

DENMARK

The recovery is expected to gain strength gradually as world trade expands, and to become broad-based as private domestic demand improves. With still substantial slack in the economy, inflation is set to remain subdued.

The implementation of the fiscal consolidation plan would allow the fiscal position to be brought back to a path consistent with long-term targets. However, this requires that the government's plans to lower public consumption growth are implemented without the drift that has been a feature in the past, especially at the local government level. To limit labour supply distortions, the envisaged income tax hikes could be partly replaced by measures to raise the efficiency of public spending.

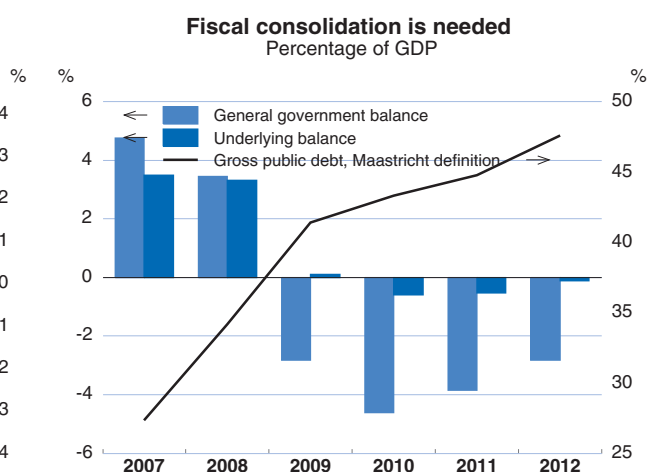
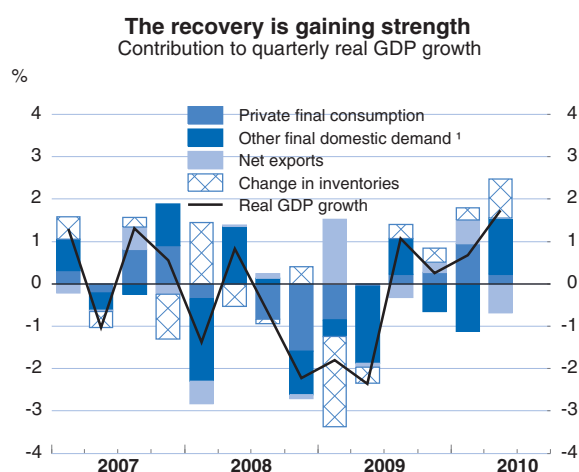
The recovery has gained strength

The economy has now been recovering for over a year, with strong growth in the second quarter of 2010. The upturn had initially been driven mainly by government demand and private consumption, which picked up on the back of strong fiscal and monetary stimulus. More recently, the stockbuilding cycle turned around and exports and private investment surged in the second quarter. Short-term supply-side indicators point to weaker growth for the remainder of the year in most sectors, except manufacturing. Consumer confidence has declined slightly but is above its long-term average.

The labour market shows signs of improvement

Employment has been growing since the start of 2010, driven by public-sector and, more recently, private demand. With relatively high participation rates, however, unemployment continued to rise, as did long-term unemployment, albeit from a low level. As wages have decelerated only modestly, employment is set to recover slowly and unemployment is unlikely to start decreasing before 2011.

Denmark



1. Consists of gross fixed capital investment, government consumption and statistical discrepancy.

Source: OECD, Economic Outlook 88 database.

