Ministry of Economic Affairs

Economic Survey

May 2024

Economic Survey, May 2024

Ministry of Economic Affairs
Ved Stranden 8
1061 Copenhagen K
Denmark

ISBN: 978-87-7862-394-2 (digital version)

The publication is available for download at oem.dk

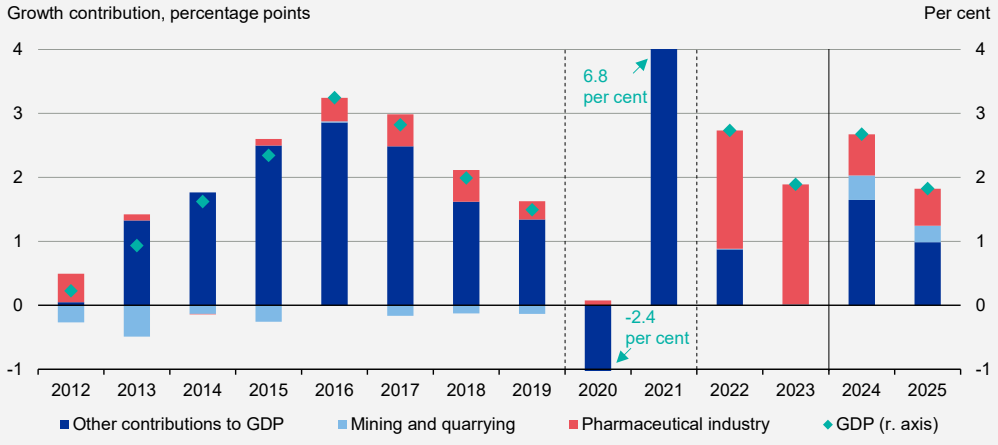
1. Summary

1.1 Current economic conditions

The Danish economy has had a remarkable trajectory in recent years. Activity recovered quickly after the covid-19 pandemic, and employment has continued to rise over the past few years despite the decline in demand that followed high energy prices, high inflation, rising interest rates and stagnation abroad. The pharmaceutical industry has been crucial to real GDP growth over the past two years, as other parts of the Danish economy have stagnated or even declined according to the national accounts. Employment has increased more broadly in the economy and especially in the service industries. However, the pressure on the labour market has eased over the past year.

Opportunities for growth in the domestic economy are favourable in the coming years as households experience real wage growth and can increase consumption. An improvement abroad is also expected to contribute to broad-based growth across industries. In addition, the pharmaceutical industry is expected to continue to grow, and the reopening of the Tyra field in the North Sea will boost overall economic growth in both 2024 and 2025.

Figure 1.1 The pharmaceutical industry has been crucial to GDP growth in recent years



Note: The full GDP growth fluctuations of -2.4 per cent and 6.8 per cent in 2021 and 2022, respectively, are not shown. Growth contributions from the pharmaceutical industry as well as mining and quarrying are calculated based on gross value added (GVA). The pharmaceutical industry's GVA for 2021-2023 is based on a special extract of unpublished figures from Statistics Denmark, which is subject to greater uncertainty. 2024 and 2025 are estimates.
Source: Statistics Denmark and own calculations.

Some adjustment is expected in the labour market, which should be seen in light of high wage growth and weak productivity trends in recent years. The forecast estimates that employment will fall by 18,000 persons in 2025 after an increase of 13,000 persons in 2024, which means that employment will gradually approach its structural level. The slowdown in the labour market will limit growth in private consumption, for example, and excluding the contribution from

the pharmaceutical industry and mining and quarrying, moderate growth and continued dampening of capacity pressures are expected, *cf. figure 1.1*.

Outlook for the Danish economy

The Danish economy has improved somewhat since October 2022, when inflation peaked. Inflation has fallen significantly and has been below 2 per cent since September 2023. As inflation has slowed, consumer confidence has risen from a historic low to a more neutral level, *cf. figure 1.2*. The move towards a more positive economic outlook also applies to the business sector, and business sentiment has returned to the historical average in recent months. The improved sentiment indicates that the Danish economy has weathered the major shocks to the global economy in recent years and that there is no expectation of a major setback.

The decrease in inflation is mainly due to the fall in energy prices and should also be seen in the context of higher interest rates, which have had a dampening effect on demand without bringing the labour market to a standstill. The tightening of monetary policy, which due to the fixed exchange rate policy reflects interest rate decisions in the euro area, has thus worked as intended. Simultaneously, fiscal policy in Denmark was quickly tightened again, so that the stimulus during the corona pandemic has been rolled back.

Figure 1.2 Decline in inflation reflected in a more positive outlook for the Danish economy

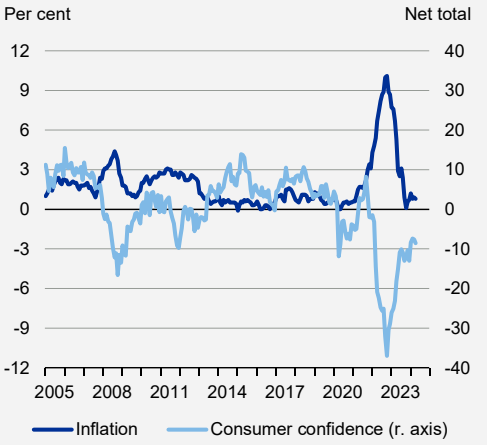


Figure 1.3 Mortgage rates appear to have peaked

Note: In figure 1.3, interest rates on new mortgage loans are shown with different interest rate fixations.
Source: Statistics Denmark, Danmarks Nationalbank and own calculations.

