Macroeconomic Imbalances – Denmark 2013

On 28 November 2012, the European Commission presented its second Alert Mechanism Report (AMR-2013) in accordance with the Regulation (EU) No. 1176/2011 on the prevention and correction of macroeconomic imbalances. The AMR serves as an initial screening device to identify Member States that warrant further in depth analysis into whether imbalances exist or risk emerging. According to Article 5 of Regulation No. 1176/2011, these country-specific "in-depth reviews" should examine the nature, origin and severity of macroeconomic developments in the Member State concerned, which constitute, or could lead to, imbalances. On the basis of this analysis, the Commission concludes whether it considers that an imbalance exists or not, and if so whether it is excessive or not, and what type of follow-up it will recommend to the Council to address to the Member State.

The 2013 in-depth reviews (for Belgium, Bulgaria, Denmark, Spain, France, Italy, Hungary, Malta, the Netherlands, Slovenia, Finland, Sweden and the United Kingdom) were published on 10 April 2013 together with a Commission communication summarising the results. On the basis of the analysis in the In-depth review the Commission concluded that:

DENMARK is *experiencing macroeconomic imbalances, which deserve monitoring and policy action.* In particular, the continuing adjustment in the housing market and the high level of indebtedness in the household and private sector as well as drivers of external competitiveness, deserve continued attention.

More specifically, there has been a weak export performance linked to a rise in unit labour costs due to high wage growth and, in particular, weak productivity growth. Furthermore, the weak export performance is partially due to an unfavourable export market mix. In recent years there have been some improvements in this regard, but at the current juncture it is difficult to assess their sustainability and durability. Taking into account that Denmark has been experiencing high and rising current account surpluses, these trends do not point to short term risks. Low interest rates and an acceleration of house prices in the years prior to the financial crisis contributed to a surge of household debt to unsustainable levels. While a reversal of this trend has been set in motion and risks are also attenuated by high net asset positions of households, the correction process will have to stretch over a significant period of time. This poses potential risks to economic and financial stability.