

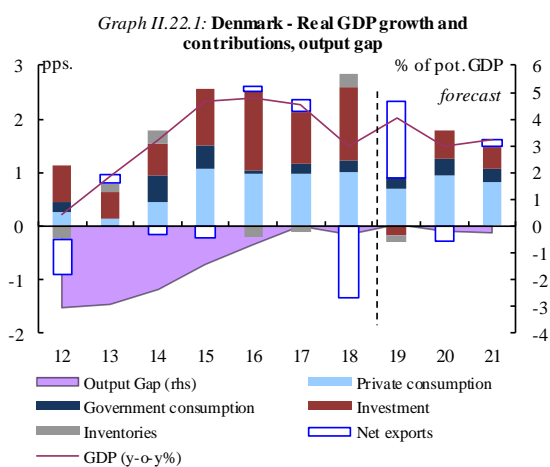
22. DENMARK

Defying global trends for now

Economic growth is forecast to remain robust this year but to slow down over the forecast horizon. Consumption and, to a lesser extent, investment are expected to drive growth, while the contribution of exports is set to fade. The general government budget balance is projected to reach a record high surplus this year and remain close to balance in the coming years.

Dynamic growth so far this year

Economic growth in Denmark has outpaced the euro area so far this year. A marked increase in industrial production and exports provided impetus for real GDP growth. These developments are mainly due to the favourable industrial specialisation of Danish industry, which has so far proven to be less sensitive to the slowdown in the world economy. As a result, real GDP growth is set to accelerate to 2% in 2019. Nevertheless, Denmark is expected to fall in line with the global trend over the forecast horizon with real GDP growth forecast to moderate to 1.5% in 2020 and to 1.6% in 2021.



Gradually slowing labour market

Despite high levels of growth, labour demand has been gradually weakening this year. As a result, employment growth is projected to moderate from 1.8% in 2018 to 1.3% in 2019 and slow down to 0.8% in 2021. Although the labour force is set to continue expanding partly due to the gradual increases in the statutory retirement age, employment growth remains robust enough to keep unemployment steady. The unemployment rate is thus forecast to remain stable with a small decline from 4.9% in 2019 to 4.7% by 2021.

Consumption remains a steady driver

Private consumption has been expanding steadily by around 2% in recent years supported by strong labour market developments and steady disposable income growth. A slight dip is expected in 2019 mainly due to the weak carry-over from 2018, but the underlying trends remain unchanged. While employment growth is projected to slow down, private consumption will be further supported by a one-off repayment of excessively collected property taxes to households (reaching around 0.5% of GDP) at the end of 2020. As a result, growth in private consumption is forecast to hover around 2% over the forecast horizon. The new budget presented in October 2019 includes additional spending in the areas of welfare and education in 2020. As a result, public consumption is projected to increase more dynamically by 1.3% in 2020 and 1% in 2021.

Volatile investment

Investment expanded by 6.5% in 2018. However, the surge in equipment investment last year was partly due to a large acquisition in the shipping sector, which raised both investment and imports. This temporary lift implies a negative base effect for this year, and is further compounded by slowing investment in construction. As a result, gross fixed capital formation is projected to decline by 0.8% in 2019. Moderately rising house prices and a decline in new residential construction permits suggest a further gradual reduction in housing construction dynamics. Equipment investment growth is forecast to remain subdued due to the uncertain global economic outlook. As a result, gross fixed capital formation is set to expand at a more moderate pace of 2.5% in 2020 and 1.9% in 2021.

Robust goods exports growth this year

Despite a general slowdown in its main export markets, Danish exports grew dynamically in the first half of 2019. The growth has come almost entirely from just two sectors: pharmaceuticals and

wind turbines. By contrast, imports growth has been subdued, reflecting both the negative base effect of the shipping acquisition in 2018 and weak car imports in 2019-Q1 due to the introduction of new emission standards last year. As a result, the current account surplus is expected to widen from 5.7% of GDP in 2018 to 7.1% of GDP in 2019. Both exports and imports are expected to resume around their trend growth over the forecast horizon and the current account surplus is expected to moderate to 6.7% of GDP in 2021.

