

# Denmark

## Steady growth

Denmark's small open economy is bound to be hit by the economic slowdown affecting its main trading partners in the quarters ahead. Household consumption will remain the main growth engine thanks to job creations, wage growth and mild inflation. With consumer prices up only 0.7% y/y in May, inflation should remain mild. The Danish economy is also expected to benefit from an accommodating monetary policy in the quarters ahead, although this will depend on the policy stance adopted by the European Central Bank (ECB).

After GDP growth rates of 2.3% in 2017 and 1.5% in 2018, Denmark's growth profile should be much less jagged in 2019. A patent export in Q1 2017 distorted GDP growth in 2017<sup>1</sup> and 2018. Growth momentum should be relatively buoyant despite a less favourable international environment. After rising 0.1% q/q in Q1 2019, GDP growth is expected to near 1.7% this year and in 2020, which is close to the average growth rate for 2017 and 2018 (+1.9%) and the country's long-term potential rate, which the OECD estimates at 1.6% in 2019.

### ■ Growth driven by consumption

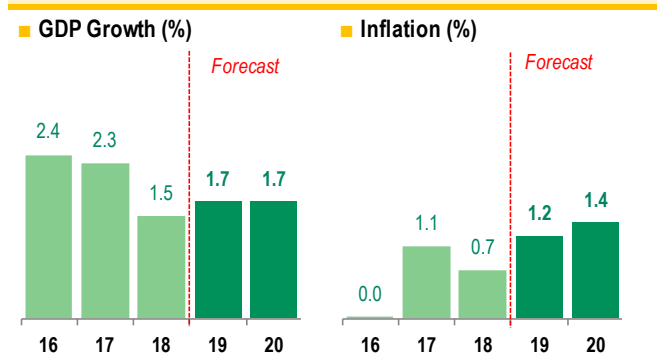
Denmark's small open economy is bound to be hit by the slowdown in growth in Germany, Sweden, and the United States, its main trading partners<sup>2</sup>. Yet doubts persist over the size of the slowdown. Much depends on the pursuit of protectionist policies and world trade trends. Similarly, Brexit – the terms of which are still unknown – poses a risk for the Danish economy given its close trade ties with the UK (which accounted for 6.7% of exports of Danish goods in 2018). Investment in machinery and capital goods will also be undermined this year by less favourable growth prospects and negative acquired growth. Residential investment, which rose strongly between 2015 and 2018, is also expected to weaken due to the slowdown in house price inflation.

Apparently household consumption will continue to be the main growth engine in the quarters ahead. Job creations are expected to slow slightly, in line with activity, although they should continue to increase at a sufficient pace to maintain unemployment at a low rate (5.3% in April). A tighter labour market should generate greater wage pressures and drive up disposable household income and spending in the months ahead. Moreover consumer price inflation should be moderate.

Wage growth is likely to push up consumer prices in the months ahead, but inflation was only 0.7% y/y in May and will apparently hold below 2% y/y for several more quarters.

The Danish economy is also expected to benefit from an accommodating monetary policy in the quarters ahead (the deposit facility rate is currently -0.65%). Yet Danish monetary policy

### 1- Growth and inflation



Source: National accounts, BNP Paribas

depends on that of the European Central Bank (ECB), since the Danish krone is pegged to the euro<sup>3</sup>.

In 2018, Denmark reported a fiscal surplus of 0.5% of GDP, which is likely to diminish slightly again in 2019. Economic growth should bolster public finances, but property tax refunds and the decline in the pension yield tax could strain the fiscal balance. Denmark should nonetheless report a fiscal surplus, which leaves the authorities some manoeuvring room in case of a slowdown. Similarly, public debt is expected to decline again in 2019, from 34.1% of GDP in 2018, thanks to a primary surplus, low interest rates and nominal GDP growth.

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<sup>1</sup> A patent exported in Q1 2017 contributed 0.4 percentage points of GDP growth in 2017 and had a similar negative impact in 2018.

<sup>2</sup> In 2018, exports to Germany, Sweden and the United States accounted for 15.5%, 11.5% and 8.3% of the country's exports, respectively.

<sup>3</sup> The Danish krone benefits from a fluctuation band of 2.25% on either side of the pivot exchange rate of DKK 7.46 to the euro.