Denmark: Demand, output and prices

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|-------------------------------|--|-------|------|------|------|
| | Current prices DKK billion | Percentage changes, volume (2000 prices) | | | | |
| Private consumption | 821.7 | -0.2 | -4.6 | 3.0 | 1.6 | 2.2 |
| Government consumption | 439.1 | 1.6 | 3.4 | 2.0 | -0.3 | 0.3 |
| Gross fixed capital formation | 376.6 | -4.8 | -13.0 | -3.9 | 4.4 | 6.2 |
| Final domestic demand | 1 637.3 | -0.8 | -4.2 | 1.4 | 1.5 | 2.3 |
| Stockbuilding ¹ | 12.9 | 0.3 | -2.0 | 1.2 | 0.0 | 0.0 |
| Total domestic demand | 1 650.2 | -0.5 | -6.2 | 2.2 | 1.5 | 2.3 |
| Exports of goods and services | 886.4 | 2.4 | -10.2 | 3.7 | 4.5 | 5.1 |
| Imports of goods and services | 845.1 | 3.3 | -13.2 | 4.1 | 5.5 | 6.0 |
| Net exports ¹ | 41.3 | -0.4 | 1.3 | -0.1 | -0.2 | -0.1 |
| GDP at market prices | 1 691.5 | -0.9 | -4.7 | 2.2 | 1.6 | 2.1 |
| GDP deflator | — | 3.6 | 0.4 | 2.9 | 1.0 | 2.0 |
| <i>Memorandum items</i> | | | | | | |
| Consumer price index | — | 3.4 | 1.3 | 2.3 | 1.4 | 1.5 |
| Private consumption deflator | — | 3.2 | 1.4 | 2.4 | 1.4 | 1.5 |
| Unemployment rate ² | — | 3.2 | 5.9 | 7.2 | 7.2 | 6.5 |
| Household saving ratio ³ | — | -2.8 | 0.1 | -1.2 | -2.3 | -2.5 |
| General government financial balance ⁴ | — | 3.4 | -2.8 | -4.6 | -3.9 | -2.8 |
| Current account balance ⁴ | — | 2.7 | 3.6 | 4.4 | 4.4 | 4.8 |

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 88 database.

StatLink  <http://dx.doi.org/10.1787/888932347503>

Financial conditions are normalising

Bank lending to households and companies remained broadly flat during the first half of the year. The housing market shows signs that it has bottomed out, with house prices stabilising. Equity prices have continued to rise.

Policies will be less supportive

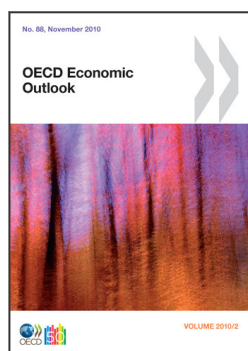
The government adopted a Fiscal Consolidation Agreement in May 2010 to consolidate general government finances, with an overall fiscal effort of 1.5% of GDP over 2011-13. The Agreement includes a freeze in public consumption growth in real terms. The projection assumes that the Agreement will be fully implemented. However, for fiscal consolidation to succeed, the government will have to slow public consumption growth markedly, which may be hard to achieve in 2010. The government expects its plan to boost labour market incentives and employment. The cut in duration of unemployment benefits would enhance incentives for the unemployed to find a job. This would be only partly offset by the decision to freeze the nominal tax thresholds, which increases marginal effective tax rates. In 2011, monetary conditions will be very stimulative but they will be somewhat less so in 2012.

**The recovery will be driven
by both external and
private demand**

After some temporary slowing in the second half of 2010, the recovery is expected to regain strength gradually. Public demand is set to contribute less to growth while private demand takes the lead. Exports will benefit from expanding world trade and business investment is projected to gain momentum, with the investment-to-GDP ratio approaching pre-crisis levels by end-2012. Private consumption growth is expected to be subdued in 2011, but to pick up in 2012 on the back of improving labour market conditions. With growth mainly driven by private demand, imports are also projected to grow strongly. Inflation is set to remain subdued as economic slack will remain substantial.

**Risks relate mainly to the
implementation of the fiscal
consolidation plan**

The recovery could be weaker if the government fails to reduce public consumption and decides to raise taxes further, which could adversely affect labour supply. It could also be stronger, especially beyond the near term, if the plan is used as an opportunity to undertake structural reforms to raise productivity growth. There are risks that the housing market will not stabilise soon despite low interest rates, and that exports benefit less from the buoyancy in world trade should competitiveness improve less than expected.



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