Denmark

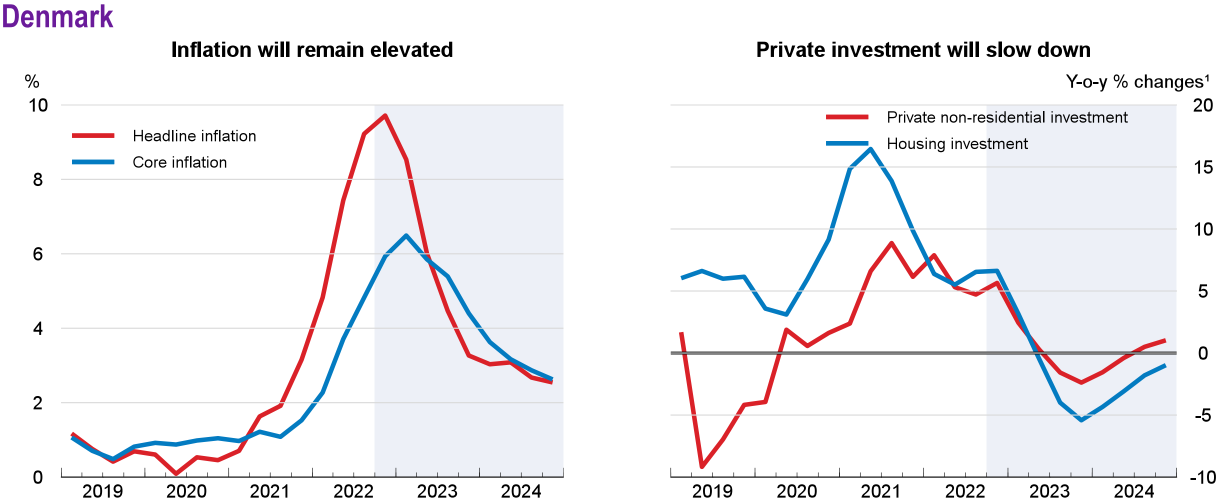
GDP growth is projected to slow to 0.1% in 2023, before recovering to 1.1% in 2024. High inflation and falling housing prices will erode household purchasing power. Weak activity in the main trading partners and rising costs will weigh on business investment and exports. Inflation is expected to recede from a year average of around 8% in 2022 to below 3% in 2024. Main risks to the outlook include stronger supply disruptions and persistent shortages on the labour market that would further increase prices and reduce activity.

Compared to other European countries, support measures in response to rising energy prices have been limited so far. They should remain targeted on vulnerable households as the economy is close to full employment and additional stimulus could add to inflationary pressures. Fiscal policy is expected to be slightly restrictive in 2023 and 2024, but further tightening should be considered if stronger price pressures emerge. Clear price signals and support for energy efficiency investments should accelerate the green transition and further reduce dependence on fossil fuels.

The economy has cooled

The economy is showing signs of a slowdown in the second half of the year on the back of rising costs, weaker international trade and high uncertainty. Industrial production has been strong, contrasting with neighbouring countries, but capacity utilisation has declined. Business expectations have deteriorated significantly, especially in construction and retail trade. While still well below its pre-crisis level, the unemployment rate has started to rise, and job postings have decelerated. Consumer confidence dropped to a record low, following the rapid surge in prices. Consumer price inflation has broadened and reached 10% in October, its highest level since the 1980s. The pass-through to wages and the increase in inflation expectations have remained contained so far. After two years of high sales and price growth, the housing market has weakened, reflecting tightening financing conditions.

Denmark



1. 12-months moving average.
Source: OECD Economic Outlook 112 database.

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Denmark: Demand, output and prices

