

## DENMARK

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## DENMARK - ANTI-RECESSION PILLS

In 2023, Denmark experienced dynamic and above-expected economic growth, in the form of an illusion given the preponderance of the pharmaceutical sector. This sector turned into the country's main asset, to such an extent that fears of increasing dependence have appeared. Furthermore, inflation has fallen significantly since the 2023 high, while the Danish central bank is expected to continue to ease policy in line with the ECB.

Growth of the Danish economy suffered a significant setback in Q1 2024. The contraction in GDP, at -1.8% q/q, constitutes a negative result not seen since 2009, with the exception of the shock linked to the Covid-19 pandemic. The beginning of the year however, saw remarkable momentum in investment, visible both on the residential component - which posted a second increase (+2.5% q/q) - and on the business component. The latter experienced a significant (+12.7% q/q) albeit incomplete upturn in machinery and equipment after the downturn at the end of 2023. However, these good figures were more than offset by negative contributions from household consumption (-0.9 pp) and above all, from foreign trade (-3.8 pp). This happened whereas export momentum was the primary driver of Danish growth in 2023, allowing the country to post the best annual performance (+1.8%) among its Scandinavian counterparts. This is expected to remain the case in 2024 according to the European Commission's forecasts, even if the weakness in Q1 points to a lower final result than initially expected (+2.6%).

## A PHARMA-DEPENDENT ECONOMY

Nevertheless, it is important to note that the positive results for 2023 were mainly due to the outstanding performance of Novo Nordisk, Denmark's flagship pharmaceuticals company, which makes drugs to combat diabetes and obesity. At aggregate level, this is masking a weak domestic demand, illustrated by a slight rebound in household consumption (+1.0% as an annual average) and the depressed level of investment (-3.6%). In fact, according to Statistics Denmark, adjusting for the pharmaceuticals sector, instead of growing by 1.8%, GDP fell by 0.1% in 2023. This result should be assessed in hindsight as it does not incorporate potential positive crowding-out effects or spillovers related to pharma preponderance. In addition, the Danish Economic Council reported that half of the growth in non-farm employment between January 2023 and March 2024 was the result, directly or indirectly, of Novo Nordisk's business. And lastly, the jump in foreign trade mentioned above was directly related to the company's international attractiveness.

As a corollary, the significant downturn in the pharmaceuticals component of the manufacturing production index in Q1 2024 (-17.1% q/q) was a major factor explaining the contraction in GDP during this quarter. However, the strong monthly or quarterly variability of the index, which then jumped by +21% m/m in April, allowing the aggregated index to record its strongest monthly growth since 2016 (+11.3%), does not change the sector's outlook, which analysts consider very positive. The main questions still concern the company's ability to meet growing demand. In addition, Novo Nordisk's power is impressively illustrated by the fact that its market capitalisation - more than USD 630 billion as of 12 June 2024 (+75.5% y/y) - is higher than Denmark's annual nominal GDP (around USD 400 billion in 2023). This makes it the best-valued European company on the financial markets, very clearly ahead of the second largest capitalisation (LVMH, around USD 400 billion).

## GROWTH AND INFLATION

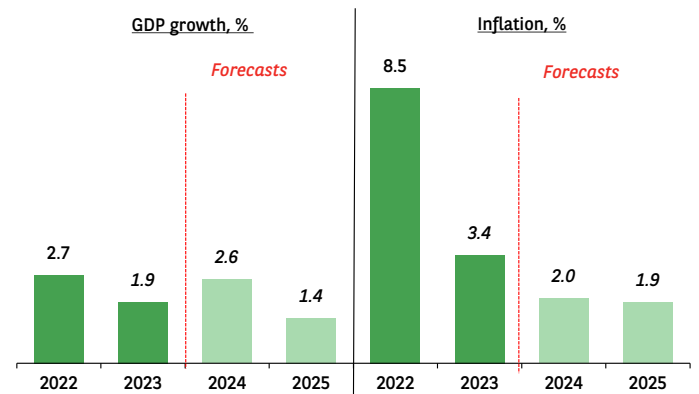


CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

Ultimately, while the company is currently a factor in economic expansion, which is expected to continue in the medium term, too much dependence could turn into vulnerability for the country in the event of a sharp turnaround in the pharma giant's business cycle.

## MONETARY EASING IN LINE WITH THE ECB

Danish monetary policy is characterised by a price stability objective, the primary method for achievement of which is to maintain parity between the euro (formerly the German mark) and the Danish krone at around EUR 1 = DKK 7.46038. To do this, the National Bank, in addition to intervening in the foreign exchange market, changes its interest rates in line with the ECB's decisions. And so the ECB's rate cut of 25 bps on 6 June was reflected, on the same day, by an equivalent decision by its Danish counterpart, thereby raising the current account rate to +3.35% and maintaining the spread of 40 bps with the ECB deposit facility rate. In this respect, our forecasts for the ECB's key rate (see euro zone text) mean that the Danish key rate will be +2.85% at the end of 2024 and +2.1% at the end of 2025.

This gradual easing of financial conditions should help bolster demand. Added to this is the joint effect of the significant fall in inflation - which, measured by the HICP, has been below +1.0% y/y since September 2023 - and the growth in real income (which picked up in Q2 2023). Although the level of nominal wage growth could exert some upward pressure on inflation in the coming quarters, this should not substantially threaten price stability.

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