

Denmark

The economy is projected to grow at a moderate pace of around 1½ per cent in 2020 and 2021. Strong exports will slow and weigh on growth as demand from trading partners weaken. However, robust wage growth, continued job creation and negative interest rates will boost household disposable incomes and bolster private consumption. Inflation is set to rise gradually.

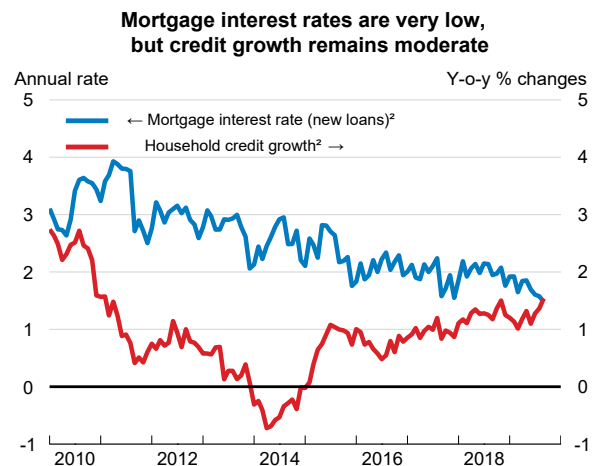
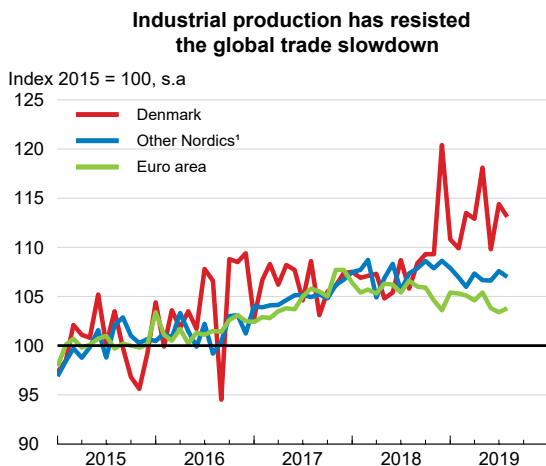
Monetary policy conditions are expected to remain highly accommodative due to the krone's peg to the euro. Strong public spending growth is planned in 2020, while public investment is set to pick up in 2021. A stronger focus on efficiency of public spending and investment would be suitable, not least in the government's ambitious climate policy.

The economy has been resilient

Resilient exports have sustained economic growth in 2019. Pharmaceuticals and machinery, including wind turbines, account for a large part of export growth since the mid-2018. Specialisation in these industries has helped to cushion industrial production from the global trade slowdown. Private consumption continues to grow at a moderate pace, while business and residential investment growth have weakened. Business sentiment indicators have also been declining from a high level.

Employment is still increasing, but job creation and the inflow of foreign workers have slowed. The easing of labour market conditions has stabilised wage growth at around 2.5%. Consumer price inflation has declined and is currently around 0.5%, bringing solid real wage gains for households.

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1. Other Nordics is a simple average of Finland, Norway and Sweden.

2. Effective mortgage rate of interest including administration rate and capital loss on issue of underlying bonds. Household credit includes all loans from banks and mortgage banks to the household sector.

Source: OECD, Main Economic Indicators database; and Danmarks Nationalbank.

Denmark: Demand, output and prices

	2016	2017	2018	2019	2020	2021
	Current prices DKK billion	Percentage changes, volume (2010 prices)				
Denmark						
GDP at market prices	2 107.8	2.0	2.4	1.8	1.4	1.4
Private consumption	983.8	1.6	2.6	1.2	2.0	1.8
Government consumption	524.2	1.0	0.4	0.8	1.4	0.6
Gross fixed capital formation	443.2	3.0	5.4	-1.5	3.4	3.0
Final domestic demand	1 951.2	1.8	2.7	0.5	2.2	1.8
Stockbuilding ¹	15.7	-0.1	0.3	-0.2	0.0	0.0
Total domestic demand	1 966.9	1.6	3.1	0.3	2.2	1.8
Exports of goods and services	1 126.1	4.6	2.4	3.8	1.9	2.3
Imports of goods and services	985.2	4.3	3.6	0.4	3.2	3.1
Net exports ¹	140.9	0.5	-0.4	1.9	-0.5	-0.2
<i>Memorandum items</i>						
GDP deflator	—	1.1	0.8	1.4	1.6	1.7
Consumer price index	—	1.1	0.8	0.7	0.9	1.4
Core inflation index ²	—	0.9	0.6	0.8	1.0	1.4
Unemployment rate (% of labour force)	—	5.8	5.1	5.0	5.0	5.0
Household saving ratio, net (% of disposable income)	—	6.2	6.6	3.9	6.8	6.8
General government financial balance (% of GDP)	—	1.5	0.6	1.8	0.3	-0.2
General government gross debt (% of GDP)	—	48.8	47.5	45.5	45.1	45.4
General government debt, Maastricht definition (% of GDP)	—	35.5	33.8	31.8	31.4	31.7
Current account balance (% of GDP)	—	7.8	7.0	7.7	7.8	7.4

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 106 database.

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Policies should aim at improving cost-efficiency

Ultra loose monetary conditions are expected to last. The central bank reduced its policy interest rate to -0.75% in September 2019 to defend the peg to the euro. Mortgage interest rates have declined throughout 2019, prompting a refinancing boom among homeowners to reduce their debt costs. Household credit growth remains moderate, but could pick up if homeowners decide to raise additional debt. Reducing tax deductibility of interest expenses further would be welcome to remove incentives for excessive household balance sheet expansion. Following money laundering scandals, continued vigilance of the financial sector and updating of regulatory frameworks are also needed.

Fiscal policy was planned to stay close to budget balance during 2019-2021, which is appropriate. However, a sizeable budget surplus is expected in 2019, reflecting large and volatile revenues from recurrent taxation of interest, dividends and capital gains on pension savings. The government now plans to increase spending on public services in 2020, including on health and education, financed by an expected increase in fiscal space and a welcome withdrawal of reduced inheritance taxation for family-owned businesses.

The government is committed to address climate change and reach ambitious greenhouse-gas-reduction targets. This should be pursued by implementing the most cost-efficient reductions first, taking into account implications for global emissions. Continued reform of health, education and active labour market policies should also focus on enhancing efficiency of public spending; for instance, by reducing student grants in tertiary education and relying more on student loans.

Growth is projected to slow down

Economic growth is projected to slow to 1.4% in 2020 and 2021. Domestic demand will underpin growth as exports weaken. A renovation of the largest oil platform in the North Sea during 2019-2021 will give a boost to investment and temporarily increase oil imports. Negative interest rates and nominal wage increases are expected to lift inflation gradually from its low level. Higher-than-expected private consumption could result from a repayment of collected property taxes in 2020 and 2021 along with a pick-up in household credit growth. The main risks to the outlook are nevertheless to the downside, stemming from large uncertainties in the external environment, not least the resolution of Brexit.



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