DENMARK

Growth is expected to recover gradually following a weak 2012, thanks to the effects of past fiscal stimulus, low interest rates and improving confidence. Exports will also pick up as world trade regains strength and competitiveness improves.

The fiscal stance is set to tighten in 2013 but the effect on the economy is expected to be limited. Further stimulus is not warranted unless growth turns out to be significantly worse than expected. The recent structural reforms should be implemented vigorously to bolster both long-term growth and fiscal sustainability.

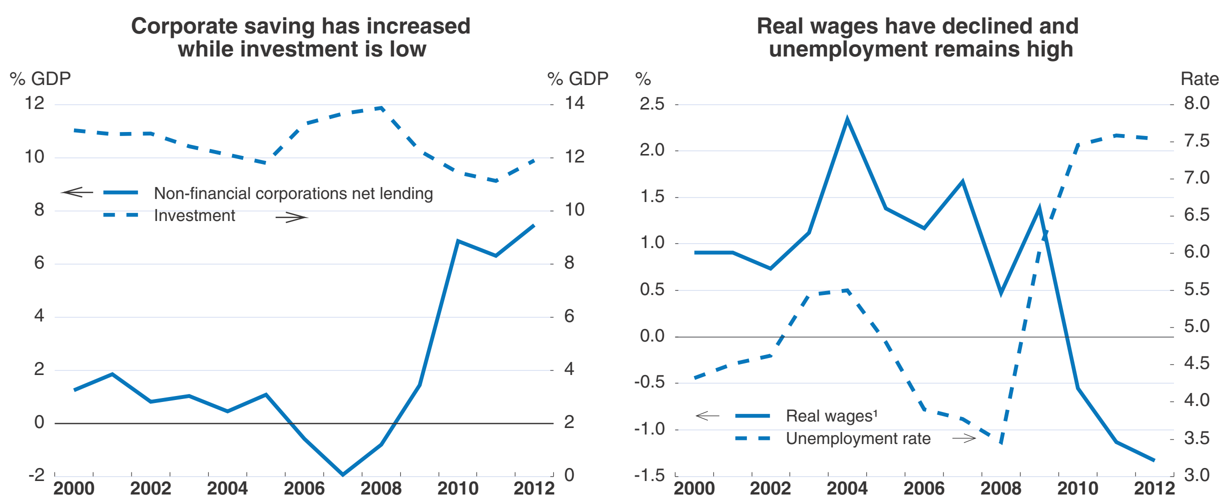
A slow recovery is underway

Output declined by 0.5% in 2012, with uncertainty and job losses holding back private consumption and low external demand weighing on exports. However, exports are inching up, helped by the improvement in competitiveness stemming from wage moderation. Business investment remains low even though it has picked up, but corporate saving is historically high. The unemployment rate has increased but long-term unemployment has stayed on hold. There is significant slack in the economy and inflation is subdued.

Interest rates are very low

Interest rates remain lower than in the euro area, reflecting efforts to contain capital inflows and currency appreciation pressures. Policy interest rates are very low with the lending rate at 0.2% and the rate on certificates of deposits at -0.1%. However, according to lending surveys, credit standards for firms and households remain tight. Bank lending continues to be muted, partly due to weak demand reflecting deleveraging. House prices are no longer declining in the larger cities, although turnover remains modest.

Denmark



1. Wages are deflated by the consumer price index. Year-on-year percentage changes.

Source: OECD Economic Outlook 93 database; and Statistics Denmark.

StatLink http://dx.doi.org/10.1787/888932835841

Denmark: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices DKK billion	Percentage changes, volume (2005 prices)				
GDP at market prices	1 664.8	1.6	1.1	-0.5	0.4	1.7
Private consumption	822.0	1.7	-0.5	0.6	0.4	1.5
Government consumption	495.9	0.4	-1.5	0.2	0.9	0.6
Gross fixed capital formation	300.8	-2.4	2.9	2.2	3.2	4.5
Final domestic demand	1 618.8	0.5	-0.2	0.8	1.1	1.8
Stockbuilding[1]	- 19.0	1.0	0.5	-0.4	0.0	0.0
Total domestic demand	1 599.8	1.6	0.3	0.3	0.8	1.8
Exports of goods and services	793.1	3.0	6.5	0.9	0.2	4.0
Imports of goods and services	728.2	3.2	5.6	2.5	1.0	4.4
Net exports[1]	65.0	0.0	0.8	-0.8	-0.4	-0.1
Memorandum items						
GDP deflator	_	4.1	0.6	2.1	1.0	1.0
Consumer price index	_	2.3	2.8	2.4	0.8	1.4
Private consumption deflator	_	2.5	2.5	2.4	0.8	1.4
Unemployment rate[2]	_	7.5	7.6	7.5	7.4	7.3
Household saving ratio,net[3]	_	-1.0	-0.6	-2.3	-0.7	-0.5
General government financial balance[4]	_	-2.7	-2.0	-4.1	-1.8	-1.8
General government gross debt[4]	_	53.1	59.9	58.9	58.6	58.4
General government debt, Maastricht definition[4]	_	42.7	46.4	45.7	45.5	45.2
Current account balance[4]	_	5.9	5.6	5.6	5.0	4.7

1. Contributions to changes in real GDP, 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 93 database.

StatLink http://dx.doi.org/10.1787/888932837684

The fiscal stance will be less supportive

The fiscal stance is set to tighten in 2013, partly due to the withdrawal of past stimulus and a one-off change to pension taxation. However, household spending will be boosted by past measures, such as tax cuts and the pay-out of past contributions to the early retirement scheme as part of its reform. Some of the initiatives in the Growth Plan agreed upon in April 2013, such as the cut in the corporate income tax rate, will also support growth. Appropriately, the fiscal stance is set to be broadly neutral in 2014.

Growth is set to pick up gradually, driven by private demand

Growth is expected to recover gradually as private and external demand strengthen. Exports will benefit from expanding world trade and improved competitiveness, thanks to a rebound in productivity and modest wage growth. Private investment, which will be supported in 2013 by temporarily more generous depreciation allowances, should also be boosted by higher exports in 2014. With stronger labour demand, unemployment is projected to start to decline. Together with low interest rates, tax cuts and less uncertainty, this will lead to a pick-up in private consumption. As spare capacity will remain ample, inflation should stay well below 2%.

Risks are mainly on the downside

Exports could increase less strongly should competitiveness improve less than expected or if world demand, including in the euro area, picks up less than now expected. The recovery could also be weaker if unemployment becomes entrenched, acting as more of a drag on household consumption. However, if confidence were to return more rapidly than assumed, pent-up private consumption and investment would exert a stronger pull.

From:

OECD Economic Outlook, Volume 2013 Issue 1

Access the complete publication at:

https://doi.org/10.1787/eco_outlook-v2013-1-en

Please cite this chapter as:

OECD (2013), “Denmark”, in *OECD Economic Outlook, Volume 2013 Issue 1*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_outlook-v2013-1-16-en