

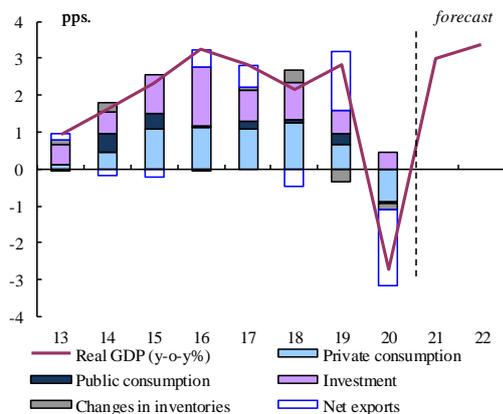
## 2.22. DENMARK

The second wave of COVID-19 infections from late autumn onwards led to a widespread tightening of restrictions during the first quarter of 2021. Private consumption suffered a sharp contraction, which dragged down economic activity and led to a 1.3% q-on-q decline in real GDP in the first quarter. Exports, by contrast, increased by a robust 6.0% q-o-q over the same period, driven by a recovery in demand for machinery and transport equipment goods in Denmark's main export markets. The sharp decrease in new COVID-19 infections and the successful rollout of vaccinations allowed the widespread easing or abolishment of many restrictions in the second quarter of this year, enabling a marked pickup in economic activity and household consumption. Industrial production remained strong in the first quarter of this year, while the services sector is forecast to gain strength thanks to the gradual reopening.

Denmark's recovery is projected to be broad-based, with important contributions from domestic demand and external trade. Household consumption is set to be further bolstered by cash transfers to households in spring 2021. This transfer is related to the release of households' 2021 frozen holiday savings and is equivalent to two weeks of household income or 1% of GDP. Construction investment, particularly for residential properties, is expected to remain robust driven by rising housing prices in both 2021 and 2022. In addition, equipment investment is also set to recover slowly, providing additional impetus to gross fixed capital formation over the forecast horizon. On the back of robust goods exports, net trade is expected to further lift economic growth. Overall, real GDP is forecast to expand by 3.0% in 2021.

Growth is expected to remain buoyant in 2022, driven by private consumption, healthy investment, and strong growth in Denmark's main export markets. Thus, a stronger domestic economy, growing external demand and a positive carry-over effect are expected to boost real GDP growth to 3.4% in 2022.

Graph 2.22: Denmark- Real GDP growth and contributions



Consumer price inflation (HICP) remained moderate in 2020 at 0.3%. Since then the surge in certain raw material prices and bottlenecks in certain intermediary products have led to inflationary pressures. The continued recovery in economic activity and higher energy prices are forecast to lead to an increase in consumer price inflation in the second half of 2021. HICP inflation is set to rise to an average of 1.5% in 2021. Stagnating energy prices in 2022 are expected to contribute to a moderation of HICP inflation to 1.3% next year.