DENMARK

INDUSTRIAL SOVEREIGNTY: FROM DREAM TO REALITY

Denmark stands out for its vigorous economic recovery, which was much stronger than that in the other European countries. The Danish economy quickly returned to pre-crisis levels and even exceeded its pre-pandemic growth trend. Industry is in full expansion thanks to its positioning in high value-added market segments. Yet this dynamic momentum is threatened in the short term by surging inflation and job market pressures. The central bank has not yet begun the process of normalising monetary policy, although it plans to tighten monetary conditions gradually and progressively in the near future.

The Danish economy rebounded very strongly after the Covid-19 shock. At the end of Q1 2022, GDP growth was trending 6% above the pre-crisis level of Q4 2019 and even 2.3% higher than the GDP trend observed before the pandemic, the only European economy to do so. An industry in full expansion fuelled this momentum. At a time when reindustrialisation is a core part of the European project, Denmark is leading the way with an industry that is gaining new ground: in April, manufacturing output exceeded the pre-Covid level by 19.4% (see chart 2). This is because Danish industry is positioned in high value-added products such as pharmaceuticals, machinery, and renewable energy sources, such as manufacturing wind turbines. According to OECD forecasts, GDP growth should remain solid at 3% in 2022 despite the geopolitical environment. Although Denmark is self-sufficient in terms of its energy needs, business could slow due to sluggish global demand and rising inflation.

Looking beyond the cyclical environment, Denmark's economic momentum fits within a process of improving its long-term growth potential. Buoyed by very dynamic investment (+12.2% above the pre-crisis level in Q1 2022), notably in the renovation of real estate assets and digitalisation of the economy, the nature of this growth suggests that Denmark could end up strengthening its total factor productivity.

Like many other European countries, the Danish economy is nonetheless threatened in the short term by rising inflation. Driven up by soaring energy and food prices, inflation hit 7.4% y/y in May, the highest level since June 1984. This inflationary surge is squeezing household purchasing power, and confidence plunged in May to an all-time low of -22.4. Faced with high inflation, the Danish central bank has followed in the wake of the European Central Bank so far by maintaining its key policy rate unchanged (at -0.6%), while gradually adopting a more hawkish message about the possibility of tightening monetary policy over the course of 2022.

The job market situation continues to improve with an unemployment rate of 4.3% in April – close to an all-time low – and a labour market participation rate that continues to rise (80.1% in Q1 2022). The number of job vacancies continues to hold at record highs, a sign that labour shortages are intensifying.

From a fiscal perspective, the government began tightening the screws as of 2021, when it generated a fiscal surplus of 2.3% of GDP. The government is expected to maintain tight control over public finances over the next two years. This should help erase some of the scars of the crisis by bringing the public debt ratio back to the 2019 level of 33.6% of GDP, after rising by more than 8 points during the Covid-19 crisis in 2020.

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GROWTH & INFLATION

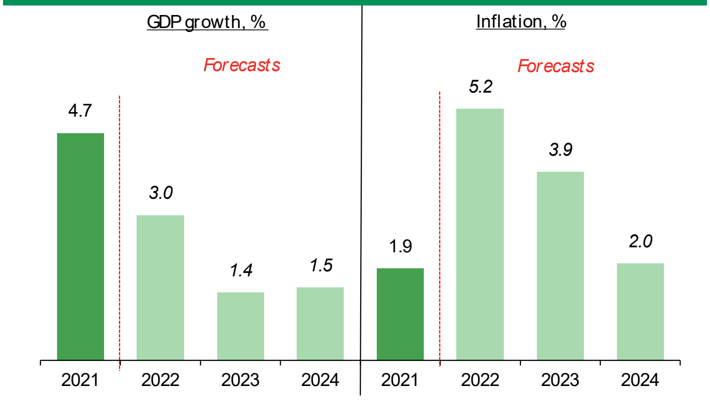

CHART 1 SOURCE: OECD, BNP PARIBAS

DENMARK: INDUSTRIAL PRODUCTION

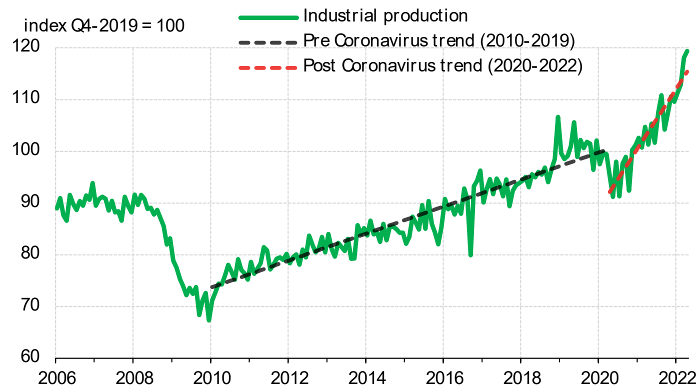

CHART 2 SOURCE: MACROBOND, BNP PARIBAS