

## DENMARK

Growth is projected to continue to pick up as domestic demand, supported by low interest rates and improved confidence, gains momentum, and as exports accelerate on the back of strengthening external demand. Employment growth will gradually increase in 2014, contributing to a fall in the unemployment rate.

Fiscal policy is expected to be broadly neutral in 2014, although the effects of past measures will continue to support private demand. Given the large automatic stabilisers, further discretionary stimulus is not warranted. To limit the risks arising from high household debt, financial supervision and macro-prudential policies should continue to be strengthened.

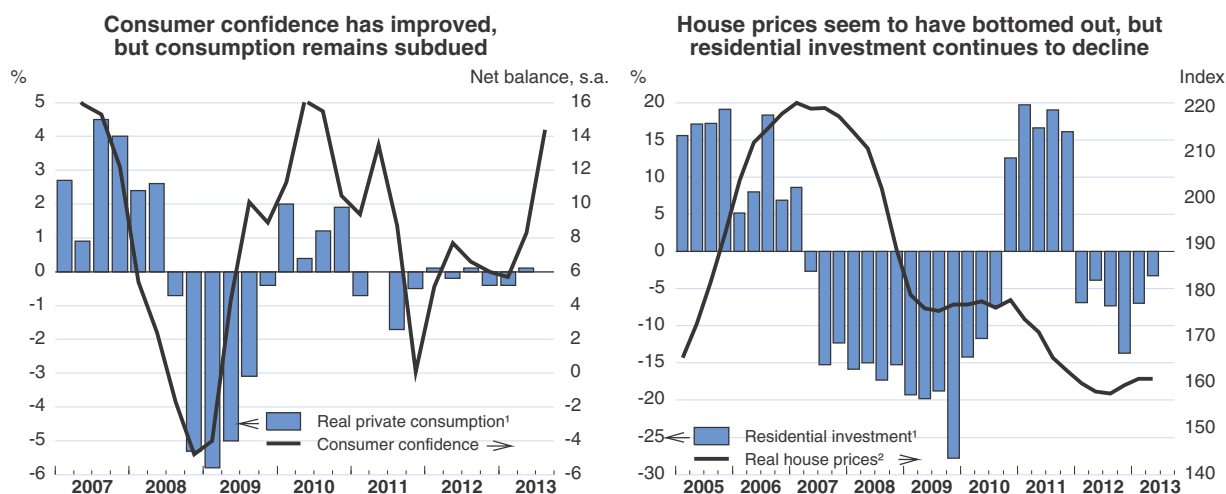
### Activity is slowly picking up

Activity has started to improve. Exports expanded in the first half of 2013, reflecting improved external demand. Temporarily more generous depreciation allowances have boosted spending on equipment and business confidence has begun to strengthen. However, total business investment has not rebounded so far, despite historically high corporate saving. Consumer confidence has improved, but since household debt is high and employment growth remains weak, private consumption has continued to be subdued. Inflation has fallen to record lows due to slack in the economy and some temporary factors.

### Financial conditions have not fully normalised

Since January 2013, capital inflows have abated and the Danish National Bank has not intervened in the foreign exchange market. Long-term interest rates have normalised, returning to levels above those in Germany. Policy interest rates remain very low, but lending surveys still point to tight lending standards. While house prices have stabilised, sales of dwellings remain modest. Financial stability was enhanced by the

## Denmark



1. Year-on-year percentage changes.

2. Deflated using the private consumption deflator. Average 1970-90 = 100.

Source: OECD Economic Outlook 94 database; and Monthly Economic Indicators Database.

