Economic Analysis of Denmark 2021-2022

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# Abstract

This report provides an economic analysis of Denmark, focusing on critical indicators for 2021 and 2022. It examines GDP growth, inflation, unemployment, labor force participation, and other economic metrics to offer insights into Denmark's economic performance during these years. Data reveals significant trends in the country's fiscal and monetary policies, labor market, and overall economic stability. This study also discusses key factors influencing Denmark's economic outcomes, including its central bank policies, balance of trade, and demographic shifts. The analysis concludes with a comparative assessment of year-on-year changes, offering a comprehensive understanding of Denmark's economic trajectory.

# Economic Analysis of Denmark 2021-2022

Denmark, a Nordic country in Northern Europe, consists of the Jutland Peninsula and an archipelago of over 400 islands, bordered by Germany to the south and surrounded by the North and Baltic Seas. Its capital, Copenhagen, located on Zealand Island, serves as the cultural and economic center of the nation. Denmark's economy benefits significantly from its abundant natural resources, including North Sea oil and natural gas, fishing rights, arable land, and minerals such as salt, limestone, chalk, and gravel, alongside its sustainable forestry practices. These resources form the backbone of Denmark’s diverse and productive economy.

As a high-income, trade-oriented EU member state, Denmark boasts a resilient economy driven by pharmaceuticals, energy, and services. It operates a fixed exchange rate linked to the euro and maintains a strong fiscal position supported by a highly skilled workforce. The labor market is characterized by low unemployment and a significant public sector employment share, bolstered by initiatives like extending the average retirement age and accommodating migrant workers to address labor shortages. This economic framework enables Denmark to sustain its position as a leading Nordic economy with robust growth potential.

# Economic Indicators

## GDP Growth Rate

The GDP growth rate measures the annual percentage change in a country's economic output, reflecting its economic expansion or contraction. For Denmark, the estimated nominal GDP in 2021 was $409.262 billion, increasing to $420.44 billion in 2022. This represents a growth rate of 2.73% in 2022, significantly lower than the staggering growth of 6.84% achieved in 2021 as the country recovered from the economic downturn caused by the COVID-19 pandemic.

This deceleration in GDP growth indicates a cooling economy influenced by global challenges, such as inflation and energy price shocks post-covid. Despite the slower growth, Denmark's steady performance reflects its economic resilience supported by diverse industries, including energy, pharmaceuticals, and services.

## GDP Per Capita

GDP per capita reflects the average economic output per person in a country and serves as an indicator of living standards and productivity. In Denmark, the GDP per capita was estimated at $69,900 in 2021 and increased to $71,200 in 2022.

This 1.86% rise highlights a modest improvement in economic productivity and living standards despite challenges such as inflation and global market uncertainties. Denmark’s robust economic framework, characterized by high-income industries like pharmaceuticals, energy, and services, continues to support its steady per capita growth.

## Inflation Rate

The inflation rate measures the pace at which prices for goods and services rise, reducing purchasing power over time. In Denmark, the inflation rate increased sharply from 1.85% in 2021 to 7.7% in 2022, reflecting significant price pressures.

This substantial jump is attributed to global economic disruptions, including energy price spikes and supply chain challenges. The sharp rise in inflation posed challenges for households and businesses, prompting monetary policy responses such as raising interest rates to stabilize prices and curb further inflationary pressures.

## Unemployment Rate

The unemployment rate represents the proportion of the labor force that is jobless yet actively seeking employment, providing insights into labor market conditions. In Denmark, the unemployment rate decreased from 5.04% in 2021 to 4.43% in 2022, signaling an improvement in labor market dynamics.

This decline reflects the country's strong economic performance and effective employment policies, supported by its diverse industries and public sector engagement. Denmark’s tight labor market remains a cornerstone of its economy, contributing to economic stability and growth even amid global economic uncertainties.

## Labor Force Participation Rate

The labor force participation rate in Denmark reflects the proportion of the working-age population actively engaged in or seeking employment. As of 2022, Denmark's participation rate remained strong, with approximately 75.3% of the working-age population in the labor force. This is slightly up from 74.8% in 2021, demonstrating an ongoing commitment to workforce engagement despite global economic disruptions​.

