

Macroeconomic Imbalances

Denmark 2014

On 13 November 2013, the European Commission presented its third Alert Mechanism Report (AMR) 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, presented on 5 March 2014, the Commission will conclude 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 2014 in-depth reviews (for Belgium, Bulgaria, Germany, Denmark, Ireland, Spain, France, Croatia, Italy, Luxembourg, Hungary, Malta, Netherlands, Slovenia, Sweden, Finland and the United Kingdom) were published on 5 March 2014 together with a Commission communication summarising the results. On the basis of the analysis in the In-depth review the Commission concluded that:

The macroeconomic challenges in **Denmark** *no longer constitute substantial macroeconomic risks and are no longer identified as imbalances in the sense of the MIP*. The adjustment on the housing market and the implications of a high private sector debt for the real economy and the stability of the financial sector seem contained. However, these developments, as well as drivers of external competitiveness deserve continued monitoring.

More specifically, macro-financial risks stemming from elevated private debt appear limited, even in the face of tail risks such as combined adverse interest rate shocks and unfavourable labour market developments. The high level of household debt is matched by high household assets, mirroring large savings in pension funds and real estate. Households have so far been financially capable of handling the house price adjustment since 2007, as the number of arrears has stayed at a very low level. Moreover, various stress test and studies have concluded that the households would be resilient in the event of adverse shocks. The financial sector appears stable with the remaining challenges tackled through strengthened regulatory and supervisory measures. Regarding competitiveness, Denmark has been losing export market shares; this is linked to high wage growth and weak productivity growth. However, the mismatch between productivity and wages seems to be a cyclical phenomenon. In view of the high current account surpluses, the trend decline in exports market shares does not point to short-term risks. As regards public finances, Denmark is expected to have sustainably corrected its excessive deficit in 2013.