StatLink <http://dx.doi.org/10.1787/888932948226>

Denmark: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices DKK billion	Percentage changes, volume (2005 prices)				
<b>GDP at market prices</b>	1 760.1	1.1	-0.4	0.3	1.6	1.9
Private consumption	855.4	-0.7	-0.1	0.2	1.4	1.9
Government consumption	509.6	-1.4	0.4	0.5	0.5	0.6
Gross fixed capital formation	297.8	3.3	0.8	-0.9	4.5	4.0
Final domestic demand	1 662.8	-0.2	0.2	0.0	1.7	1.9
Stockbuilding <sup>1</sup>	- 0.3	0.4	-0.3	0.2	-0.3	0.0
Total domestic demand	1 662.4	0.2	-0.1	0.6	1.5	1.9
Exports of goods and services	887.8	7.0	0.4	0.8	3.2	4.3
Imports of goods and services	790.2	5.9	0.9	1.4	3.2	4.5
Net exports <sup>1</sup>	97.6	0.9	-0.2	-0.3	0.2	0.1
<i>Memorandum items</i>						
GDP deflator	—	0.7	2.3	1.6	1.1	1.5
Consumer price index	—	2.8	2.4	0.7	1.2	1.6
Private consumption deflator	—	2.7	2.8	1.3	1.3	1.5
Unemployment rate <sup>2</sup>	—	7.6	7.5	7.0	6.7	6.5
Household saving ratio, net <sup>3</sup>	—	0.7	-0.7	-1.1	-1.4	-1.4
General government financial balance <sup>4</sup>	—	-2.0	-3.9	-1.5	-1.5	-1.9
General government gross debt <sup>5</sup>	—	59.9	59.3	58.8	60.0	61.5
General government debt, Maastricht definition <sup>4</sup>	—	46.4	45.4	44.8	46.0	47.5
Current account balance <sup>4</sup>	—	5.6	5.9	6.1	6.1	6.0

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 94 database.

StatLink  <http://dx.doi.org/10.1787/888932949860>

creation of a Systemic Risk Council for macro-prudential regulation in March 2013 and the introduction of stricter requirements for systemically important banks in October 2013.

### The fiscal stance is broadly neutral in 2014

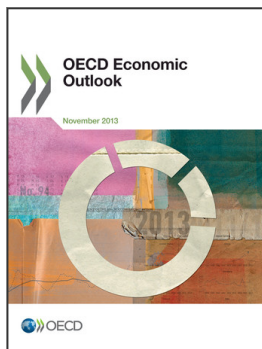
In 2014, the fiscal stance will be broadly neutral, which is appropriate. The newly introduced public expenditure ceilings will contribute to long-term fiscal sustainability. Recent reform of the vocational education system should boost youth transitions to employment. In 2015, the end of temporary revenues due to changes to pension taxation will lead to an increase in the general government financial deficit, while the fiscal stance will remain broadly neutral.

### Domestic demand and external conditions will stimulate growth

Growth is projected to continue to gain strength as the pick-up in world trade boosts exports and supports business investment. Receding uncertainties, a gradual recovery in the housing market and improving labour market conditions will help private consumption recover. With spare capacity remaining significant, inflation will stay subdued.

**Risks are largely external**

Weaker-than-expected euro area growth would weigh on exports and damp confidence. If the recovery in labour and housing markets is weaker than projected, deleveraging by highly indebted households could hold back private consumption. In contrast, stronger world trade growth or wage competitiveness improvements would lead to higher export growth. If the krone continues to be seen as a safe haven and Denmark recovers faster than the euro area, fiscal policy will have to be tightened more than projected since monetary policy will remain very accommodative to contain appreciation pressures.



From:

## OECD Economic Outlook, Volume 2013 Issue 2

Access the complete publication at:

[https://doi.org/10.1787/eco\\_outlook-v2013-2-en](https://doi.org/10.1787/eco_outlook-v2013-2-en)

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### Please cite this chapter as:

OECD (2013), "Denmark", in *OECD Economic Outlook, Volume 2013 Issue 2*, OECD Publishing, Paris.

DOI: [https://doi.org/10.1787/eco\\_outlook-v2013-2-16-en](https://doi.org/10.1787/eco_outlook-v2013-2-16-en)

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