

## DENMARK

Economic growth is projected to gradually strengthen to 1.9% in 2018 fuelled by investment and exports. Household consumption growth will remain robust, backed by employment growth, higher real wages and rising property prices. Both residential and business investment will pick up due to low interest rates and increasing capacity utilisation. The current account surplus will remain sizeable.

Implementation of a proposed comprehensive package of reforms addressing a number of structural challenges, such as strengthening work incentives, fostering medium-term fiscal sustainability and boosting productivity, would improve economic performance and raise incomes. Frontloading property tax reform would help to rein-in an increasingly buoyant housing market and make the tax mix more growth friendly.

The fiscal stance remains broadly neutral with strong public investment declining only gradually. Against the backdrop of the package of reforms, the government has proposed to postpone the return to a balanced budget to 2025. Given the moderate public debt level, the authorities are right to use fiscal space and to push for structural reforms.

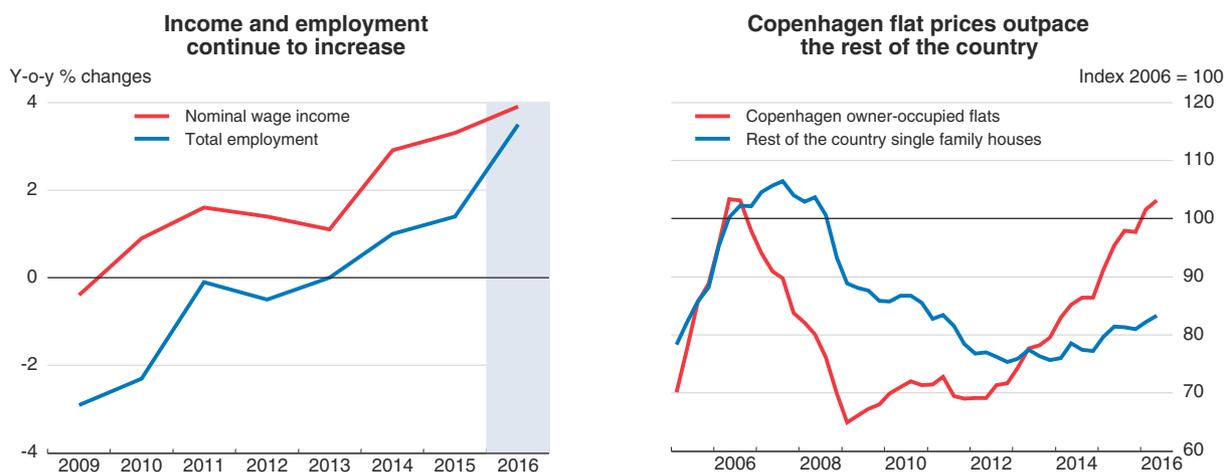
### **Strong employment growth supports household incomes**

Economic activity has been moderate, but has driven rising employment growth that has brought down unemployment and created the beginnings of labour shortages in some sectors, such as construction and manufacturing. Current accommodative financial conditions continue to feed into rising house prices, in particular in Copenhagen. Business investment has yet to recover to pre-crisis levels, but capacity utilisation is back to its long-term average and manufacturing production is firm. Exports are being restrained by globally lower volumes of shipping and weak external developments.

### **An accommodative macroeconomic stance is backed by a plan for structural reforms**

Constrained by the peg to the euro and the need to contain occasional surges in demand for the domestic currency, monetary policy remains highly accommodative. This

### Denmark



Source: OECD Economic Outlook 100 database; and Statistics Denmark.

