Denmark

Containment measures to curb the pandemic and associated uncertainty will cause a sharp contraction in economic activity, by more than 7% in 2020 if there is another virus outbreak later in the year (the double-hit scenario) and by almost 6% if further shutdown measures are avoided (the single-hit scenario). A second outbreak would result in significant scars from prolonged unemployment and many bankrupt businesses, delaying the recovery. In the single-hit scenario, the brief and more limited shutdown than in other OECD countries combined with sizeable government support will limit economic and well-being costs. In both scenarios, favourable export specialisation partly weathers the initial trade disruptions, but eventually external demand will largely determine the recovery path.

Forceful fiscal action has protected the economy and limited the rise in unemployment. Temporary and broad support schemes for businesses and workers have been implemented and prolonged twice. They should be allowed to expire and be replaced by more targeted support to viable businesses and sectors as the reopening phase matures and in case of a second outbreak. This will be important to avoid a surge in zombie firms and to preserve a flexible labour market that facilitates a needed reallocation of workers to new jobs. Further public investments to reduce emissions and mitigate climate risks would be timely to accelerate and green the recovery.

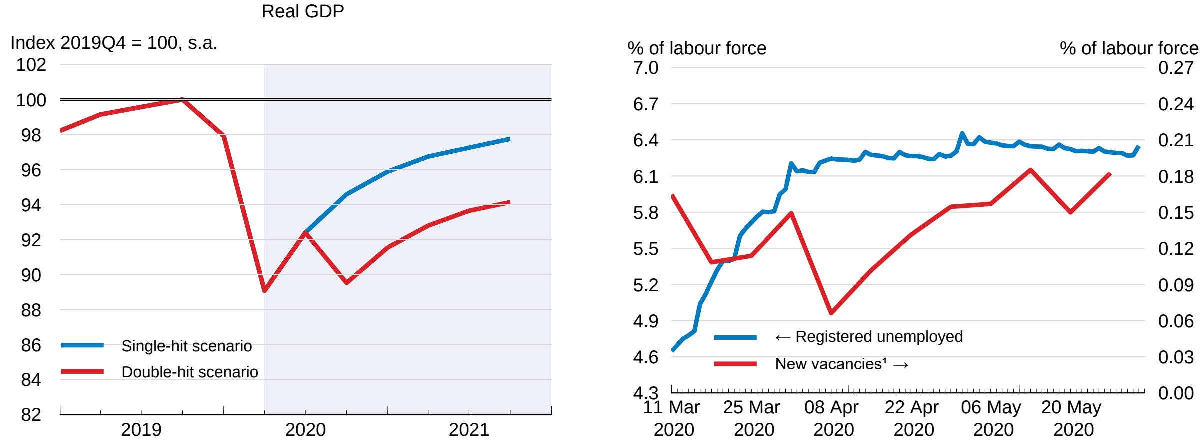
Rapid action contained the spread of the virus

The pandemic arrived with the first confirmed case in late February and the numbers increased quickly in early March. Most of the initial cases reflected returning tourists from Austria and Italy, permitting the government to take early preventive action and limiting the pandemic mainly to the Copenhagen area. The daily death toll and hospitalised COVID-19 patients peaked around 1 April 2020 at a low level compared to other European countries. While the health system is efficient and well resourced, the initial anticipation of a larger outbreak required a rapid expansion of the number of intensive care beds.

Denmark

A second virus outbreak would scar the recovery
Real GDP

The fast increase in unemployment has stopped



1. Weekly data.
Source: OECD Economic Outlook 107 database; Danish Agency for Labour Market and Recruitment; and Statistics Denmark.

StatLink https://doi.org/10.1787/888934139252

Denmark: Demand, output and prices (double-hit scenario)

Denmark: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices DKK billion	Percentage changes, volume (2010 prices)				
GDP at market prices	2 107.7	2.0	2.4	2.4	-7.1	0.9
Private consumption	983.7	1.6	2.6	2.2	-7.0	2.0
Government consumption	524.2	1.0	0.4	0.5	1.8	2.4
Gross fixed capital formation	443.1	3.0	5.4	3.4	-10.5	-1.6
Final domestic demand	1 951.0	1.8	2.7	2.0	-5.5	1.3
Stockbuilding[1]	15.8	-0.1	0.3	-0.4	-0.4	0.0
Total domestic demand	1 966.8	1.6	3.1	1.7	-5.9	1.3
Exports of goods and services	1 126.1	4.6	2.4	1.6	-10.2	1.0
Imports of goods and services	985.2	4.3	3.6	0.1	-8.2	1.9
Net exports[1]	140.9	0.5	-0.4	0.8	-1.7	-0.4
Memorandum items						
GDP deflator	_	1.1	0.8	1.0	0.7	0.5
Consumer price index	_	1.1	0.8	0.8	0.4	0.2
Core inflation index[2]	_	0.9	0.6	0.8	0.7	0.2
Unemployment rate (% of labour force)	_	5.8	5.1	5.0	7.0	9.1
General government financial balance (% of GDP)	_	1.5	0.5	3.7	-9.1	-7.2
General government gross debt (% of GDP)	_	49.1	47.8	47.1	60.5	64.6
General government debt, Maastricht definition (% of GDP)	_	35.8	34.0	33.2	46.6	50.8
Current account balance (% of GDP)	_	7.8	7.0	7.8	5.5	4.8

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 107 database.