Denmark	2019	2020	2021	2022	2023	2024
	Current prices DKK billion	Percentage changes, volume (2010 prices)				
GDP at market prices	2 311.0	-2.0	4.9	3.1	0.1	1.1
Private consumption	1 084.9	-1.3	4.1	-1.4	0.0	1.2
Government consumption	557.6	-1.4	4.2	0.7	-0.7	0.7
Gross fixed capital formation	490.9	5.1	6.2	4.9	-2.1	0.6
Final domestic demand	2 133.4	0.1	4.6	0.7	-0.7	0.9
Stockbuilding¹	14.2	-0.2	0.0	1.7	0.4	0.0
Total domestic demand	2 147.6	-0.2	4.5	2.6	-0.3	0.9
Exports of goods and services	1 355.3	-6.3	8.0	5.5	2.3	2.9
Imports of goods and services	1 191.9	-3.5	8.0	3.7	1.3	2.8
Net exports¹	163.4	-1.9	0.5	1.4	0.8	0.3
Memorandum items						
GDP deflator	_	2.6	2.8	8.4	3.9	2.2
Consumer price index	_	0.4	1.9	7.8	5.5	2.8
Core inflation index²	_	1.0	1.2	4.2	5.5	3.1
Unemployment rate (% of labour force)	_	5.8	5.2	4.5	5.7	5.6
Household saving ratio, net (% of disposable income)	_	6.1	5.5	5.3	5.1	5.7
General government financial balance (% of GDP)	_	0.2	3.6	2.3	1.5	1.5
General government gross debt (% of GDP)	_	58.9	50.6	49.6	48.6	47.6
General government debt, Maastricht definition³ (% of GDP)	_	42.2	36.6	35.7	34.6	33.6
Current account balance (% of GDP)	_	7.9	9.0	11.4	10.5	10.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 112 database.

StatLink https://stat.link/gum3dt

Domestic production of oil and gas and relatively low fossil fuel consumption limit the risk of energy supply disruptions. Further development of domestic energy production, including the reopening of the Tyra gas field in 2024, will help to reduce energy imports further. Nevertheless, energy prices have increased dramatically over the past year, by around 130% for gas and 85% for electricity as of October. Those detached from the labour market have been more severely affected by price increases, not least because social benefits that are indexed to past wages adjust to inflation with delays.

Fiscal and monetary policies will remain prudent

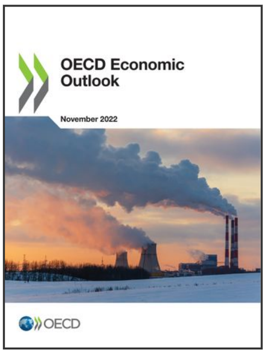
Further monetary policy tightening will contribute to moderating inflation. In September 2022, the central bank ended more than ten years of negative interest rates. It is expected to mirror ECB decisions to maintain the peg to the euro and thus to progressively increase its policy rate to around 3.5% in 2023. Fiscal policy is projected to be slightly restrictive over the next two years, despite rising defence spending. Support to energy consumers is set to remain limited compared to other EU countries, at around 0.3% of GDP for 2022 and 2023, and mainly targeted at the most vulnerable. Measures include heating checks for disadvantaged households, checks for low-income pensioners, and a temporary reduction of the electricity tax. A voluntary loan scheme allows consumers to postpone the payment of part of their energy bills and repay their debt to energy providers over a period of four years. Support measures to energy consumers are fully funded, notably by cuts in public investment. The government surplus is projected to reach around 1.5% of GDP in both 2023 and 2024 with debt remaining low.

Strong inflation will dent economic growth

GDP growth is projected to fall to 0.1% in 2023 before recovering to 1.1% in 2024. Inflation will dent household disposable income and the saving ratio will fall moderately due to pressures on spending power and uncertainty. Rising interest rates and debt servicing costs will dampen private investment. Despite easing pressures on supply chains and robust demand for major exported goods and services (such as freight transport, pharmaceuticals, environmental goods), weaker growth in trading partners will weigh on foreign demand. Inflation is expected to gradually decelerate to 5.5% in 2023 and 2.8% in 2024, on the back of mounting spare capacity and reduced supply bottlenecks. Wages will grow only moderately amidst rising unemployment. The main risks to the outlook include a worsening of the energy crisis that would induce stronger disruptions and production stoppages in neighbouring countries and a steeper economic downturn. De-anchoring of inflation expectations and lingering tensions on the labour market could trigger larger-than-projected increases in wages and higher second-round inflation. Sharper falls in housing prices and equity to well below pre-crisis levels could dampen domestic demand.

Containing inflationary pressures is a priority

While continuing to protect the most vulnerable, Denmark should maintain prudent fiscal policy to contain inflationary pressures. It should also keep pursuing its ambitious environmental objectives to reduce dependency on fossil fuels. Strong price signals are key for the decarbonisation of the economy and energy efficiency gains. Support measures should continue to target those most severely affected by inflation and broad prices and tax cuts should be avoided. The recent agreement on the green tax reform and the establishment of a green fund in June 2022 are steps in the right direction, but more can be done by further clarifying the climate strategy, reducing policy uncertainty, and making emission pricing more uniform.



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