# 4. DENMARK

## Domestic demand drives ongoing recovery

*The recovery of the Danish economy has slowed down amid robust domestic demand, but weak export performance. Employment is projected to continue growing strongly, but unemployment is expected to fall only gradually because of the rising labour force. The general government deficit is expected to further widen to 2.5% in 2016 before improving in 2017.*

### GDP growth has slowed down

Denmark's real GDP grew by 1.2% in 2015. After relatively high growth at the beginning of the year, the economy lost steam in the second half. Following a drop in GDP of 0.6% (q-o-q) in the third quarter, GDP recovered by a mere 0.1% (q-o-q) in the last quarter of the year. On an annual basis, growth in 2015 was driven by domestic demand, while the growth contribution from net exports was close to neutral, with both exports and imports registering declines.

### Domestic demand remains the main engine of economic growth

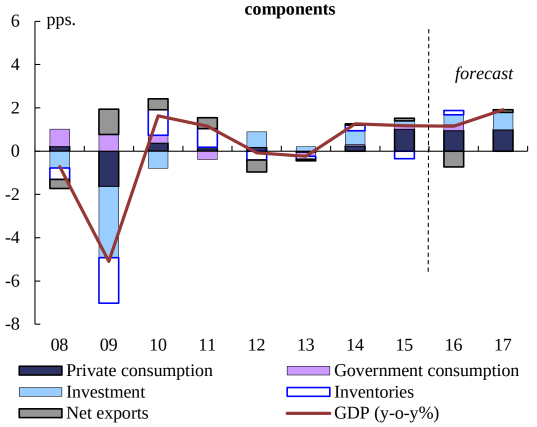
The moderate recovery of the Danish economy is expected to continue with GDP forecast to grow by 1.2% in 2016 and by 1.9% in 2017. Steadily expanding private consumption is expected to be the main driver of real GDP growth.

Private consumption expanded at a rate of 2.1% in 2015, supported by growth in real disposable income due to increases in both employment and wages, as well as low inflation. The recovery of house prices over the last three years has had a positive effect on households' asset positions, reducing the need for continued consolidation. The decline in consumer confidence from a high level over the last year has mainly been related to less optimism regarding future developments, rather than a change in the assessment of the current situation. Growth in private consumption is expected to remain dynamic expanding at around 2% both in 2016 and 2017.

Business investment is projected to pick-up in the next years on the back of recovering external demand and increasing capacity utilisation. In view of the high saving rate in the corporate sector, there is a potential for an even stronger growth in business investments. Public investment is expected to continue declining in the coming years after reaching a historically high level in 2014.

Foreign trade developments were weak in 2015, mainly due to a decline in service exports and imports. The slowdown in world trade has led to a fall in sea freight, which is a large component in Danish services export. However, the weak performance of exports in 2015 is not a reflection of weak wage competitiveness, as wage growth in Denmark has been below that of peer countries for several years. Exports are expected to pick-up over 2016 and 2017, growing by 1.5% and 4.2% respectively, supported by higher growth in Danish export markets.

*Graph II.4.1:* **Denmark - Real GDP growth and its components**




### Buoyant labour market

The relatively weak growth of GDP contrasts with the continued strength of the labour market. Employment grew by 1.1% in 2015, driven by private sector employment. Unemployment has been declining gradually since spring 2012 and fell to 6.2% in 2015. The good performance of the labour market is expected to continue over the forecast horizon. Employment is expected to grow by around 1% in both years, but the unemployment rate is forecast to only gradually decline to 5.7% in 2017 due to the expanding labour force.

### Gradually rising inflation

Consumer prices (HICP) dropped by 0.3% on an annual basis in March 2016. Inflation has been dragged down by the fall of energy prices, which in March were 5.7% lower than in the same month a year before. Core inflation, which excludes energy and unprocessed foods, stood at 0.3% in March. HICP inflation is expected to increase by 0.3% in 2016 before rising to 1.5% in 2017.

### Risks are broadly balanced

Macroeconomic risks to the forecast appear broadly balanced. Negative risks relate to a potentially more pronounced slowdown in emerging markets and commodity-producing countries. Danish exporters would be primarily affected due to their position in global value chains. On the other hand, stronger than expected private consumption and investments remain a positive risk, as both household and corporate savings have remained high despite the fact that interest rates are very low.

### Fiscal deficit deteriorates in 2016

The general government balance posted a deficit of 2.1% of GDP in 2015. The deterioration compared to 2014 was mainly due to lower one-off revenues from the pension taxation measure and lower revenues from the pension yield tax. The drop in oil prices also had a negative impact on public revenues. This year, the fiscal deficit is expected to deteriorate further to 2.5 % of GDP, as the before-mentioned one-off revenues come to a halt.