StatLink https://doi.org/10.1787/888934137637

The government closed most activities and services that do not permit sufficient physical distance in early March. Childcare and schools had to close and all non-critical public sector employees were ordered to work from home. Most of the private sector, including larger stores, could continue to function. A gradual reopening started after one month, beginning with childcare, lower primary schools and one-to-one services such as hairdressers. From mid-May, most economic activities were allowed to re-start. Border closures in place since mid-March are set to last until the end of August, while restrictions on public gatherings are gradually being eased.

Economic activity dropped by up to one-fifth

While in place, the containment measures may have reduced economic activity by 10-20%, according to national estimates. Hotels and restaurants, cultural activities and some services almost shut down completely, whereas around one-fifth of activity stopped in the manufacturing, trade and transportation sectors. Payment transactions likewise indicate a 10-20% reduction in consumer spending and electricity consumption fell by around 10% on workdays. The drops in consumer and business confidence are of the same magnitude as during the global financial crisis, but are much more abrupt. Unemployment increased fast during the second half of March, but the increase then slowed markedly. A job retention scheme agreed between the government and social partners allowed employers to retain more than 7% of the labour force on furlough with up to 90% wage subsidies.

Denmark: Demand, output and prices (single-hit scenario)

Denmark: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices DKK billion	Percentage changes, volume (2010 prices)				
GDP at market prices	2 107.7	2.0	2.4	2.4	-5.8	3.7
Private consumption	983.7	1.6	2.6	2.2	-5.5	5.1
Government consumption	524.2	1.0	0.4	0.5	1.8	1.8
Gross fixed capital formation	443.1	3.0	5.4	3.4	-9.7	1.0
Final domestic demand	1 951.0	1.8	2.7	2.0	-4.6	3.3
Stockbuilding[1]	15.8	-0.1	0.3	-0.4	-0.4	0.0
Total domestic demand	1 966.8	1.6	3.1	1.7	-4.9	3.3
Exports of goods and services	1 126.1	4.6	2.4	1.6	-8.2	5.0
Imports of goods and services	985.2	4.3	3.6	0.1	-6.7	4.5
Net exports[1]	140.9	0.5	-0.4	0.8	-1.3	0.5
Memorandum items						
GDP deflator	_	1.1	0.8	1.0	0.7	0.6
Consumer price index	_	1.1	0.8	0.8	0.4	0.4
Core inflation index[2]	_	0.9	0.6	0.8	0.7	0.4
Unemployment rate (% of labour force)	_	5.8	5.1	5.0	6.6	6.5
General government financial balance (% of GDP)	_	1.5	0.5	3.7	-7.6	-3.8
General government gross debt (% of GDP)	_	49.1	47.8	47.1	57.7	57.4
General government debt, Maastricht definition (% of GDP)	_	35.8	34.0	33.2	43.8	43.5
Current account balance (% of GDP)	_	7.8	7.0	7.8	5.8	6.3

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 107 database.

StatLink https://doi.org/10.1787/888934137656

The fiscal support to firms and workers is massive

Policymakers acted decisively and implemented discretionary fiscal support of around 5% of GDP for 2020. Additional support to businesses through liquidity measures, notably tax and VAT deferrals, and government guarantees brings total support close to 18% of GDP. The vast amount of cash support is devoted to the job retention scheme and compensation schemes to cover companies' fixed costs and incomes of self-employed with sizeable drops in revenue. Other initiatives include compensation to hard affected cultural activities, extending unemployment benefit periods and providing loans to entrepreneurs. A social policy package aims to help vulnerable groups with additional protection and preventing isolation. The financial sector has committed to assist firms and households with additional loans and payment holidays, backed by a release of the counter-cyclical capital buffer and extraordinary lending facilities from the central bank. The sole objective of monetary policy remains to keep a hard peg to the euro, which required an odd policy rate increase to -0.6% by mid-March.

The recovery will be gradual and depend on the external environment

Both scenarios assume continued lifting of containment measures with almost all economic activity resumed by August. Pent-up demand from household consumption and business investment will initially boost the recovery. While a large share of furloughed workers is expected to return to their job, a delayed unemployment surge is foreseen, also from expiring notice periods. Layoffs by late 2020 are assumed to be substantially higher in the double-hit scenario as a second shutdown in some sectors would push more firms into bankruptcy and increased uncertainty would delay investments. This would leave permanent effects on the economy from labour market exits, eroding skills and loss of firm-specific knowledge. The main risks to both scenarios relate to the external environment. Exports have a large share of pharmaceuticals and food products, providing more resilience to trade disruptions. Still, collapsing demand in export markets could result in a larger-than-expected contraction and an even slower recovery.

Policies should retain a flexible labour market and competitive businesses

The restart of the economy should take advantage of the strong labour market institutions in place, including opportunities for re-skilling. The job retention scheme has provided a welcome temporary freeze of employer-employee relations, but contrasts strongly with the Danish tradition of flexibility and high job turnover. The scheduled phase-out by end of August and more emphasis on short-time work and upskilling is thus welcome. The government has taken welcome steps to front-load public investment in municipalities and boost energy renovation of social housing. Structural initiatives to accelerate the government's ambitious climate agenda should also be considered as part of a green recovery. Short-term stimulus may be achieved through staggered implementation, such as lowering some distortionary taxes and fees, while announcing a future increase in the carbon tax.

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