This high participation rate is influenced by policies designed to integrate diverse workers, such as extending the average retirement age and welcoming migrant workers to address labor shortages. Additionally, Denmark's labor market remains robust with a significant share of employment in the public sector, which helps stabilize workforce dynamics and ensures that the economy can maintain its high levels of productivity.

## Population

Denmark, with a population of approximately 6 million, plays a pivotal role in shaping the country's economic capacity and resource allocation. Despite its relatively small population, Denmark maintains a high standard of living and robust economic performance due to a skilled workforce, efficient resource management, and diverse sectors such as pharmaceuticals, energy, and services. This demographic size allows for a well-organized labor market and a stable economy, essential for maintaining Denmark's competitive position in the global market​.

In 2022, Denmark reported budget revenues of $145.764 billion and expenditures of $130.785 billion, which reflects the government’s commitment to fiscal responsibility and economic stability. The country’s tax revenues, representing 30.56% of GDP, support a range of public services and infrastructure projects. With public debt standing at just 35.3% of GDP (as of 2017), Denmark's fiscal health remains strong, allowing it to leverage its population's economic potential while ensuring continued public sector investment and welfare.​

## Central Bank Interest Rate

The central bank interest rate is a key tool in monetary policy, influencing borrowing costs, economic activity, and inflation. In Denmark, the central bank's interest rates were notably low in recent years. In 2021, the central bank interest rate was set at -0.75%, reflecting the accommodative monetary policy aimed at stimulating economic activity during the pandemic recovery phase. In 2022, this rate was raised slightly to -0.60%, signaling a shift towards addressing inflationary pressures as the economy began recovering more strongly​.

Alongside the central bank rate, other significant interest rates in Denmark were also influenced by broader economic conditions. The 3-month CIBOR (Copenhagen Interbank Offered Rate) stood at -0.40% in 2021, slightly improving to -0.23% by the end of 2022, while the 10-year bond yield was negative at -0.17% in 2021 and slightly negative at -0.46% in 2022. However, by 2023, rates began to rise, with the 3-month CIBOR reaching 3.87% and the 10-year bond yield stabilizing at 2.25%, reflecting tightening monetary conditions amid global economic recovery.

## Consumer Price Index (CPI)

The Consumer Price Index (CPI) is a crucial measure of inflation, reflecting changes in the prices of a typical basket of goods and services. In 2021, Denmark's CPI was relatively low at 1.94%, signaling controlled inflation during the year. This period of low inflation was primarily attributed to the continued recovery from the initial impacts of the COVID-19 pandemic. However, in 2022, the CPI spiked significantly to 8.53%, marking a sharp increase in the cost of living for Danish citizens. The primary drivers of this surge were global supply chain disruptions, energy price hikes, and the economic impact of Russia's invasion of Ukraine, which created uncertainty around the global energy supply​.

The inflationary pressures peaked in October 2022, with the CPI hitting a high of 10%, before gradually easing by the end of the year. This sharp rise was largely felt in energy costs and food prices, both of which saw substantial increases due to the disruption of supply chains and energy markets. Throughout 2022, monthly CPI figures demonstrated an upward trend, moving from 103.6 in January 2021 to 117.6 by December 2022. This increase reflected the growing cost burden on Danish consumers, especially in the face of global economic instability caused by geopolitical events and inflationary trends worldwide​.

Looking forward, inflation began to moderate in 2023 and is projected to stabilize by mid-2024. The CPI is expected to decrease to 1.4% by August 2024, as global energy prices and supply chains stabilize. Despite the turbulent year in 2022, Denmark’s economy has shown resilience in managing inflation, aided by a strong fiscal position and policies aimed at controlling price hikes. The government’s response, including efforts to manage energy prices and protect households from sharp increases, will likely continue to support Denmark's recovery from the inflationary shocks of 2022.

## Exchange Rate

The exchange rate between the Danish krone (DKK) and the US dollar plays a crucial role in Denmark's trade competitiveness and overall economic stability. In 2021, the value of the krone against the US dollar was 6.287, showing a slight appreciation from 6.542 in 2020. This change reflects Denmark’s relative economic resilience, with a stronger currency benefiting importers and helping control inflationary pressures​.

Denmark’s foreign exchange reserves and gold also play a vital role in its economic management, providing a buffer against global economic uncertainties. By the end of 2022, the country’s reserves stood at $96.073 billion, up from $82.236 billion in 2021. This increase in reserves indicates Denmark’s efforts to strengthen its financial position and mitigate risks from international market fluctuations. The growing reserves contribute to maintaining investor confidence and supporting the stability of the Danish krone.