Moderately increasing inflation

Danish consumer price inflation has been modest so far this year and is forecast to average a mere 0.8% in 2019. All components of HICP inflation are expected to remain subdued this year. Despite the forthcoming hike of duties on tobacco, inflation is only set to increase moderately to 1.3% in 2020 and 1.4% in 2021.

Stable public finances

The headline budget balance is projected to reach

2.2% of GDP in 2019, a significant upward revision compared to the spring forecast. The increase is mainly because of an expected surge in revenues from the pension yield tax. The headline surplus is expected to decline to 0.5% of GDP in 2020. This is partly due to a one-off repayment of DKK 18.5 bn (0.9% of GDP) of excessively collected property taxes to households and companies as well as additional public spending on welfare and education. Weakening economic growth and expected decline in pension yield tax revenues will weigh on the budget balance in 2021, which is projected to turn to 0.0% of GDP in 2021. The structural balance is estimated to remain close to positive over the forecast horizon.

Public gross debt is set to continue falling gradually from 34.2% of GDP in 2018 to 31.7% of GDP in 2021. Nevertheless, general government gross debt will decrease less dynamically than positive primary balances, low interest rates and stable growth would suggest, because a new financing program for social housing is projected to increase the debt stock.

Table II.22.1:

Main features of country forecast - DENMARK

	2018			Annual percentage change						
	bn DKK	Curr. prices	% GDP	00-15	2016	2017	2018	2019	2020	2021
GDP	2223.1		100.0	1.1	2.4	2.3	1.5	2.0	1.5	1.6
Private Consumption	1048.4	47.2		1.1	2.1	2.1	2.2	1.5	2.0	1.8
Public Consumption	546.2	24.6		1.6	0.2	0.7	0.9	0.8	1.3	1.0
Gross fixed capital formation	498.7	22.4		1.4	7.6	4.6	6.5	-0.8	2.5	1.9
of which: equipment	148.1	6.7		1.3	2.5	7.7	10.9	-4.9	1.9	1.4
Exports (goods and services)	1211.6	54.5		3.5	3.9	3.6	0.4	3.9	1.8	2.0
Imports (goods and services)	1101.3	49.5		4.4	4.2	3.6	3.3	1.4	2.6	1.9
GNI (GDP deflator)	2275.9	102.4		1.4	1.9	1.9	1.6	2.0	1.4	1.5
Contribution to GDP growth:		Domestic demand		1.2	2.5	2.1	2.6	0.7	1.8	1.5
		Inventories		0.0	-0.2	-0.1	0.2	-0.1	0.0	0.0
		Net exports		-0.1	0.1	0.2	-1.3	1.4	-0.3	0.2
Employment				0.2	1.5	1.7	1.8	1.3	0.9	0.8
Unemployment rate (a)				5.7	6.0	5.8	5.1	4.9	4.8	4.7
Compensation of employees / head				2.9	1.5	1.7	2.0	2.3	2.7	3.0
Unit labour costs whole economy				2.0	0.6	1.1	2.3	1.6	2.0	2.1
Real unit labour cost				0.0	-0.1	-0.3	1.7	0.2	0.3	0.2
Saving rate of households (b)				6.7	10.5	11.8	12.1	12.2	12.4	12.6
GDP deflator				2.0	0.7	1.4	0.6	1.5	1.8	1.9
Harmonised index of consumer prices				1.8	0.0	1.1	0.7	0.8	1.3	1.4
Terms of trade goods				0.9	2.1	-1.2	-2.3	0.3	0.2	0.2
Trade balance (goods) (c)				4.0	5.9	5.6	4.8	6.3	6.0	6.1
Current-account balance (c)				4.6	7.9	8.0	5.7	7.1	6.7	6.7
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				4.6	7.9	8.0	5.7	7.1	6.7	6.7
General government balance (c)				0.7	0.2	1.7	0.8	2.2	0.5	0.0
Cyclically-adjusted budget balance (d)				0.9	0.6	1.7	1.0	2.1	0.6	0.2
Structural budget balance (d)				-	0.6	1.7	1.0	2.1	1.4	0.2
General government gross debt (c)				42.0	37.2	35.5	34.2	33.0	32.3	31.7

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