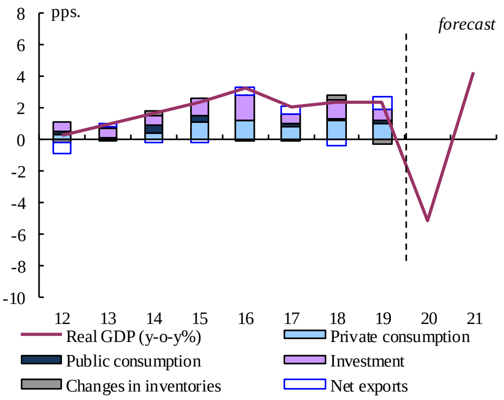
2.22. DENMARK

Although Denmark was one of the first European countries to impose extensive lockdown measures in response to the COVID-19 pandemic, economic activity in the first quarter of 2020 proved more resilient than previously expected. The fall in private consumption was fairly moderate and construction investment held up relatively well. Exports also surprised positively, mirroring the high share of pharmaceuticals and agricultural products in Denmark’s export mix. As a result, real GDP declined by 2% quarter-on-quarter in the first quarter of 2020, less than the 3.2% average decline experienced in the EU over the same period.

Real GDP growth is estimated to have bottomed out in the second quarter of 2020, while a rebound is expected from the third quarter onwards. Due to the decline in the number of COVID-19 infections, the government started to ease the lockdown earlier than planned. The government has also expanded its ‘emergency measures’ to mitigate the negative economic effects of the pandemic. A new ‘recovery package’ to support the economic upturn has been adopted, a key element of which is the release of households’ holiday savings equivalent to three weeks of household income. This measure is expected to provide an impetus to private consumption from the end of this year. The investment outlook has deteriorated since the spring forecast, with gross fixed capital formation projected to fall sharply in 2020, constrained by weak domestic and foreign demand and considerable uncertainty about the economic outlook. Investment is expected to recover moderately in 2021, helped by public investment and government support. Partly due to the swift, effective and recently stepped-up policy responses, real GDP is set to contract by 5¼% in 2020, less than projected in the spring forecast. The acceleration of economic activity from the third quarter of this year onwards is set to give rise to real GDP growth of around 4¼% in 2021.

Graph 2.22: **Denmark - Real GDP growth and contributions**



Denmark’s consumer price inflation (HICP) is forecast to slow to 0.3% y-o-y in 2020, in part driven by a sharp fall in energy prices in the first half of 2020. The recovery of economic activity, a marked increase in tobacco excises and the price effects of a tax reform linked to rented summer houses, are expected to lead to an acceleration of consumer prices, and HICP is accordingly projected to increase by 1.2% in 2021.