StatLink  <http://dx.doi.org/10.1787/888933437568>

Denmark: **Demand, output and prices**

	2013	2014	2015	2016	2017	2018
	Current prices DKK billion	Percentage changes, volume (2010 prices)				
<b>GDP at market prices</b>	1 929.7	1.7	1.6	1.0	1.5	1.9
Private consumption	920.4	0.6	1.9	1.9	1.5	2.0
Government consumption	501.9	1.2	0.6	1.1	0.8	0.8
Gross fixed capital formation	367.6	3.4	2.5	1.2	2.3	2.9
Final domestic demand	1 789.9	1.3	1.6	1.6	1.5	1.9
Stockbuilding <sup>1</sup>	12.3	0.2	-0.3	-0.3	-0.1	0.0
Total domestic demand	1 802.2	1.5	1.3	1.2	1.4	1.9
Exports of goods and services	1 058.0	3.6	1.8	1.0	2.7	3.2
Imports of goods and services	930.5	3.6	1.3	1.5	2.9	3.3
Net exports <sup>1</sup>	127.5	0.3	0.4	-0.2	0.1	0.2
<i>Memorandum items</i>						
GDP deflator	—	0.8	0.9	0.1	1.3	2.0
Consumer price index	—	0.6	0.5	0.3	1.1	1.7
Private consumption deflator	—	0.8	0.6	0.5	1.2	1.7
Unemployment rate <sup>2</sup>	—	6.5	6.2	6.1	5.6	5.5
Household saving ratio, net <sup>3</sup>	—	-1.8	4.4	5.0	4.8	4.5
General government financial balance <sup>4</sup>	—	1.4	-1.3	-0.7	-1.3	-1.3
General government gross debt <sup>4</sup>	—	59.0	53.1	53.7	54.9	55.9
General government debt, Maastricht definition <sup>4</sup>	—	44.0	39.6	40.2	41.3	42.3
Current account balance <sup>4</sup>	—	8.9	9.2	8.8	8.8	8.9

1. Contributions to changes in real GDP, actual amount in the first column.

2. The unemployment rate is based on the Labour Force Survey and differs from the registered unemployment rate.

3. As a percentage of disposable income, net of household consumption of fixed capital.

4. As a percentage of GDP.

Source: OECD Economic Outlook 100 database.

StatLink  <http://dx.doi.org/10.1787/888933439029>

is fuelling price increases in the Copenhagen housing market, requiring continued vigilance. In that context, the reform of property taxation announced for the early 2020s will bring back an important counter-cyclical feature, but it could be too late to prevent another housing bubble. The authorities should therefore stand ready to impose stricter macro-prudential measures, for instance a limit on debt service to income ratios. Measures to develop the rental market could also ease house price increases.

Employment in the private sector has been particularly strong and wage growth has picked up, supporting domestic demand. However, if wages become disconnected from productivity improvements the competitiveness of Danish exports could be undermined. Proposed reforms to improve work incentives are welcome as labour shortages and wage pressures are likely to intensify. In particular, more can be done to bring some marginalised groups to the labour market, which would both raise growth and make it more inclusive.

The government proposed postponing the target of a balanced budget from 2020 to 2025 in the context of a comprehensive package of structural reforms. Given the moderate public debt level, existing fiscal space and the benefits of such reforms, this policy is welcome. The package, still under discussion, includes higher public investment during 2018-2025, a decrease in the corporate tax burden and an overhaul of public utilities. The

package would also improve medium-term fiscal sustainability by increasing the retirement age, and raising incentives for private pension savings and work.

### ***The gradual upswing of the economy continues***

Economic activity is projected to gradually strengthen, underpinned by solid private consumption, recovering business investment and stronger exports. Inflation is set pick up to 2% at the end of the projection period with the closing of the output gap and continued wage increases. The current account should remain in considerable surplus, reflecting significant private sector savings, positive returns on foreign assets and still low investment. The fiscal deficit will remain moderate.

Due to its close trade links with the United Kingdom and the safe-haven status of the *krone*, Denmark could be affected by Brexit and any related turbulence in financial markets. Rising unit labour costs could undermine export growth, while imbalances in the housing market could contribute to the overheating of the economy. It is uncertain that the package of reforms will gain enough support and be approved. If implemented, however, those reforms would considerably improve overall economic environment and contribute to higher growth in the medium term.