4. DENMARK

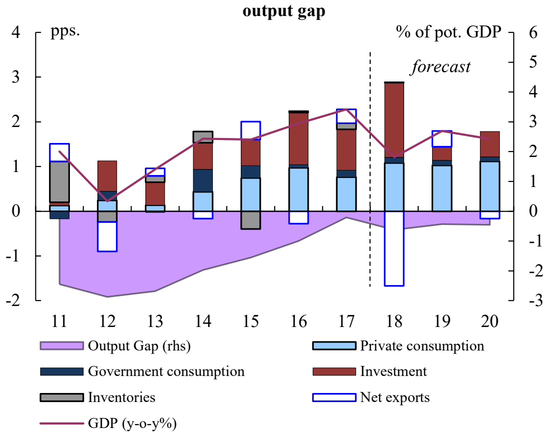
Temporary slowdown

Economic growth in Denmark is forecast to remain solid despite a temporary slowdown in 2018. Private consumption supported by fiscal measures is set to become the main driver of growth. The general government nominal headline position is expected to remain close to balance.

Volatile figures

After reaching a decade high of 2.3% in 2017, real GDP growth in Denmark is forecast to abate to 1.2% in 2018. This slowdown is primarily due to temporary factors. A large payment for the use of a Danish patent (recorded as a service export) lifted real GDP growth by 0.4 pps. in 2017, but causes a similar slowdown in 2018. In addition, weather conditions have negatively affected agricultural production further dragging down economic developments this year. Real GDP is projected to expand at a rate of 1.8% and 2019 before slowing down to 1.6% in 2020 due to the weakening of growth in Denmark's main export markets.

Graph II.4.1: **Denmark - Real GDP growth and components, output gap**



Labour market remains strong

Despite a gradual tightening of the labour market, employment growth is expected to remain robust in the coming years. The labour force, which is projected to continue expanding largely thanks to past pension and labour market reforms, should help sustain the trend. Over the forecast horizon, employment growth is expected to outpace the growth of the labour force, so the unemployment rate should continue to fall gradually from 5.7% in 2017 to 4.7% in 2020. Low unemployment and increasing labour shortages in several sectors are projected to fuel wage growth.

Domestic demand remains robust

Private consumption was temporarily suppressed in 2017 by uncertainties related to changes in car taxation in 2017-Q3, which resulted in a 1.6% growth rate last year. In addition, robust employment growth, steadily rising disposable incomes and a number of fiscal measures are also expected to boost household incomes. The latter include payments to households from the reform of the voluntary early retirement scheme in 2018 and the repayment of excessively-collected property taxes at the end of 2019. As a result, private consumption is projected to grow at a rate of around 2.3% over the forecast horizon, becoming the main engine of economic growth.

Investment is set to jump by 8.2% in 2018, partly due to a large import of ships in the second quarter, which is set to swell both equipment investment and imports this year. This temporary lift will have a negative base effect on investment next year, resulting in a relatively low growth rate of 1.4% in 2019, before rising again to 2.6% in 2020. Excluding this temporary factor, the underlying investment growth remains robust. Rising housing prices have now spread outside the main urban areas, and are expected to support a further strong increase in residential property investment. Machinery and equipment investment remains solid but is set to gradually weaken towards 2020, in line with expected developments in Denmark's main trading partners.

Fall in the current account surplus

The above mentioned temporary factors also add to the volatility in Denmark's foreign trade figures. Exports are forecast to grow by a mere 0.6% this year due to the negative base effect of last year's patent exports. On the other hand, imports have been lifted by the large import of ships in 2018-Q2. As a result of these transactions, the current account surplus is projected to fall from 7.8% of GDP in 2017 to 6.1% in 2018, without indicating a deterioration in Danish competitiveness. Over the forecast horizon, exports and imports are expected to resume their steady trend growth, albeit at a weaker pace than growth in Denmark's export markets. With imports boosted by robust private consumption and investment, the current account surplus is set to hover around 6% of GDP.

Slowly increasing inflation

Notwithstanding rising oil prices, solid economic growth and a tightening labour market, HICP inflation is forecast to decline from 1.1% in 2017 to 0.8% in 2018, below the euro area average. This is mainly due to taxation changes and the slow rise of food prices so far this year. Rising energy prices are expected to lift consumer price inflation to 1.5% in 2019, while increasing wage growth is set to lift it up further to 1.7% in 2020.