Nevertheless, the structural balance is expected to improve from a deficit of around 1¾% of GDP in 2015 to deficits of about 1.0% of GDP in 2016 and 2017. The volatile profile of the structural balance in Denmark is to some extent due to large and volatile revenue items, such as revenues from oil and gas production and from the pension yield tax.

The general government gross debt level is expected to decrease from 40.2% of GDP in 2015 to 39.1% of GDP in 2017.

*Table II.4.1:*

**Main features of country forecast - DENMARK**

| | | 2014 | | | Annual percentage change | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn DKK | Curr. prices | % GDP | 96-11 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| GDP | | 1942.6 | 100.0 | 1.4 | -0.1 | -0.2 | 1.3 | **1.2** | **1.2** | **1.9** |
| Private Consumption | | 926.5 | 47.7 | 1.4 | 0.4 | -0.1 | 0.5 | **2.1** | **2.0** | **2.1** |
| Public Consumption | | 511.7 | 26.3 | 1.9 | 0.0 | -0.7 | 0.2 | **0.6** | **1.0** | **0.0** |
| Gross fixed capital formation | | 370.7 | 19.1 | 1.8 | 3.9 | 1.1 | 3.4 | **1.2** | **2.4** | **4.1** |
| of which: equipment | | 111.9 | 5.8 | 0.8 | 15.5 | 5.1 | 5.3 | **0.5** | **3.6** | **5.6** |
| Exports (goods and services) | | 1037.0 | 53.4 | 4.3 | 0.6 | 0.9 | 3.1 | **-1.0** | **1.5** | **4.2** |
| Imports (goods and services) | | 919.2 | 47.3 | 4.9 | 1.8 | 1.1 | 3.3 | **-1.4** | **3.2** | **4.4** |
| GNI (GDP deflator) | | 2010.5 | 103.5 | 1.6 | 0.1 | 0.7 | 1.5 | **0.2** | **1.4** | **1.9** |
| Contribution to GDP growth: | Domestic demand | | | 1.5 | 0.9 | 0.0 | 0.9 | **1.4** | **1.7** | **1.8** |
| | Inventories | | | 0.0 | -0.4 | -0.1 | 0.3 | **-0.3** | **0.2** | **0.0** |
| | Net exports | | | 0.0 | -0.6 | -0.1 | 0.1 | **0.1** | **-0.7** | **0.1** |
| Employment | | | | 0.4 | -0.6 | 0.1 | 0.8 | **1.1** | **0.9** | **0.9** |
| Unemployment rate (a) | | | | 5.2 | 7.5 | 7.0 | 6.6 | **6.2** | **6.0** | **5.7** |
| Compensation of employees / head | | | | 3.5 | 1.7 | 1.2 | 1.8 | **1.9** | **2.0** | **2.3** |
| Unit labour costs whole economy | | | | 2.4 | 1.2 | 1.5 | 1.3 | **1.9** | **1.7** | **1.3** |
| Real unit labour cost | | | | 0.2 | -1.5 | 0.2 | 0.6 | **0.8** | **0.6** | **-0.5** |
| Saving rate of households (b) | | | | 5.7 | 7.5 | 7.9 | 4.4 | **13.8** | **13.9** | **13.3** |
| GDP deflator | | | | 2.2 | 2.8 | 1.4 | 0.8 | **1.0** | **1.0** | **1.8** |
| Harmonised index of consumer prices | | | | 2.0 | 2.4 | 0.5 | 0.4 | **0.2** | **0.3** | **1.5** |
| Terms of trade goods | | | | 0.8 | 0.4 | 1.7 | 0.5 | **1.4** | **0.9** | **0.1** |
| Trade balance (goods) (c) | | | | 2.8 | 2.7 | 2.7 | 2.2 | **3.0** | **2.5** | **2.3** |
| Current-account balance (c) | | | | 3.2 | 5.7 | 7.1 | 7.7 | **7.0** | **6.3** | **6.2** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | 3.2 | 5.7 | 7.1 | 7.7 | **7.0** | **5.7** | **5.8** |
| General government balance (c) | | | | 0.8 | -3.5 | -1.1 | 1.5 | **-2.1** | **-2.5** | **-1.9** |
| Cyclically-adjusted budget balance (d) | | | | 0.2 | -1.6 | 1.2 | 3.4 | **-0.4** | **-0.9** | **-0.9** |
| Structural budget balance (d) | | | | - | -0.1 | -0.3 | 0.2 | **-1.8** | **-1.0** | **-0.9** |
| General government gross debt (c) | | | | - | 45.2 | 44.7 | 44.8 | **40.2** | **38.7** | **39.1** |

(a) as % of total labour force. (b) gross saving divided by gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.