



Summary

So far the economic recovery in Denmark has only been modest. That said, the growth outlook has improved and the government is making progress with budgetary consolidation and more prudent financial regulation. Besides that, the Danish economy is characterized by very strong fundamentals. Households have a high gross debt position, but in general we don't consider this as a large threat for the economy.

Things to watch:

- High level of household debt (mortgages) with for a large part floating interest rates
- The high level of unemployment as a result of the flexible labour market
- The banking sector needs to find an alternative for funding via covered bonds

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Denmark			
National facts		Social and governance indicators rank / total	
Type of government	Constitutional monarchy	Human Development Index (rank)	19 / 169
Capital	Copenhagen	Ease of doing business (rank)	6 / 183
Surface area (thousand sq km)	42.3	Economic freedom index (rank)	8 / 179
Population (millions)	5.5	Corruption perceptions index (rank)	1 / 178
Main languages	Danish	Press freedom index (rank)	11 / 178
Main religions	Lutheran (95%)	Gini index (income distribution)	24.7
	Other Christian (3%)	Population below \$1.25 per day (PPP)	N/A
	Muslim (2%)		
Head of State (president)	Queen Margrethe II	Foreign trade 2009	
Head of Government (prime-minister)	Lars Loekke Rasmussen	<i>Main export partners (%)</i>	<i>Main import partners (%)</i>
Monetary unit	DKK	Germany	21
		Sweden	13
		UK	7
		US	7
Economy 2010		<i>Main export products (%)</i>	
<i>Economic size</i>		<i>Main import products (%)</i>	
	<i>bn USD</i>	<i>% world total</i>	
Nominal GDP	304	0.49	Machinery and transport equipment
Nominal GDP at PPP	201	0.27	Food, drinks and tobacco
Export value of goods and services	151	0.81	Chemicals and related products, n.e.s.
IMF quatum (in mln SDR)	1643	0.76	Mineral fuels, lubricants, and related materials
<i>Economic structure</i>		<i>Openness of the economy</i>	
	<i>2010</i>	<i>5-year av.</i>	
Real GDP growth	2.1	0.2	Machinery and transport equipment
Agriculture (% of GDP)	1	1	Food, drinks and tobacco
Industry (% of GDP)	23	25	Chemicals and related products, n.e.s.
Services (% of GDP)	76	74	Mineral fuels, lubricants, and related materials
<i>Standards of living</i>			
	<i>USD</i>	<i>% world av.</i>	
Nominal GDP per head	54673	556	Export value of G&S (% of GDP)
Nominal GDP per head at PPP	36251	310	Import value of G&S (% of GDP)
Real GDP per head	46623	582	Inward FDI (% of GDP)

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Full report:

Denmark in 2008 was in fact the very first European economy to enter a recession, which was initially caused by domestic factors: overheated economy with high wage growth and (house) price inflation. On the way down it was additionally hit by the global recession. From peak to trough output contracted by around 7%, while the current recovery is only moderate in that perspective (GDP growth of 2.1% in 2010). The recovery is led by high government consumption and recovering private consumption, while exports only grew modestly and investments still contracted in 2010 (due to a fall in real estate investment). Reflecting the flexible character of the labour market, unemployment rose quickly from 3.3% in 2008 to 8.2% in January 2011 (Eurostat definition).

The outlook for the coming years shows stable, but moderate growth (1.5 - 2.0% y-o-y). With potential growth at around 1.5% the output gap will be gradually closed in the coming years. Private consumption is expected to grow only modestly, based on relatively high unemployment and a high savings rate to restore the households balance sheets after a severe drop in housing prices (-20-%). This expectation is confirmed by relatively low levels of consumer confidence. Private investments will start growing gradually again from 2011 onwards, based on favourable sentiment in the industrial sector. The export sector will be the main engine behind the recovery, as it will benefit from growing world trade and a relatively low euro (the krone is pegged).

As stated before, the government played an important role in the economic recovery in 2010 with strong counter-cyclical fiscal policy and easing monetary policy. There was ample room for fiscal expansion, but the public debt ratio rose substantially from 27%-GDP in 2007 to 45%-GDP in 2010 and this level is still rising. Despite the relatively sound public finances (public financial assets are almost equal to gross public debt), there is a shared conviction among politicians to bring back the budget deficit (3.9%-GDP in 2010) to 3%-GDP in 2013 and to balance in 2015. This consolidation path both respects the economic recovery and credibly restores the confidence based on a history of prudent public finances. Although currently the high unemployment is a main concern, in the medium term the aging of the population (which results in a drop in labour supply growth) forms an important challenge. Nevertheless, it should be noted that the aging of the Danish population is only average from a European perspective. Other key policy issues are the relatively slow growth of labour productivity (due to high wage growth and inefficient resource allocation) and regulation to increase the resilience of the financial sector.

