

22. DENMARK

Following a strong post-pandemic rebound last year, growth in 2022 is forecast to decelerate considerably as high energy prices and the direct and indirect effects of Russia's invasion of Ukraine take a toll on supply chains and push costs and prices further up. Public finances are proving resilient, with a general government surplus expected in 2022 and 2023, mainly explained by the easing of expenditure pressures in the post-pandemic period.

Economic expansion hit by high energy prices and war

The Danish economy emerged without major apparent scarring from the COVID-19 pandemic. Production and employment growth resumed quickly, leading to a real GDP expansion of 4.7% in 2021. The strong expansion was accompanied by robust employment growth and rising real household disposable incomes. The positive growth is set to continue in 2022, although the outlook has deteriorated following Russia's invasion of Ukraine. Economic activity is expected to be constrained by supply side disruptions, further energy and raw material price rises and shortages, as well as heightened general uncertainty. Overall, real GDP is forecast to grow by 2.6% in 2022 before easing to 1.8% in 2023.

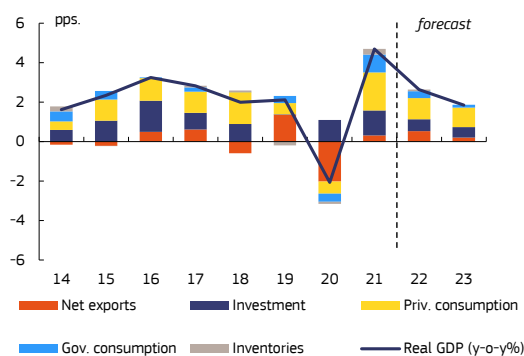
The second half of 2021 was marked by a private consumption rebound as COVID-19 related restrictions were lifted and as pent-up savings allowed households to expand their consumption. This spending revival was supported by certain government measures, notably the release of frozen savings. In 2022 and 2023, private consumption is expected to grow at a more moderate rate, tempered by high inflation. Additionally, the high uncertainty created by the Russian invasion of Ukraine is likely to keep the household saving rate somewhat elevated.

Denmark's direct exports to Russia are overall modest, hence the sanctions imposed by the EU on Russia mainly affect Danish exports through the negative impact on sentiment, lower global growth and through potential disruptions to supply chains. Exports of goods and services are projected to expand by 5.4% in real terms while import volumes are projected to rise by some 5.0% in 2022. In value terms, the growth in imports is projected to exceed that of exports markedly, reflecting price developments in key

inputs for traded goods. As a result, Denmark's current external surplus is set to decline to 7.8% of GDP in 2022 and remain around this level in 2023.

Growth in both construction and equipment investment is forecast to be modest in 2022 and in 2023. Higher interest rates and markedly more expensive building materials are likely to constitute a drag on housing investment while equipment investment is also projected to be negatively affected by higher interest rates and ongoing supply chain disruptions. The fallout the Russia's invasion of Ukraine, the very elevated energy prices and inflationary pressures constitute downwards risks to the forecast.

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



Labour market bottlenecks

The economic expansion since mid-2021 was accompanied by strong employment growth, resulting in labour shortages across a number of sectors. These continue to be especially pronounced in those services that were subject to severe restrictions, and the construction and manufacturing sectors are now also facing similar difficulties. Labour market pressures are projected to ease slightly as of this year due to an expanding labour force — partly thanks to a rise in the number of workers from other countries — and the gradual increase in the

retirement age over the coming years. The unemployment rate is set to decline from 5.1% in 2021 via 4.8% in 2022 to 4.7% in 2023.

Inflation at 35-year high

Consumer prices have accelerated sharply in the first months of 2022, reaching year-on-year inflation figures not recorded since the 1980s. While the inflationary pressures were initially mainly attributable to energy, core inflation is now also on the rise: in March 2022, HICP rose by 6.0% y-o-y, and core inflation increased to 3.2%. HICP inflation is expected to grow by 5.1% annually in 2022 and by 2.7% in 2023, due to normalising energy prices.

Strong government finances

In 2021, the government recorded a surplus of 2.3% of GDP, reflecting strong tax revenues, extra one-off revenues from the taxation of released holiday savings and a smaller than expected take-up of some COVID-19 related relief measures.

In 2022, the general government balance is forecast to record a surplus of 0.9% of GDP, driven by the growth moderation and non-recurrence of certain exceptional revenues. The arrival of people fleeing the war in Ukraine is expected to be accommodated through additional government consumption, financed via foreign development aid.

In 2023, the government surplus is expected to decline to 0.6% of GDP, reflecting further moderation of growth.

The government debt ratio returned to its downward trajectory in 2021, falling to 36.7% of GDP. Continued government surpluses and significant denominator effects only partly countered by stock-flow effects are expected to bring the gross debt level to 34.9% of GDP in 2022 and further down to 33.9% of GDP in 2023.

Table II.22.1:

Main features of country forecast - DENMARK

	2021		Annual percentage change							
	bn DKK	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	2496.6		100.0	1.2	2.0	2.1	-2.1	4.7	2.6	1.8
Private Consumption	1138.6		45.6	1.4	3.5	1.2	-1.3	4.2	2.3	2.1
Public Consumption	608.7		24.4	1.3	0.0	1.5	-1.7	3.7	1.4	0.6
Gross fixed capital formation	560.0		22.4	1.7	4.2	0.1	5.1	5.6	2.7	2.3
Exports (goods and services)	1487.2		59.6	3.1	3.4	5.0	-7.0	7.8	5.4	4.5
Imports (goods and services)	1319.7		52.9	3.9	5.1	3.0	-4.1	8.2	5.0	4.6
GNI (GDP deflator)	2576.6		103.2	1.4	2.6	2.2	-1.6	4.5	2.3	1.7
Contribution to GDP growth:										
Domestic demand				1.3	2.5	1.0	0.1	4.1	2.0	1.7
Inventories				0.0	0.1	-0.2	-0.1	0.3	0.1	0.0
Net exports				-0.1	-0.6	1.4	-2.0	0.3	0.5	0.2
Employment				0.3	1.5	1.4	-0.7	2.6	1.9	1.1
Unemployment rate (a)				5.9	5.1	5.0	5.6	5.1	4.8	4.7
Compensation of employees / head				2.6	1.6	1.9	2.3	3.2	3.6	2.9
Unit labour costs whole economy				1.7	1.1	1.2	3.8	1.1	2.8	2.2
Saving rate of households (b)				7.5	11.2	9.5	11.6	10.6	10.1	9.4
GDP deflator				1.7	0.7	0.7	2.6	2.4	3.3	2.3
Harmonised index of consumer prices				1.5	0.7	0.7	0.3	1.9	5.1	2.7
Terms of trade goods				0.8	-1.6	-0.1	1.5	-5.9	-3.5	0.3
Trade balance (goods) (c)				4.0	3.6	5.3	5.3	3.8	2.6	2.9
Current-account balance (c)				5.3	7.3	8.8	8.1	8.3	7.8	7.7
General government balance (c)				0.6	0.8	4.1	-0.2	2.3	0.9	0.6
Structural budget balance (d)				0.3	1.1	4.3	2.2	3.5	1.9	2.2
General government gross debt (c)				40.2	34.0	33.6	42.1	36.7	34.9	33.9

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