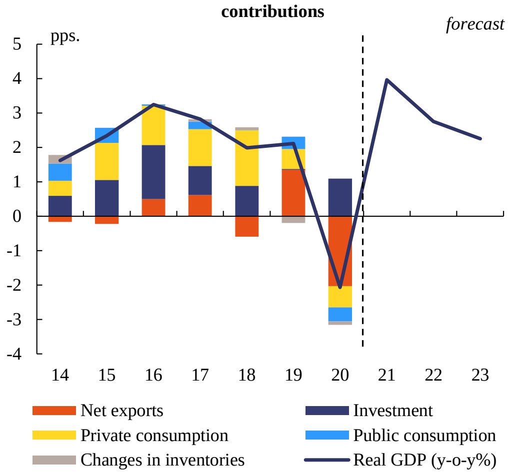
2.22. DENMARK

The successive waves of COVID-19 infections in 2021 were accompanied by varying degrees of restrictions, but these were generally light for most of the second half of the year. This led to a release of pent-up demand and buoyant economic activity from the second quarter onwards, with some deceleration expected in the last quarter of the year in view of the re-introduction of mild restrictive measures in December. As a result, following the 2.1% decline in 2020, real GDP is estimated to have expanded by 4% in 2021 mainly driven by consumption and investment.

The lifting of all COVID-related restrictions from 1 February 2022 and the gradual ease of supply side restrictions are set to help maintain Denmark's economic momentum. Growth appears broad-based with continued support from domestic demand and a pick-up in exports. The resumption of economic activity last year quickly spread to the labour market and employment increased in a robust pace. Robust private consumption dynamics this year are forecast to be underpinned by continued strong employment growth as well as the reduction in accumulated household savings. Government consumption, on the other hand, is set to decrease in 2022 following the sharp pandemic-related expansion last year. Overall, the economy is forecast to expand by 2.8% in 2022, also thanks to a positive carry-over from last year. Robust economic growth is projected to continue next year at 2.3% in 2023, albeit moderating domestic demand growth.

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



Consumer price inflation (HICP) has been on a strong upward trend since early 2021, driven mostly by energy prices, but with contributions from other factors as well. The ongoing pressure on global supply chains has been, inter alia, reflected in rising industrial goods prices. Combined with a marked increase in food prices and a hike in cigarette duties, HICP inflation accelerated from 0.4% in 2020 to 1.9% in 2021. Inflation is expected to peak in 2022 at 2.5% on the back of the sustained rise in energy prices and revived domestic demand translating into higher service prices. With energy and commodity prices expected to decline next year from the current high levels and supply chains normalising, HICP inflation is set to moderate to 2.1% in 2023. Rising labour market pressures could nevertheless fuel higher than expected wage growth, representing an upside risk to inflation.