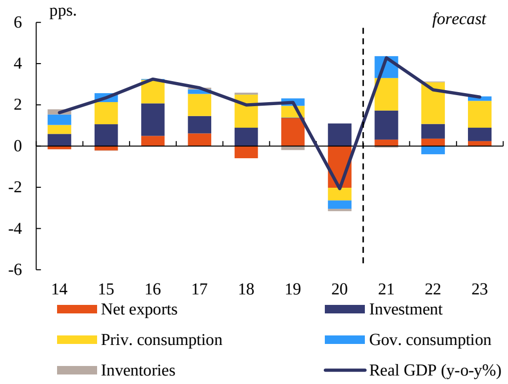
22. DENMARK

A broad-based expansion is projected over the forecast horizon. Output and employment have already exceeded pre-pandemic levels and are expected to make further gains, notwithstanding ongoing supply chain disruptions. The fiscal deficit is likely to remain modest this year before turning into surplus as from 2022.

Ongoing expansion faces supply side disruptions

Denmark's economy proved relatively resilient to the pandemic-related challenges, contracting by just 2.1% in 2020. The economy has been expanding at a strong pace following the lifting of most pandemic-related restrictions and the achievement of high vaccination rates. Denmark's GDP, as well as its employment rate, already exceeded pre-pandemic levels in Q2-2021. Conditions are in place for a continued expansion as households release their pent-up demand and companies relaunch deferred investment projects, though these face ongoing supply chain disruptions. Overall, real GDP is forecast to grow by 4.3% in 2021, and the expansion is set to continue at a rate of around 2.7% in 2022 and 2.4% in 2023.

Graph II.22.1: **Denmark - Real GDP growth and contributions**



Booming consumption

Strong economic growth observed since the second quarter of 2021 has largely been driven by an increase in private consumption. This partly reflects deferred spending, but households' disposable income has also been strengthened by extraordinary cash transfers, equating to almost 1.8% of GDP. Private consumption is projected to remain the main driver of economic growth over the forecast horizon. Government consumption is expected to increase sharply at a rate of 4.3% in 2021 due to pandemic-related measures. With the phasing-out of these measures, government consumption is set to contract in 2022 followed by a moderate increase in 2023.

Construction investment moderating from high levels

Construction investment has been the main driver of investment growth so far; dwelling investment is forecast to expand by almost 14% in 2021. While construction investment is set to lose momentum in the coming two years, machinery and equipment investment is expected to gradually recover over the forecast horizon, albeit slowed in the near term by ongoing supply chain disruptions. Overall, gross fixed capital formation growth is projected at 6.3% in 2021 before moderating to 3.1% in 2022 and 2.8% in 2023. Investment supported by the Recovery and Resilience Facility is set to bolster growth in the medium term while also contributing to higher potential growth in the long term.

Services trade catching up from 2022

Exports of goods have been supported by the global manufacturing upswing and have thus contributed significantly to the expansion. By contrast, services exports are still struggling but are expected to catch up from 2022. Imports of goods have also increased significantly in view of high investment levels and strong private consumption. Net external trade is set to contribute negatively to real GDP growth over the forecast horizon. Following a surplus of 8.1% of GDP in 2020, the current account balance is expected to moderate to around 7% of GDP in 2023.

Labour market bottlenecks

The strong economic rebound has led to a significant upturn in the labour market. The sharp increase in employment has caused recruitment difficulties in several sectors. Labour shortages are especially pronounced in services industries (such as tourism, culture and restaurants) that were subject to severe restrictions, though the construction and the manufacturing sectors are facing similar difficulties. Labour market pressures are projected to ease somewhat due to the growing labour force driven by a rise in the number of workers from other EU Member States and the gradual increase in the retirement age over the next years. The scaling down of pandemic-related jobs (such as testing or vaccination) is also to free up further workers. The unemployment rate is set to decline from 5.6% in 2021 to 4.3% in 2023.

Inflation accelerating

Consumer prices have accelerated sharply in 2021, fuelled mainly by higher energy prices and increases in tobacco excise taxes. While the HICP rose by 2.4% y-o-y in September 2021, core inflation remained at 1.4%. The expansion in domestic demand is set to contribute to higher consumer prices over the forecast period, including higher core inflation. HICP is expected to grow by 1.7% annually in 2021, 1.9% in 2022 and 1.6% in 2023.

