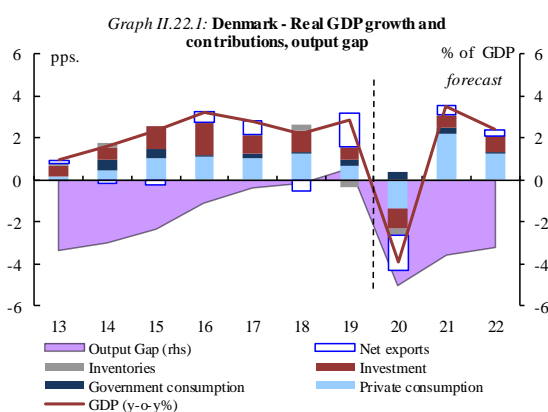


## 22. DENMARK

While the fall in GDP in the first half of 2020 has been the most dramatic on record, a recovery is now under way, led by private consumption. The general government budget deficit is projected to rise to over 4% of GDP in 2020 and government debt ratio to increase by more than 10 percentage points, albeit from a relatively low level.

### A recovery is under way

Denmark faced an abrupt and deep economic downturn due to the COVID-19 pandemic, with real GDP declining by 7.7% y-o-y in the second quarter of 2020. Short-term indicators suggest that a recovery has been under way, but real GDP is still forecast to contract by around 4% in 2020 overall. As both domestic and external demand normalises, Denmark's real GDP is forecast to expand by a solid 3½% in 2021 and around 2½% in 2022. Real output is not set to return to pre-crisis levels before 2022.



### Domestic demand driving the recovery

Consumer spending fell sharply during the spring, when the government put in place strict lockdown measures to contain the pandemic, but has normalised since then as the measures were gradually lifted. The recovery of private consumption was supported by stable disposable incomes thanks to the government's emergency packages and a rebound in the labour market. As part of the recovery package, the government started to pay out households' 2021 holiday savings already from October this year. This could reach three weeks of household income or 1.8% of GDP and is expected to boost private consumption in the last quarter of 2020 and in early 2021. In annual terms, private consumption is forecast to

contract by around 2.9% in 2020, followed by a rebound of 4¾% in 2021 and around 3% in 2022.

Elevated levels of uncertainty led many firms to postpone or cancel investment decisions. Equipment investment, which is highly dependent on external demand, is forecast to contract particularly sharply this year. In contrast, housing investment is expected to hold up relatively well, while public investment is projected to rise sharply beginning this year. Overall, investment is projected to fall by around 4.4% in 2020. The normalisation of external demand and the government's recovery package focussed mainly on green investment are expected to support investment in the coming years. Investment supported by the Recovery and Resilience Fund (RRF) could provide positive risks to the forecast.

### Labour market downturn cushioned

When the pandemic hit in spring, Denmark quickly established a wage support scheme to avoid massive lay-offs in the economy and prevent a surge in unemployment. The resumption of economic activity following the end of the lockdown period quickly spread to the labour market, thus demonstrating its resilience. While around 250,000 employees were on government wage support schemes in April, this number fell below 30,000 in August. As a result, the average unemployment rate is expected to rise from 5% in 2019 to 6.1% in 2020. As job creation is projected to rise in line with the reviving economic activity, the unemployment rate is set to further decline to 5.5% by 2022.

### Sharp contraction in external trade

The global downturn and the disruption of cross-border value chains caused the most severe impact on Denmark's external trade. In the second quarter, exports and imports contracted by 17% and 14% y-o-y, respectively. Goods exports held up due to the large share of agricultural and pharmaceutical products in Denmark's export portfolio, which are typically less sensitive to the

business cycle. On the other hand, services exports, including tourism, construction services and shipping, contracted sharply. Exports are set to decline more than imports, narrowing the current account surplus from 8.9% of GDP in 2019 to around 6.4% of GDP in 2021. In line with the recovery in foreign demand, trade is projected to gradually revive, but volumes of both exports and imports are set to remain below their 2019 levels.

### Subdued consumer price inflation

Consumer price inflation remains moderate. Collapsing oil prices and the sharp contraction of consumption in the first half of 2020 have reduced inflationary pressures, and are only partially compensated by higher tobacco taxes and rising food prices. HICP inflation is projected to average 0.3% in 2020. The economic recovery and oil prices are expected to push consumer price inflation to 1.1% in 2021 and to 1.3% in 2022.

