DENMARK

Economic growth is projected to rise to 1.9% this year and 2.3% in 2016, thanks to improved trade prospects, a weaker effective exchange rate, lower energy prices and easing financial conditions. Improved confidence, recovering house prices and a savings surplus in the private sector will underpin gathering momentum in business investment and private consumption.

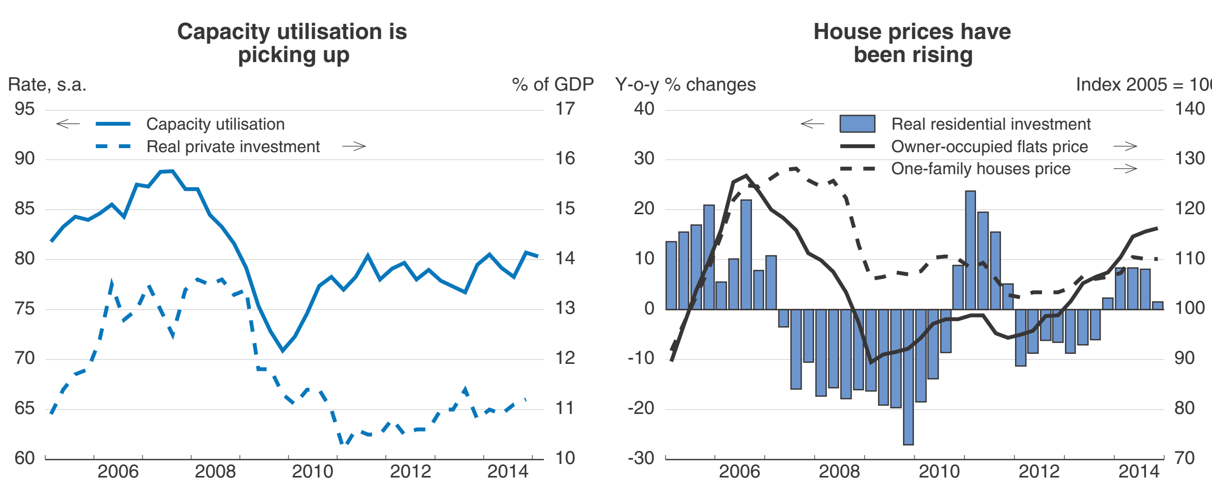
Very accommodative monetary policy continues to ease access to credit, but it could also result in house prices that exceed fundamentals. To maintain macroeconomic stability, the authorities should bring forward the planned restoration of the link between property value and taxation, currently scheduled for 2020. As planned, the current supportive fiscal policy needs to move to a neutral stance with the recovery of the economy.

Public investment that supported growth during the downturn will decline gradually to pre-crisis levels. Business investment growth should be supported by the firming general outlook, high domestic corporate savings, favourable financial conditions and increasing capacity utilisation. Investment opportunities could be boosted by further structural reforms, such as policies enhancing competition in domestic services.

Recovery has gained ground

The recovery of the Danish economy took hold last year. Foreign trade strengthened and export of sea freight services is picking up. Housing investment has increased markedly, linked to the recovery in the housing market, related tax incentives and historically low interest rates. With unemployment edging down and employment improving, private consumption has also firmed up. Consumer price inflation is about zero, but core inflation and wage growth are positive. Consumer confidence has reached record high and retail sales have been on an upward trend, signalling further upswing of household spending in the near future.

Denmark



Source: *OECD Economic Outlook 97 database*; OECD *Monthly Economic Indicators Database*; and Statistics Denmark.