Solid public finances

After turning out at 1.1% of GDP in 2017, the general government headline surplus is projected to fall to 0.2% of GDP in 2018. The estimated decline of the surplus is primarily the result of an expected fall in the pension yield tax revenue from the high level reached in 2017. While the continuously strong labour market is set to increase current taxes on income and wealth, slowing economic growth is putting downward pressure on corporate tax revenue. The reform of the voluntary early retirement scheme has led to a reimbursement of DKK 4 bn (0.2% of GDP) to households in early 2018.

The budget balance is projected to deteriorate further to -0.1% of GDP in 2019 due to a one-off repayment of DKK 15.5 bn (0.7% of GDP) of excessively-collected property taxes to households and companies, even though the underlying position is improving. Accordingly, the balance is projected to improve again in 2020 to an estimated surplus of 0.6% of GDP.

The structural balance is expected to decline to ½% of GDP in 2018 due to the transfers associated with the reform of the voluntary early retirement scheme. For the remainder of the forecast horizon, it is projected to stabilise at around 1% of GDP.

Public gross debt is projected to fall from 36.1% of GDP in 2017 to 30.5% in 2020 due to positive primary balances, low interest rates and stable growth.

Table II.4.1:

Main features of country forecast - DENMARK

	2017		Annual percentage change						
bn DKK	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	2149.6	100.0	1.2	1.6	2.0	2.3	**1.2**	**1.8**	**1.6**
Private Consumption	1008.4	46.9	1.0	1.6	2.1	1.6	**2.3**	**2.2**	**2.3**
Public Consumption	536.6	25.0	1.7	1.1	0.3	0.6	**0.5**	**0.5**	**0.4**
Gross fixed capital formation	441.2	20.5	1.0	3.1	6.0	4.5	**8.2**	**1.4**	**2.6**
of which: equipment	131.7	6.1	1.1	1.1	3.0	8.1	**14.5**	**-3.0**	**2.0**
Exports (goods and services)	1184.4	55.1	4.0	2.3	2.8	4.4	**0.6**	**2.7**	**1.9**
Imports (goods and services)	1034.9	48.1	4.3	1.9	3.8	4.3	**4.2**	**2.2**	**2.5**
GNI (GDP deflator)	2194.3	102.1	1.5	1.1	1.4	1.8	**1.4**	**1.8**	**1.6**
Contribution to GDP growth: Domestic demand			1.1	1.6	2.2	1.8	**2.9**	**1.4**	**1.8**
Inventories			0.0	-0.4	0.0	0.1	**0.0**	**0.0**	**0.0**
Net exports			0.1	0.4	-0.3	0.3	**-1.7**	**0.4**	**-0.2**
Employment			0.2	1.4	1.6	1.6	**1.7**	**1.1**	**0.8**
Unemployment rate (a)			5.5	6.2	6.2	5.7	**5.2**	**4.9**	**4.7**
Compensation of employees / head			3.0	1.8	1.3	1.1	**2.2**	**2.5**	**2.8**
Unit labour costs whole economy			2.0	1.6	0.9	0.5	**2.7**	**1.8**	**2.0**
Real unit labour cost			0.0	0.9	0.9	-1.2	**1.6**	**0.2**	**0.0**
Saving rate of households (b)			6.2	10.7	10.8	11.6	**12.3**	**12.3**	**12.3**
GDP deflator			2.1	0.7	0.0	1.7	**1.1**	**1.6**	**2.0**
Harmonised index of consumer prices			1.9	0.2	0.0	1.1	**0.8**	**1.5**	**1.7**
Terms of trade goods			0.9	1.2	1.4	-0.6	**-0.6**	**-0.3**	**0.1**
Trade balance (goods) (c)			4.0	5.2	5.6	5.7	**4.1**	**4.1**	**3.9**
Current-account balance (c)			4.3	8.8	7.3	7.8	**6.1**	**6.2**	**6.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			4.3	8.5	7.3	7.9	**6.2**	**6.3**	**6.2**
General government balance (c)			0.8	-1.5	-0.4	1.1	**0.2**	**-0.1**	**0.6**
Cyclically-adjusted budget balance (d)			0.9	-0.5	0.2	1.2	**0.5**	**0.2**	**0.8**
Structural budget balance (d)			-	-1.9	0.1	1.2	**0.5**	**0.9**	**0.8**
General government gross debt (c)			-	39.9	37.9	36.1	**33.3**	**32.2**	**30.5**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.