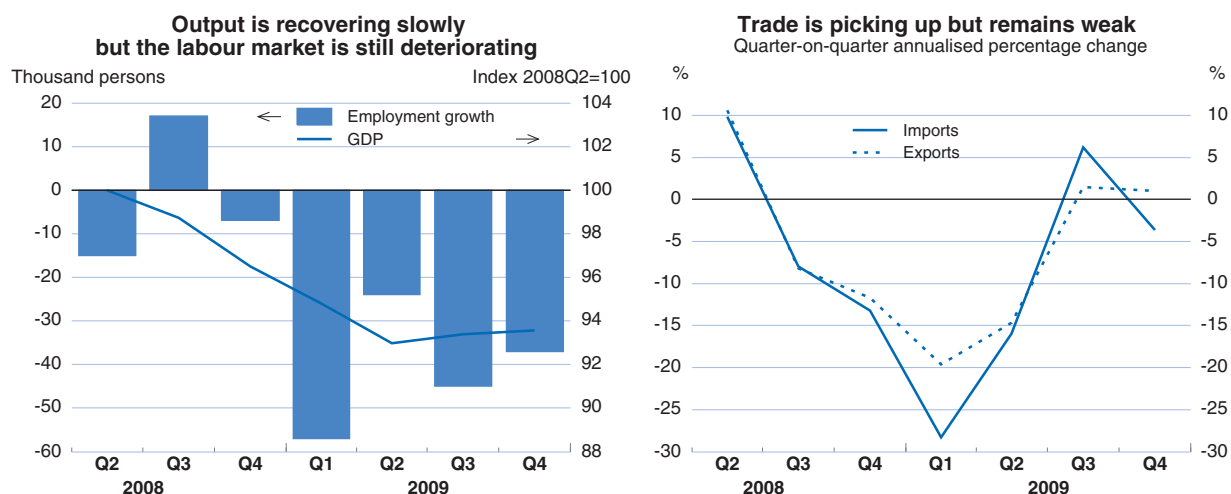
The labour market has been hit severely by the recession

Employment has plummeted and unemployment has increased sharply in the course of the recession, which has brought down wage growth and thus improved competitiveness. Employment is expected to decline further in 2010, but will pick up in 2011 as the recovery gains momentum.

Financial and housing markets have stabilised

Credit standards are no longer being tightened and bank lending to households and companies has stabilised. The housing market also shows signs of having bottomed out, with nominal house prices no longer

Denmark



Source: OECD, Economic Outlook 87 database.

StatLink <http://dx.doi.org/10.1787/888932304525>

Denmark: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices DKK billion	Percentage changes, volume (2000 prices)				
Private consumption	786.6	2.4	-0.2	-4.6	2.1	2.7
Government consumption	422.6	1.3	1.6	2.5	1.3	0.5
Gross fixed capital formation	353.4	2.8	-4.8	-12.0	-4.2	3.4
Final domestic demand	1 562.6	2.2	-0.8	-4.2	0.6	2.2
Stockbuilding ¹	17.3	-0.3	0.3	-2.0	0.9	0.0
Total domestic demand	1 579.8	1.9	-0.5	-6.3	1.2	2.2
Exports of goods and services	849.6	2.2	2.4	-10.4	2.4	4.9
Imports of goods and services	797.7	2.6	3.3	-13.2	2.5	5.4
Net exports ¹	51.9	-0.1	-0.4	1.2	0.0	-0.1
GDP at market prices	1 631.7	1.7	-0.9	-4.9	1.2	2.0
GDP deflator	—	1.9	3.6	0.4	2.0	1.8
<i>Memorandum items</i>						
Consumer price index	—	1.7	3.4	1.3	2.1	1.8
Private consumption deflator	—	2.0	3.2	1.3	2.0	1.7
Unemployment rate ²	—	3.6	3.2	5.9	7.2	6.9
Household saving ratio ³	—	-3.2	-2.4	3.2	4.9	3.5
General government financial balance ⁴	—	4.8	3.4	-2.8	-5.5	-4.8
Current account balance ⁴	—	1.5	2.2	4.0	3.2	2.7

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 87 database.

StatLink  <http://dx.doi.org/10.1787/888932306672>

falling and housing turnover picking up. However, the stock of unsold houses remains large and the unwinding of fiscal and monetary stimulus may tend to hold housing demand down.

Monetary and fiscal policy remains expansionary

The Central Bank has continued to cut interest rates in the face of krone appreciation pressures caused by spreads in money market rates vis-à-vis the euro area. Fiscal policy will add to the stimulus stemming from low interest rates in 2010 through high government investment and the ongoing tax reform.

Fiscal consolidation should be complemented with structural reforms

The general government deficit is expected to shrink only moderately over the projection period. The pickup in growth, the deceleration in fixed capital investment at the local government level and the consolidation measures from 2011 onwards announced by the government in April 2010 will all help. However, against the backdrop of recurrent overshooting of public spending targets in past years, effective restraint, both at the central and at the local government levels, is important and will help contain upward pressure on long-term interest rates.

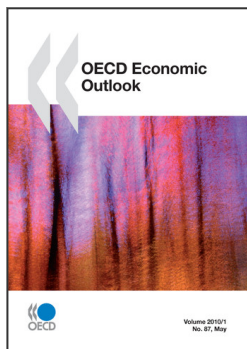
Furthermore, to complement the planned fiscal consolidation the government should consider reforms to boost labour supply.

The muted recovery is projected to continue

The economic recovery is projected to continue over 2010-11. Private consumption will remain an important driver, boosted by the strong monetary and fiscal stimulus in 2010 and by an improving labour market in 2011. The initial pick-up in exports is expected to be modest owing to past competitiveness losses. However, wage moderation and a cyclical productivity bounce should improve competitiveness and allow exports to accelerate eventually. Headline inflation is up in 2010 on the back of higher duties and energy prices, but the persistent large output gap will hold down inflation in 2011.

The main risks relate to the housing market and exports

Growth might be held back if the withdrawal of macroeconomic policy stimulus were to translate into falling house prices and more forced property sales. However, the pace of the recovery could also surprise on the upside if competitiveness improves faster than expected and allows the economy to benefit more from the rebound in world trade.



From:
OECD Economic Outlook, Volume 2010 Issue 1

Access the complete publication at:
https://doi.org/10.1787/eco_outlook-v2010-1-en

Please cite this chapter as:

OECD (2010), "Denmark", in *OECD Economic Outlook, Volume 2010 Issue 1*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_outlook-v2010-1-17-en

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