StatLink http://dx.doi.org/10.1787/888933220958

Denmark: **Demand, output and prices**

	2011	2012	2013	2014	2015	2016
	Current prices DKK billion	Percentage changes, volume (2010 prices)				
GDP at market prices	1 833.4	-0.7	-0.5	1.1	1.9	2.3
Private consumption	884.3	0.4	0.0	0.5	1.9	2.2
Government consumption	490.6	-0.2	-0.5	1.4	0.9	0.6
Gross fixed capital formation	335.6	0.6	1.0	3.7	3.4	3.2
Final domestic demand	1 710.5	0.3	0.0	1.4	1.9	1.9
Stockbuilding[1]	21.2	-0.6	-0.2	0.3	0.0	0.0
Total domestic demand	1 731.7	-0.3	-0.2	1.7	1.9	1.9
Exports of goods and services	970.7	0.1	0.8	2.6	3.0	4.9
Imports of goods and services	868.9	0.9	1.5	3.8	3.1	4.4
Net exports[1]	101.7	-0.4	-0.3	-0.5	0.1	0.5
Memorandum items						
GDP deflator	_	2.5	1.5	0.6	1.3	1.3
Consumer price index	_	2.4	0.8	0.6	0.5	1.2
Private consumption deflator	_	2.6	1.0	0.7	1.0	1.3
Unemployment rate[2]	_	7.5	7.0	6.5	6.2	6.2
Household saving ratio, net[3]	_	0.0	-0.4	-6.3	-0.9	0.7
General government financial balance[4]	_	-3.7	-1.1	1.2	-1.7	-2.6
General government gross debt[4]	_	60.2	57.3	60.4	55.9	55.0
General government debt, Maastricht definition[4]	_	45.6	45.0	45.2	40.7	39.8
Current account balance[4]	_	5.6	7.2	6.3	7.0	7.2

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 at market value.

Source: OECD Economic Outlook 97 database.

StatLink http://dx.doi.org/10.1787/888933222134

Supportive domestic policies combined with improved external environment provide a boost

Private consumption is supported by favourable financial conditions, wage growth and recovering house prices. A firming domestic and world-wide outlook, increasing capacity utilisation and high savings surplus in the corporate sector should lead to recovery of business investment, although there is some uncertainty on this score given the persistent weakness of investment in many advanced economies. Stronger competition in domestic services sectors that remain heavily regulated could help to boost investment opportunities as well as productivity growth. At the same time, high public investment will slowly decelerate, as the authorities move towards a broadly neutral fiscal policy. Recent developments in unit labour costs, that are growing more moderately than in the past, and improved trade prospects, should boost exports.

Structural and fiscal policies should lean against the cycle

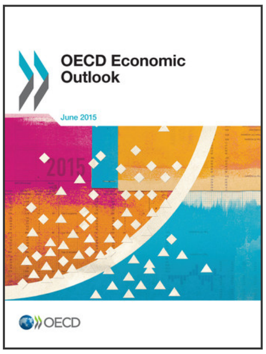
In defence of the euro-krone peg, the central bank decreased the main deposit rate further into negative territory earlier this year, further easing already very supportive financial conditions. Monetary policy is assumed to maintain this stance throughout the projection period. This feeds particularly into the housing market, where strong price increases are already apparent in the capital and some other urban areas. As these pressures are likely to continue, the authorities should bring forward a restoration of the link between property value and taxation (property values have not been updated since 2002), which is planned for 2020.

Significant one-off government revenues (related to the tax treatment of pensions) used in recent years have come to an end and, combined with lower revenues from North Sea production, this will result in worsening of the public finance deficit. The authorities have set a medium-term goal of 'at minimum' a structural balance by 2020. Fiscal policy should move to a neutral stance earlier to ensure this objective as the economy continues to recover. Prudent fiscal stance is important to cope with future spending pressures related to ageing while maintaining the current welfare system and low levels of inequality.

Stronger demand underpins the recovery

Output is projected to accelerate in 2015 to 1.9% and to 2.3% in 2016. The recovery reflects strengthening private consumption, private investment and foreign trade. Inflation is projected to rise slightly towards the end of the projection period. Public investment is set to decrease slowly while business investment, both non-residential and housing, is projected to pick up. As growth rises, and as recent benefit reforms take hold, both employment and the labour force are projected to rise, leaving the unemployment rate broadly unchanged.

There is some uncertainty about the projected pick-up in investment and private consumption. The investment ratio of the Danish corporations has been low for some years now. Allowing for more competition in domestic services sector, notably in retail trade, pharmacies, taxis and professional services would improve investment opportunities. Household consumption depends on the extent of debt reduction, house price and interest rate developments. Denmark is a trading nation, and its prospects therefore depend on the evolution of its export markets. A stronger pass through of supportive domestic financial conditions could raise domestic demand growth more than projected.



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