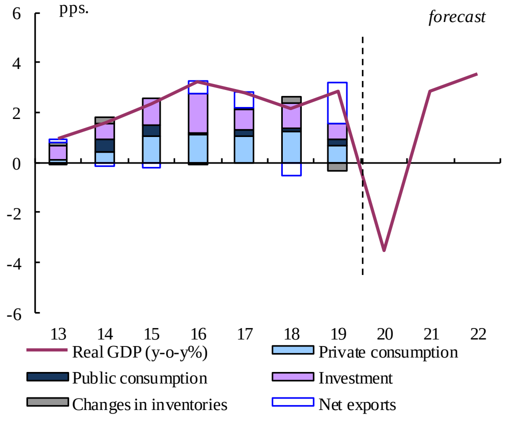
2.22. DENMARK

A sharp contraction in real GDP of 7.1% q-o-q in the second quarter of 2020 was followed by robust growth of 5.2% q-o-q in 2020-Q3 as lockdown measures in response to the COVID-19 pandemic were gradually lifted. In particular, household consumption and investment bolstered the recovery. Economic conditions deteriorated again when confinement measures were gradually tightened from 9 December onwards. Overall, the Danish economy proved its resilience with an estimated real GDP contraction of only 3.5% in 2020. This is mainly due to Denmark's relatively successful handling of the pandemic at the early stage, which allowed it to avoid a lockdown in many sectors, as well as a favourable industrial specialisation (pharmaceuticals, food industry) which have proved relatively resilient to the downturn.

Ongoing lockdown measures at the beginning of the year in Denmark and across the EU are projected to weigh on economic activity. However, progress with vaccinations across the EU could pave the way for restrictions to be lifted over the course of the year. The Danish government is prolonging several COVID-19 emergency measures in order to support the sectors most hurt by the pandemic. Private consumption is set to be further bolstered by another round of 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. Investment has surprised on the upside throughout the coronavirus crisis and should be further supported by the government's 'recovery package', which is equivalent to approximately 1.6% of GDP over the forecast horizon.

Nevertheless, weak economic activity at the beginning of this year will be a drag on annual growth figures for this year as a whole and real GDP is forecast to expand by 2.9% in 2021. Economic recovery is projected to continue next year on the back of the momentum gained in the second half of this year and growing external demand. Also helped by a stronger carry over effect, real GDP is forecast to expand by 3.6% in 2022. Future spending related to the Recovery and Resilience Facility are not included in this forecast and constitute an upside risk.

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



Consumer price inflation (HICP) remained moderate in 2020 at 0.3%. The collapse in oil prices in March wiped out inflationary pressures for the year even though oil prices have recovered somewhat since. This effect was only partially compensated by higher tobacco taxes and rising food prices. The recovery in economic activity and the higher energy prices assumed are set to lead to an increase in consumer prices from the second half of this year. Accordingly, HICP inflation is forecast to rise to 1.2% in 2021 and to 1.3% in 2022.