Strong government finances

In 2021, the government deficit is forecast to reach 0.9% of GDP, helped by the phasing-out of emergency measures. Strong revenue growth linked to the pick-up of economic activity in the second half of the year should also contribute to reduce the deficit. The general government budget balance is expected to turn positive as from 2022, underpinned by favourable expenditure and revenue developments owing to the continued expansion. This is partly driven by an expected contraction in both government expenditure and public investment. The government surplus is expected to reach 1.4% of GDP in 2022 and 1.5% of GDP in 2023.

After a marked increase in the government debt ratio in 2020 that reflected one-off effects related to pandemic emergency measures and the decline in GDP, the debt burden is expected to resume a gradually declining path as from 2021. The gross debt ratio is forecast to fall to around 38% of GDP by 2023, down from above 42% of GDP in 2020. The fall in the gross debt ratio does not fully reflect the marked improvement in the general government budget balance due to structural and positive stock-flow items, notably government financing of social housing.

Table II.22.1:

Main features of country forecast - DENMARK

		2020		Annual percentage change						
	bn DKK	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP		2329.6	100.0	1.2	2.0	2.1	-2.1	**4.3**	**2.7**	**2.4**
Private Consumption		1070.7	46.0	1.4	3.5	1.2	-1.3	**3.4**	**4.4**	**2.8**
Public Consumption		574.5	24.7	1.3	0.0	1.5	-1.7	**4.3**	**-1.6**	**0.9**
Gross fixed capital formation		521.0	22.4	1.7	4.2	0.1	5.1	**6.3**	**3.1**	**2.8**
of which: equipment		123.9	5.3	1.9	1.9	-4.6	-6.5	**6.7**	**3.9**	**3.4**
Exports (goods and services)		1278.5	54.9	3.1	3.4	5.0	-7.0	**7.9**	**6.6**	**4.4**
Imports (goods and services)		1128.2	48.4	3.9	5.1	3.0	-4.1	**8.4**	**6.7**	**4.4**
GNI (GDP deflator)		2408.2	103.4	1.4	2.6	2.2	-1.6	**4.2**	**2.7**	**2.3**
Contribution to GDP growth:	Domestic demand			1.3	2.5	1.0	0.1	**4.1**	**2.3**	**2.2**
	Inventories			0.0	0.1	-0.2	-0.1	**-0.1**	**0.0**	**0.0**
	Net exports			-0.1	-0.6	1.4	-2.0	**0.3**	**0.4**	**0.2**
Employment				0.3	1.5	1.4	-0.7	**1.7**	**1.3**	**1.0**
Unemployment rate (a)				5.9	5.1	5.0	5.6	**4.8**	**4.5**	**4.3**
Compensation of employees / head				2.6	1.6	1.9	2.3	**1.7**	**2.2**	**2.7**
Unit labour costs whole economy				1.7	1.1	1.2	3.8	**-0.9**	**0.7**	**1.3**
Real unit labour cost				0.0	0.4	0.4	1.1	**-1.8**	**-0.9**	**-0.2**
Saving rate of households (b)				7.5	11.2	9.5	11.6	**11.4**	**9.2**	**9.2**
GDP deflator				1.7	0.7	0.7	2.6	**1.0**	**1.6**	**1.5**
Harmonised index of consumer prices				1.5	0.7	0.7	0.3	**1.7**	**1.9**	**1.6**
Terms of trade goods				0.8	-1.6	-0.1	1.5	**-2.6**	**-0.9**	**-0.3**
Trade balance (goods) (c)				4.0	3.6	5.3	5.3	**4.5**	**4.4**	**4.4**
Current-account balance (c)				5.3	7.3	8.8	8.1	**7.4**	**7.3**	**7.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				5.3	7.3	8.8	8.1	**7.4**	**7.2**	**7.0**
General government balance (c)				0.6	0.8	4.1	-0.2	**-0.9**	**1.3**	**1.4**
Cyclically-adjusted budget balance (d)				0.9	1.1	4.2	2.3	**0.4**	**2.3**	**2.2**
Structural budget balance (d)				0.3	1.1	4.2	2.8	**-2.0**	**3.3**	**1.9**
General government gross debt (c)				40.2	34.0	33.6	42.1	**41.0**	**38.8**	**38.0**

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.