Denmark

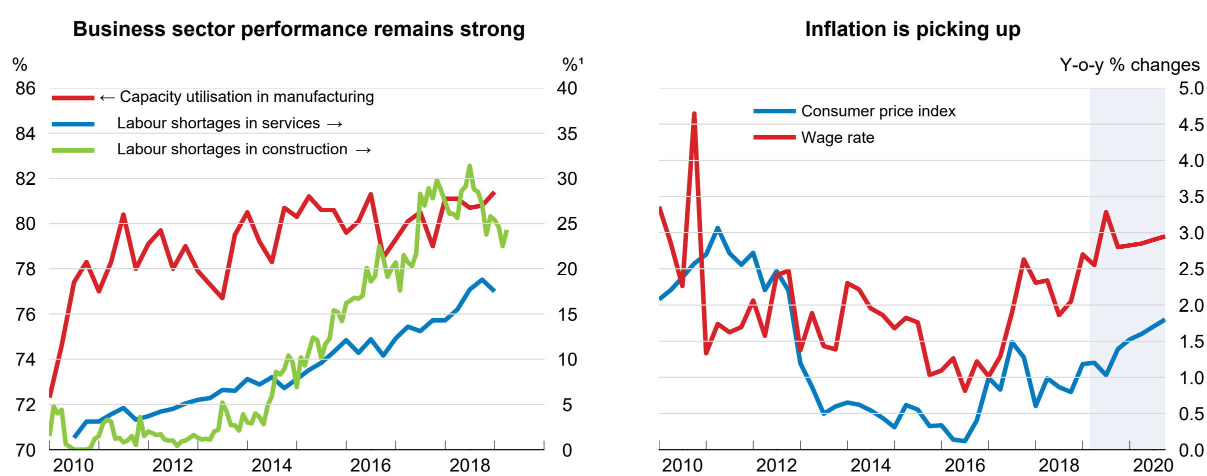
Economic growth is projected to remain strong in 2019 and moderate in 2020 to around 1¾ per cent, as weaker external demand constrains export growth. Rising employment and solid real wage gains will support domestic demand and help sustain the expansion. Inflation is set to pick up from a very low rate as the economy operates above its capacity constraints.

Expansionary monetary policy conditions, reflecting the peg of the krone to the euro, will continue to stimulate investment. Fiscal policy will also support growth in 2019, notably through ongoing public investment and measures decided in previous years. In 2020, fiscal policy is assumed to have a neutral impact on activity, which is appropriate given continued difficulties for firms to hire skilled workers. Structural reforms of competition and tax policies could help to accelerate weak productivity growth.

The long-lasting expansion continues

The economic expansion has been strong recently, underpinned by robust private consumption and accelerating exports. Industrial specialisation in goods that are less sensitive to business cycle fluctuations, such as pharmaceuticals and wind turbines, has helped to weather the global slowdown. Business investment has stabilised after peaking in mid-2018, driven by ship investments. High capacity utilisation and low interest rates are stimulating further investment.

Denmark



1. Percentage of firms reporting shortages of labour as the main factor limiting their business.
Source: OECD Economic Outlook 105 database; and Refinitiv.

StatLink https://doi.org/10.1787/888933934261

Denmark: Demand, output and prices

Denmark	2015 Current prices DKK billion	2016	2017	2018	2019	2020
		Percentage changes, volume (2010 prices)				
GDP at market prices	2 036.4	2.4	2.3	1.4	2.1	1.7
Private consumption	959.4	2.1	2.1	2.3	1.8	2.1
Government consumption	518.6	0.2	0.7	0.8	0.5	0.4
Gross fixed capital formation	404.2	7.6	4.6	5.1	-1.9	3.3
Final domestic demand	1 882.2	2.7	2.3	2.5	0.6	2.0
Stockbuilding[1]	15.9	-0.2	-0.1	0.0	0.0	0.0
Total domestic demand	1 898.1	2.5	2.2	2.6	0.6	1.9
Exports of goods and services	1 128.5	3.9	3.6	0.6	3.3	2.6
Imports of goods and services	990.3	4.2	3.6	2.7	0.5	3.2
Net exports[1]	138.2	0.1	0.2	-1.0	1.6	-0.1
Memorandum items						
GDP deflator	_	0.7	1.4	0.4	1.6	1.8
Consumer price index	_	0.3	1.1	0.8	1.2	1.7
Core inflation index[2]	_	0.7	0.9	0.6	1.1	1.7
Unemployment rate (% of labour force)	_	6.2	5.7	5.0	4.9	4.8
Household saving ratio, net (% of disposable income)	_	4.5	6.2	7.0	7.2	7.3
General government financial balance (% of GDP)	_	-0.1	1.4	0.5	0.3	0.2
General government gross debt (% of GDP)	_	51.4	48.8	47.4	46.9	46.6
General government debt, Maastricht definition (% of GDP)	_	37.2	35.5	34.1	33.6	33.4
Current account balance (% of GDP)	_	7.9	8.0	5.9	6.7	6.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 105 database.

StatLink https://doi.org/10.1787/888933935287

The labour market remains tight. Job creation was strong in early 2019 and employers report difficulties in filling more than a fifth of all vacancies. Labour shortages have started to ease in construction as residential investment moderates and house prices in Copenhagen stabilise. Wage increases are gaining pace, further boosting household real incomes, which have benefited from wages growing at a higher rate than prices for an extended period.

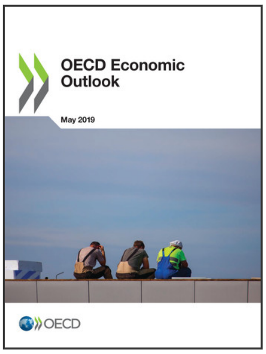
Structural reforms are needed to boost productivity growth

Monetary conditions remain very easy, as the central bank's deposit rate has been negative almost uninterruptedly since 2012 to maintain the peg to the euro. The expected continuation of accommodative euro area monetary policy warrants prudent fiscal policy. Fiscal developments have a slightly expansionary impact on aggregate demand in 2019, mainly reflecting changes in some volatile tax bases rather than policy changes. Ongoing public investment projects, including the construction of six large hospitals, will also give a boost to growth in 2019. A gradual tightening of fiscal policy to reflect the economic upturn and to reach the government's objective of structural balance after 2020 would be appropriate. At the same time, it would be suitable to plan for public infrastructure investment in the medium term, as envisaged by recent political agreements.

Productivity growth remains weak and would benefit from structural reforms. Competitive pressures could be bolstered by improving the competition framework, which tends to be comparatively complex and suffer from sometimes lengthy court procedures. Reducing high marginal taxes on labour and capital income would strengthen incentives to invest in innovation, education and entrepreneurship. For corporate income taxation, introducing an allowance for corporate equity would reduce incentives to finance investment by debt rather than equity and help to boost labour productivity and wages.

Growth is set to remain strong, amid high uncertainty

The economy is projected to grow by 2.1% in 2019 and 1.7% in 2020. Exports will give a boost to growth in the first half of 2019, but then weaken in line with the slowdown in the external environment. Rising household incomes and low unemployment will stimulate domestic demand and sustain growth above its long-run trend. Sizeable downside risks are present. Brexit continues to generate uncertainties for exporting firms and the fishery industry. A disorderly outcome of Brexit could have major negative effects on agricultural, food and manufacturing sectors in Denmark. Domestic risks mainly relate to intensifying labour shortages if the expected rise in the labour market participation of older workers does not materialise or the inflow of foreign workers tumbles.



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