The Danish private sector is regaining strength and stability after the domestic banking crisis in 2008. Households have a very high gross debt position (158%-GDP, of which 104%-GDP are mortgages), but in general we don't consider this as a large threat for the economy. An important reason for this is that households do have even larger financial assets (including pension savings), as a result of which their net financial assets are positive. Nevertheless, the significant housing price correction in 2008 deteriorated households' balance sheets which now should be repaired with higher savings. Besides that, the increasing use of variable interest rates (currently 65%) for mortgage loans has increased households' vulnerability to an increase in the interest rate. Danish firms have a relatively modest net debt (81%-GDP) but should focus on wage moderation and productivity growth to protect their competitiveness. Helped by a low euro they are expected to continue their history (since the begin of the 1990's) of positive contributions to the current account in the next couple of years. The domestic banking sector was hit hard by the real estate correction and the global financial crisis. Heavily supported by the government (guarantees and nationalisation of several small banks), the banking sector has regained profitability, solvability and managed to lower its write-downs. The extent of government debt guarantees to the financial sector has been scaled down as well, which reduced contingent liabilities for public finances. Although the economic recovery increased the stability of the banking sector, there remain some vulnerabilities. To comply with new liquidity regulation (Basel 3) Danish banks need to reduce their reliance on covered bond funding (mortgage-backed). Given their already high dependence on wholesale funding this will be quite a challenge in the tight (and therefore expensive) Danish savings market.

The Danish central bank reduced its official lending rate aggressively during the crisis to 1.05, but hiked it recently to 1.30 after the ECB hike. The central bank is expected to follow the ECB tightly with future rate hikes. This is done as the Danish krone is pegged to the euro and the central bank wants to minimize interest rate differentials with the euro zone. However, given the relatively high level of household debt at floating interest rates, further ECB hikes pose a sizeable risk to domestic spending.

In November 2011 there will be new elections and it is very questionable whether the current liberal-conservative government will be re-elected. The left-wing opposition parties are leading in the recent polls. Although the result of the election will influence the choice of measures, the conviction to return to prudent budgetary policy is broadly shared.

Denmark							
Selection of economic indicators	2006	2007	2008	2009	2010	2011e	2012f
<i>Key country risk indicators</i>							
GDP (% real change pa)	3.4	1.6	-1.1	-5.2	2.1	1.8	1.7
Consumer prices (average % change pa)	1.9	1.7	3.4	1.3	2.3	2.5	1.8
Current account balance (% of GDP)	3.0	1.5	2.7	3.6	5.4	4.5	3.4
<i>Economic growth</i>							
GDP (% real change pa)	3.4	1.6	-1.1	-5.2	2.1	1.8	1.7
Gross fixed investment (% real change pa)	14.2	0.4	-3.2	-14.3	-4.2	2.1	2.8
Private consumption (real % change pa)	3.6	3.0	-0.6	-4.5	1.8	1.6	1.9
Government consumption (% real change pa)	2.8	1.3	1.6	3.1	1.9	0.8	0.5
Exports of G&S (% real change pa)	9.0	2.8	2.8	-9.7	2.8	4.8	3.1
Imports of G&S (% real change pa)	13.4	4.3	2.7	-12.5	2.7	5.5	3.4
<i>Economic policy</i>							
Budget balance (% of GDP)	5.0	4.8	3.4	-2.8	-3.9	-4.8	-3.9
Public debt (% of GDP)	32	27	34	42	45	49	53
Money market interest rate (%)	3.2	4.3	4.9	1.8	0.7	1.1	1.7
M2 growth (% change pa)	10	11	5	2	-4	4	5
Consumer prices (average % change pa)	1.9	1.7	3.4	1.3	2.3	2.5	1.8
Exchange rate LCU to USD (average)	5.9	5.4	5.1	5.4	5.6	6.0	6.2
Recorded unemployment (%)	3.9	2.7	1.9	3.6	4.2	4.0	3.8
<i>Balance of payments (mln USD)</i>							
Current account balance	8218	4769	9095	11074	16400	13500	10000
Trade balance	3048	392	920	8083	9100	6400	4000
Export value of goods	90733	100720	115136	92239	93800	92300	92300
Import value of goods	87684	100330	114220	84156	84750	85900	88340
Services balance	7076	7970	10099	4389	8100	8300	7700
Income balance	2854	1739	3573	3934	4400	3900	3400
Transfer balance	-4759	-5329	-5498	-5332	-5200	-5200	-5100
Net direct investment flows	-5726	-8188	-12634	-3531	-5038	-6540	-6920
<i>External position (mln USD)</i>							
International investment position	-513	-18916	-18669	12170	N/A	N/A	N/A
Total assets	574355	713451	677977	744359	N/A	N/A	N/A
Total liabilities	574868	732367	696646	732189	N/A	N/A	N/A
<i>Key ratios for balance of payments, external solvency and external liquidity</i>							
Trade balance (% of GDP)	1.1	0.1	0.3	2.6	3.0	2.1	1.4
Current account balance (% of GDP)	3.0	1.5	2.7	3.6	5.4	4.5	3.4
Inward FDI (% of GDP)	0.9	3.8	0.8	0.9	2.0	1.4	2.1
International investment position (% of GDP)	-0.2	-6.1	-5.5	3.9	N/A	N/A	N/A

Source: EIU

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