### Strong fiscal reaction has mitigated the shock

The budget deficit is projected to widen beyond 4% of GDP in 2020 as government finances have been severely impacted by the COVID-19 crisis. Budget revenues have suffered a marked reduction

as both direct and indirect tax receipts have fallen, while the full deployment of automatic stabilisers has implied significantly higher expenditures. Moreover, the government introduced a large-scale emergency fiscal package worth around 4.5% of GDP to cushion the drop in activity, although this has not been fully used. The expected gradual economic recovery and the expiry of the emergency measures are projected to reduce the general government deficit to around 2½% of GDP in 2021 and, assuming no policy changes, to below 2% of GDP in 2022. This forecast does not include any measures funded by RRF grants.

The gross government debt-to-GDP ratio should rise sharply from 33% in 2019 to around 45% in 2020. The rise is due to (i) the sizeable government deficit and (ii) the sharp contraction of real GDP, (iii) large stock-flow adjustments due to significant tax deferrals from 2020 to 2021 (amounting to almost 5% of GDP), and (iv) lending to a pension fund allowing it to pay salary earners their holiday savings. These effects are expected to be largely reversed in 2021, stabilising public debt to around 41% of GDP over the remainder of the forecast horizon.

Table II.22.1:

### Main features of country forecast - DENMARK

	2019			Annual percentage change						
	bn DKK	Curr. prices	% GDP	01-16	2017	2018	2019	2020	2021	2022
GDP	2335.0	100.0		1.1	2.8	2.2	2.8	-3.9	3.5	2.4
Private Consumption	1076.3	46.1		1.3	2.3	2.7	1.4	-2.9	4.7	2.6
Public Consumption	556.8	23.8		1.4	0.9	0.3	1.2	1.6	1.2	0.3
Gross fixed capital formation	512.5	22.0		1.4	4.0	4.8	2.8	-4.4	2.9	3.7
of which: equipment	142.7	6.1		1.2	10.1	8.6	-5.7	-12.3	2.2	3.3
Exports (goods and services)	1361.8	58.3		3.0	4.8	3.2	5.0	-10.5	5.8	3.9
Imports (goods and services)	1190.2	51.0		3.8	4.2	4.8	2.4	-8.7	5.6	3.8
GNI (GDP deflator)	2404.0	103.0		1.4	2.6	2.8	3.0	-4.1	3.5	2.5
Contribution to GDP growth:										
Domestic demand				1.2	2.1	2.4	1.6	-1.9	3.1	2.1
Inventories				0.0	0.1	0.3	-0.3	-0.3	0.0	0.0
Net exports				-0.1	0.6	-0.5	1.6	-1.7	0.4	0.3
Employment				0.3	1.5	1.6	1.2	-1.3	0.8	1.1
Unemployment rate (a)				5.8	5.8	5.1	5.0	6.1	5.8	5.5
Compensation of employees / head				2.8	1.7	1.8	1.5	1.0	1.7	1.8
Unit labour costs whole economy				1.9	0.3	1.2	-0.1	3.8	-1.0	0.5
Real unit labour cost				0.1	-0.8	0.6	-0.8	3.2	-2.4	-1.3
Saving rate of households (b)				7.3	11.8	11.9	9.7	15.3	12.9	12.3
GDP deflator				1.8	1.2	0.6	0.7	0.5	1.5	1.8
Harmonised index of consumer prices				1.6	1.1	0.7	0.7	0.3	1.1	1.3
Terms of trade goods				0.9	-1.5	-2.5	0.0	-0.1	0.0	0.1
Trade balance (goods) (c)				4.0	4.5	3.5	5.2	4.4	4.4	4.5
Current-account balance (c)				5.0	8.0	7.0	8.9	6.7	6.8	7.2
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				5.0	8.1	7.0	8.9	5.4	5.8	6.2
General government balance (c)				0.5	1.8	0.7	3.8	-4.2	-2.5	-1.9
Cyclically-adjusted budget balance (d)				0.7	2.0	0.8	3.5	-1.2	-0.4	0.0
Structural budget balance (d)				-	2.0	0.8	3.5	-0.4	-0.4	0.0
General government gross debt (c)				41.0	35.9	34.0	33.3	45.0	41.1	40.9

(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.