Denmark

After slowing to 0.7% in 2023, economic growth is projected to recover to 1.4% in 2024. A strong labour market and large excess savings will support private consumption. By contrast, increasing borrowing costs and high uncertainty will weigh on housing and business investment. Inflation will recede from 4.9% in 2023 to 3.2% in 2024 on the back of falling commodity prices. The main risks to the outlook include stronger price and wage growth than projected. By contrast, a steeper fall in house prices would negatively affect economic activity.

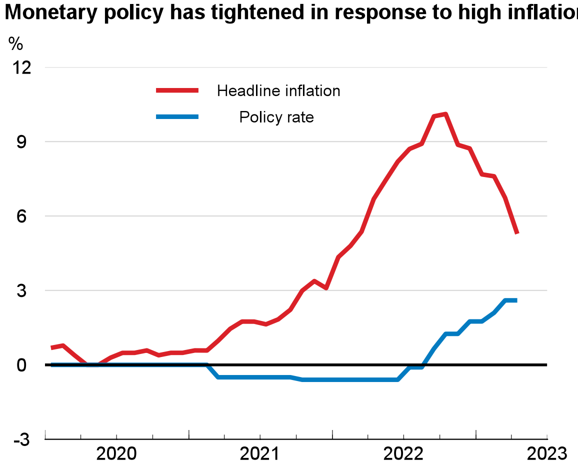
Raising interest rates in line with the euro area to support the currency peg will help to stabilise inflation by dampening domestic demand. Fiscal policy will remain prudent with government budget surpluses in 2023 and 2024. Nevertheless, if inflationary pressures turn out stronger than expected, some fiscal tightening would be required next year. Structural policies facilitating international recruitment and reducing effective labour taxation would help to support labour supply. Moving ahead with plans to strengthen emissions pricing and accelerating the implementation of infrastructure projects would help to sustain investment and the green transition.

Growth momentum has weakened

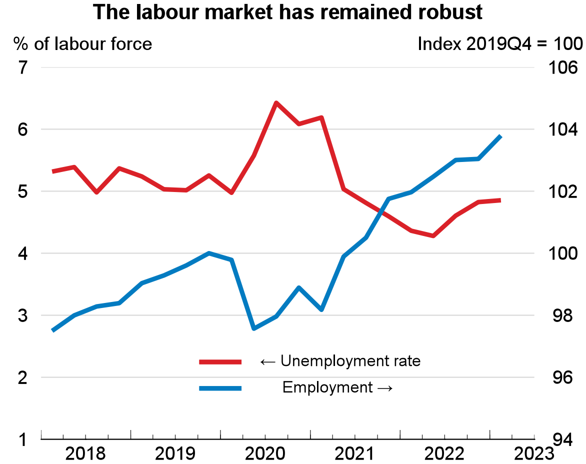
The economy has slowed since the second half of 2022, except in the buoyant pharmaceutical sector. GDP growth slowed to 0.2% in the first quarter of 2023. Industrial production has weakened since the beginning of this year. The energy price shock, increasing borrowing costs, and low confidence have hit private consumption and housing investment. Rising interest rates have slowed transactions in the housing market and house prices have fallen by around 8% from their peak in mid-2022. Tensions in the labour market have started to ease, with growing unemployment and contained wage growth, but recruitment difficulties have remained pronounced. Headline inflation declined to 5.3% in April amid falling energy prices. Core inflation remains high, reflecting the progressive pass-through of higher production costs to consumer prices.

Denmark

Monetary policy has tightened in response to high inflation



The labour market has remained robust



Source: OECD Economic Outlook 113 database.

