

## DENMARK

GDP is projected to grow in 2016 and 2017 at just under 2%, supported by investment and a pick-up in world trade. Households will continue to reap the benefits of low inflation and energy prices and a stronger labour market. Exporters will get a boost from the weaker effective exchange rate and stronger growth in the European Union.

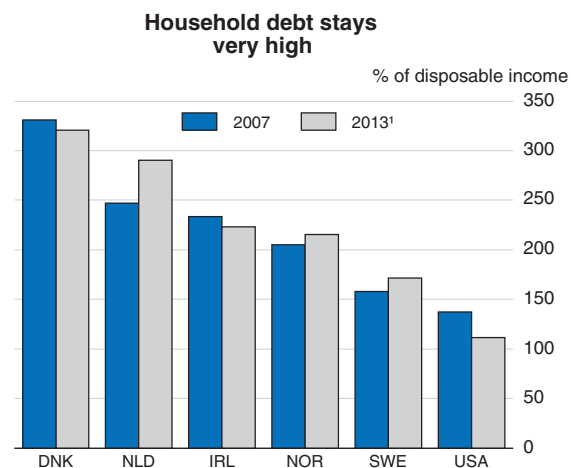
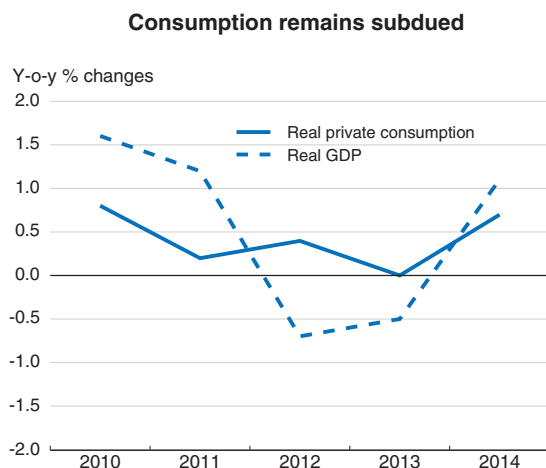
While the accommodative monetary policy continues to maintain the euro exchange rate peg, the economy is reaching its capacity, thereby raising pressure for fiscal policy tightening. To reduce tensions in local real estate markets, further macro-prudential tools would be warranted to limit the risk of another house-price-driven boom-bust cycle, including raising property taxes and updating property values, in particular in Copenhagen. To foster competition, regulation in retail and professional services needs to be eased.

Denmark has pioneered wind power and is a global player in production of wind turbines. Moreover, the country is currently on an ambitious transition to fossil-fuel-free energy supply by 2050. Given a new focus on cost-benefit assessment of climate change policies, the recently renewed housing improvements scheme should be targeted to credit-constrained households.

### The recovery is fragile but expected to firm up

The recovery of the Danish economy continues, although some weaknesses appeared in the course of 2015, with private consumption and trade growth losing momentum. A number of households face substantial debt overhangs, which could in part explain weak consumption. At the same time, current low interest rates, inflation and energy prices, and a stronger labour market, are supporting economic activity. Indicators point to firming growth in the European Union - a destination for just over half of the Danish exports. Employment has been rising for two years now, with its growth being broadly based and largely in the private sector.

#### Denmark



1. 2012 for Ireland and the Netherlands.  
Source: OECD Economic Outlook 98 database.