## Fiscal Deficit

A fiscal deficit occurs when a government’s expenditures exceed its revenues, which is a key indicator of fiscal health. In 2021, Denmark reported a fiscal deficit of DKK 16,735 million, approximately 4.10% of its GDP, signaling a higher reliance on borrowing to meet its budgetary needs. This level of deficit was influenced by increased government spending during the pandemic recovery phase, including fiscal stimuli and welfare programs aimed at supporting citizens and businesses​.

By 2022, Denmark's fiscal deficit decreased to DKK 12,842 million, or around 3.4% of GDP. This improvement reflects a more balanced approach to fiscal management, as economic recovery gained momentum and government revenues began to rise due to increased taxation and economic growth. While the fiscal deficit remained a concern in 2022, it remained manageable due to Denmark's robust economic position and relatively low public debt​.

## Balance of Trade

Denmark's balance of trade reflects the difference between its exports and imports, providing insights into whether the country operates with a trade surplus or deficit. In 2022, Denmark’s exports reached substantial values, with key trading partners including Germany (15%), the United States (11%), Sweden (10%), the Netherlands (6%), and Norway (5%)​. Major export commodities included packaged medicine, garments, fish, electricity, and refined petroleum, emphasizing Denmark’s strength in pharmaceuticals, renewable energy, and fishing industries​.

In terms of imports, Denmark saw a value of $235.68 billion in 2022, increasing from $210.72 billion in 2021​. Import partners included Germany (20%), Sweden (12%), China (9%), the Netherlands (8%), and Norway (5%)​. The leading import commodities were garments, cars, refined petroleum, electricity, and packaged medicine. This highlights Denmark's reliance on imported goods, particularly in manufacturing and energy sectors, such as cars and refined petroleum products​.

The changes between 2021 and 2022 reflect an expanding economy and increased trade activities. Imports grew by roughly $25 billion during this period, indicating a rising domestic demand for goods and services. This growth in trade demonstrates Denmark’s strong integration within global markets and its ability to maintain economic stability through diverse partnerships and a robust export sector.

### Analysis of Data

Denmark demonstrated strong economic performance in 2021, with GDP reaching $409.26 billion, reflecting a robust growth rate of 6.84%, while GDP per capita rose to $69,900, signifying increased productivity and living standards. The unemployment rate declined to 5.04%, supported by a 79.7% labor force participation rate, underscoring a stable job market. Inflation was low at 1.85%, and the Consumer Price Index (CPI) was 103.6, reflecting price stability. However, by 2022, global pressures, including the war in Ukraine and energy market disruptions, strained the Danish economy. GDP growth slowed to 2.73%, and inflation surged to 7.7%, with the CPI jumping to 108.1, significantly impacting consumer purchasing power. The Danish krone depreciated slightly, with reserves of foreign exchange and gold increasing from $82.24 billion in 2021 to $96.07 billion in 2022. Despite these challenges, Denmark maintained an unemployment rate of 4.43%, reflecting labor market resilience, and exports continued to thrive, bolstered by key sectors like pharmaceuticals and renewable energy. However, rising inflation and import costs, which increased to $235.68 billion in 2022, coupled with a fiscal deficit of 3.4% of GDP, placed financial strain on citizens. Central bank interventions, such as raising the interest rate from -0.75% in 2021 to 1.75% in 2022, sought to stabilize the economy but contributed to a deceleration in growth, highlighting the trade-offs of monetary tightening during periods of global instability.

Despite these global challenges, Denmark showcased its economic efficiency by leveraging its strong export base and diverse trade relationships, which provided stability amidst volatility. Strategic fiscal management, combined with proactive monetary policies, demonstrated the government’s ability to navigate economic pressures while safeguarding key economic indicators like employment and trade balance. These measures underline Denmark's resilience and adaptability, securing its position as a stable, high-income economy in a rapidly changing global environment.

# Conclusion

This analysis underscores Denmark's strengths as a stable and resource-rich economy, with effective policy responses to economic challenges. While 2022 marked a period of economic deceleration, the country's robust fiscal and monetary policies provide a solid foundation for future growth.

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