StatLink https://stat.link/co5ql4

Denmark: Demand, output and prices

Denmark	2019	2020	2021	2022	2023	2024
	Current prices DKK billion	Percentage changes, volume (2010 prices)				
GDP at market prices	2 311.0	-2.0	4.9	3.8	0.7	1.4
Private consumption	1 085.0	-1.4	4.2	-2.3	0.0	1.3
Government consumption	557.6	-1.4	4.2	-3.5	-1.0	1.2
Gross fixed capital formation	490.9	5.1	6.2	8.6	-2.7	-1.8
Final domestic demand	2 133.4	0.1	4.6	0.1	-1.0	0.5
Stockbuilding[1]	14.1	-0.2	0.0	0.8	0.6	0.0
Total domestic demand	2 147.6	-0.2	4.5	1.1	-0.3	0.5
Exports of goods and services	1 355.3	-6.3	8.0	8.6	2.1	3.1
Imports of goods and services	1 191.9	-3.6	8.0	4.2	1.4	1.8
Net exports[1]	163.4	-1.9	0.5	2.9	0.6	1.0
Memorandum items						
GDP deflator	_	2.6	2.8	7.6	1.7	3.4
Consumer price index	_	0.4	1.9	7.7	4.9	3.2
Core inflation index[2]	_	1.0	1.2	4.0	4.8	3.2
Unemployment rate (% of labour force)	_	5.8	5.2	4.5	5.4	5.8
Household saving ratio, net (% of disposable income)	_	5.7	3.2	8.4	7.4	6.3
General government financial balance (% of GDP)	_	0.2	3.6	3.3	2.4	1.6
General government gross debt (% of GDP)	_	58.9	50.6	37.6	38.6	37.9
General government debt, Maastricht definition[3] (% of GDP)	_	42.2	36.6	29.8	30.8	30.1
Current account balance (% of GDP)	_	7.9	9.0	13.1	10.3	10.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 113 database.

StatLink https://stat.link/mljnr8

Strong price signals, investments in energy savings and mild weather during the winter have triggered a significant reduction in electricity and gas consumption. Energy support measures have been modest compared to other OECD countries (around 0.4% of GDP for 2022 and 2023). They mostly consist of tax-free cheques to low-income pensioners, lump sum payments to vulnerable families, support for the rollout of district heating and a 6-month cut in the electricity tax rate to the EU minimum until June 2023. Risks of energy shortages for the next winter are limited given the low dependence to gas supply and the reopening of gas fields in the North Sea in winter 2023-24.

Sound macroeconomic policies will help to anchor inflation

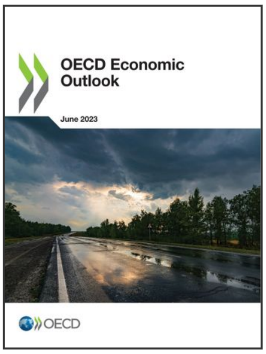
Monetary and fiscal policies will help to reduce inflationary pressures. The policy interest rate is projected to increase in line with euro area policy rates to maintain the peg to the euro and to reach 3.35% in the second quarter of 2023 and then stay at that level until the end of the projection horizon. Financial conditions will tighten with rising interest rates and stricter credit standards. The fiscal stance is expected to be broadly neutral in 2023 and mildly expansionary in 2024. The budget balance should remain in a surplus over the next two years. Support measures in response to high inflation and additional defence spending will be fully funded by the EU solidarity contribution, a reprioritisation in spending and the use of reserves. Additional support to Ukraine will amount to 0.2% of GDP but will not boost domestic activity.

Inflation will moderate as growth slows

GDP growth is projected to moderate to 0.7% in 2023 before recovering to 1.4% in 2024. Investment will slow amidst tightening financial conditions and weak external demand. Normalisation in the freight and pharmaceutical sectors will temper exports in 2023. Private consumption will drive the recovery as disposable incomes improve in real terms. Wages will continue to adjust to higher prices, but job retention by employers should limit the rise in unemployment. Inflation is expected to fall to 2.8% at the end of 2024 due to declining commodity prices and increasing spare capacity. Risks to the outlook include stronger inflation if wages increase above negotiated rates. A sharper decline in housing prices could weigh on households purchasing power and domestic demand.

Fostering the green transition is priority

Because monetary policy is bound by the peg to the euro, fiscal policy has a significant role to play to reduce inflationary pressures and should tighten if prices do not fall as expected. Structural reforms could limit the risk of labour shortages in key sectors. Removing barriers to the allocation of women into high-skilled occupations and to the recruitment of foreign workers can expand the talent pool. Introducing in--work benefits to lower the high labour taxation of middle-income families receiving social benefits and tackling the motherhood penalty in earnings can also sustain labour supply. Reaching the emission-reduction targets requires reducing reliance on fossil fuels further by speeding up infrastructure investment for the deployment of renewable energy sources. Establishing clear and credible price signals is also key for the green transition. The green tax reform is a step in the right direction and should be complemented by pricing emissions in the agriculture sector, while compensating measures should be in place to limit possible adverse socio-economic consequences.



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