Denmark: **Demand, output and prices**

	2012	2013	2014	2015	2016	2017
	Current prices DKK billion	Percentage changes, volume (2010 prices)				
<b>GDP at market prices</b>	1 866.8	-0.5	1.1	1.8	1.8	1.9
Private consumption	911.3	0.0	0.7	1.9	1.6	2.0
Government consumption	502.0	-0.5	0.2	1.3	0.2	0.5
Gross fixed capital formation	341.7	0.9	4.0	0.6	3.0	2.9
Final domestic demand	1 755.0	0.0	1.2	1.5	1.5	1.8
Stockbuilding <sup>1</sup>	11.8	-0.2	0.3	-0.6	0.3	0.0
Total domestic demand	1 766.8	-0.2	1.6	0.8	1.8	1.8
Exports of goods and services	1 007.5	0.8	2.6	1.4	3.3	4.1
Imports of goods and services	907.5	1.5	3.8	-0.4	3.5	4.1
Net exports <sup>1</sup>	100.0	-0.3	-0.4	1.0	0.1	0.3
<i>Memorandum items</i>						
GDP deflator	—	1.5	0.8	1.4	1.5	1.9
Consumer price index	—	0.8	0.6	0.5	0.9	1.4
Private consumption deflator	—	1.0	0.7	1.0	1.2	1.5
Unemployment rate <sup>2</sup>	—	7.0	6.5	6.3	6.2	5.9
Household saving ratio, net <sup>3</sup>	—	-0.4	-6.5	-4.1	-3.7	-1.8
General government financial balance <sup>4</sup>	—	-1.3	1.5	-2.7	-2.8	-2.8
General government gross debt <sup>4</sup>	—	58.0	60.6	57.1	56.4	58.9
General government debt, Maastricht definition <sup>4</sup>	—	45.0	45.1	41.6	40.9	43.3
Current account balance <sup>4</sup>	—	7.2	6.3	7.0	7.2	7.4

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 at market value.

Source: OECD Economic Outlook 98 database.

StatLink  <http://dx.doi.org/10.1787/888933297050>

## Policies remain supportive but also add to vulnerabilities

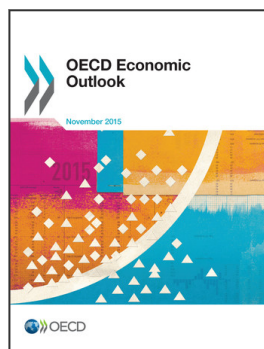
Monetary policy, which is governed by the peg to the euro, and overall financial conditions will remain supportive even as the slack in the economy is disappearing. This will put more of the burden of stabilisation on tighter fiscal policy. Some taxes are set to decrease and others are kept artificially low; for example, property taxes have been effectively frozen for over 10 years, which is widening regional disparities and adding to overheating in some local housing markets. Further macro-prudential tools should be considered to ensure that the spillovers from the ultra-loose monetary policy do not undermine financial stability and credit quality.

Structural policies can do more to improve growth. To boost competition and productivity growth, the authorities could go further to support investment by easing restrictions in sectors such as pharmacies, taxis and professional services. To support young innovative firms, the authorities should improve access to funding through better framework conditions and continue to foster a more entrepreneurial culture via the education system. Notwithstanding one of the lowest inequalities in OECD, work incentives and inclusiveness remain prominent on the policy agenda.

Denmark has been at the forefront of renewable energy technologies (using wind in particular), and has been successful in diffusing the knowledge to other countries. So-called green exports constitute about a tenth of exported goods and have increased faster than total exports in recent years. The share of environmental taxes is among the highest in the OECD, with revenues of around 4% of GDP. The new government plans to review climate change policies to improve their cost-efficiency. A good start would be to limit tax deductions for housing improvements (re-introduced recently) to credit-constrained households.

### **Risks to the outlook are both domestic and external**

Economic growth will stabilise at just below 2% until 2017, supported by investment, stronger world trade and moderately stronger private consumption. However, private consumption will be held back by a further reduction in household debt. Given the consolidation needs, the growth of both public investment and public consumption is set to ease. Improving prospects in the EU will help lift exports and release pent-up investment pressure. Inflation is projected to rise slightly towards the end of the projection period. Downside risks include a weaker world trade recovery, disappointing recovery in the euro area and stronger deleveraging by Danish households, which could prolong the weakness of private consumption. A stronger impact of the loose monetary policy stance and increasing property prices would on the other hand boost domestic demand growth more than projected.



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