Interest rates are expected to remain higher in the coming years compared to the pre-inflationary period, and increased interest costs will have a dampening effect on consumption and investment. Many companies are also expected to need to adjust their capacity and number of employees in line with developments in demand and productivity. These factors point towards moderate GDP growth in 2024 and 2025. However, growth is expected to be supported by continued growth in the pharmaceutical industry. Furthermore, the reopening of the Tyra field in the North Sea during 2024 will lead to both higher exports and lower imports of energy due to increased gas extraction, which will further boost GDP both this year and next.

Overall, GDP is estimated to grow by 2.7 per cent in 2024 and 1.8 per cent in 2025, *cf. table 1.1*. Excluding contributions from the pharmaceutical industry and mining, growth would be limited to 1.6 per cent and 1.0 per cent in 2024 and 2025 respectively.

The relatively high annual growth rates in 2024 should be seen in light of strong growth at the end of 2023. Looking instead at the development from 4th quarter of 2023 to the 4th quarter of 2025, GDP is expected to grow by around 1½ per cent per year on average. Excluding contributions from mining and quarrying as well as the pharmaceutical industry, growth is expected to be about half that rate.

Table 1.1 Key figures in the projection

	2023	2024	2025
GDP growth, per cent	1.9	2.7	1.8
Inflation, per cent	3.3	2.1	2.1
House prices, per cent	-2.7	3.2	3.0
Employment, change in 1.000 persons	46	13	-18
Gross unemployment, per cent of labour force	84	89	95

Source: Statistics Denmark and own calculations.

GDP has grown remarkably in recent years on the back of developments in the pharmaceutical industry. According to the national accounts, the increase in gross value added (GVA) in the pharmaceutical industry has been significantly higher in terms of volume (i.e. adjusted for price development) than in current prices. The calculation of price changes is associated with uncertainty, which also leads to uncertainty about the volume development in GVA in the pharmaceutical industry and thus also in the overall development in GDP, *cf. chapter 4*.

Statistics Denmark is continuously improving the sources and methods used to compile the national accounts. At intervals, so-called major revisions are carried out, where larger changes are incorporated. A new major revision is underway and will be published by Statistics Denmark at the end of June, *cf. box 1.1*. Experience shows that these major revisions can lead to a slightly different picture of the historical development in GDP and other parts of the national accounts. For example, the major revision in 2016 led to an upward adjustment of GDP in current prices of DKK 42 billion in 2015, partly due to new figures for foreign activity of businesses. In the period 2010-2015, real GDP growth was thus approximately ½ percentage point higher on average each year. It is not known in advance whether the upcoming revision will give a new impression of developments in the pharmaceutical industry, for example.

Box 1.1 Upcoming major revision of the national accounts

From June 28, 2024, the Danish national accounts will be compiled on a main revised basis. Prior to that, the public finance statistics will switch to the major revision basis on June 6, while the balance of payments and foreign trade statistics will switch to the new basis on June 10. A major revision differs from the regular revisions, which only concern years that are normally open for revisions (also called preliminary years). In a major revision, all time series in the national accounts are revised.

According to Statistics Denmark, the upcoming main revision will incorporate new sources and calculation methods and a new classification for private consumption (COICOP18). In addition, the reference year for the chained values in previous years' prices will be changed from 2010 to 2020.

The last major revision of the national accounts took place in 2016, but in the future, major revisions will be carried out every five years. All EU countries are required to report major revisions of national accounts figures by the third quarter of 2024. This follows a common revision policy in the EU and the next revision is scheduled for 2029. The revision in 2029 will be more comprehensive as new common guidelines are also implemented in the European System of National and Regional Accounts, which in turn is based on guidelines for the compilation of national accounts adopted by the UN.

The forthcoming Economic Survey in August will be based on the major revision of the national accounts.

Source: Statistics Denmark: Hovedrevision – hvad og hvorfor?

Private consumption is on the rise

Lower inflation along with wage increases has already led to a significant increase in household purchasing power. The collective agreements in both the private and public sector point to a rapid recovery in real wages and for many wage earners the real wage will be recovered during 2024 to the level before inflation picked up, *cf. figure 1.4*. For recipients of income transfers the income is adjusted with the wage rate in the private sector two years before. However, the lower inflation means that these groups are also experiencing an increase in their purchasing power as the rate adjustment in 2024 is expected to exceed inflation.

The increase in real wages is already reflected in household consumption, which has been increasing since the beginning of 2023. This development is expected to continue in 2024 and 2025, where other movements in the labour market is less significant for private consumption, cf. *figure 1.5*.

Relatively large rate payments on loans and an expected slowdown in the labour market during 2024 and 2025 could cause a slowdown in household consumption. On the opposite, households have relative large savings, which support consumption growth. An analysis of Danish household consumption shows that the growth in private consumption has been lower than the growth in income during recent years, which is reflected in a reduction in debt and increased savings, *cf. chapter 2*.

Figure 1.4 Real wages in the private sector (DA-area) will be recovered to 2021-level during 2024

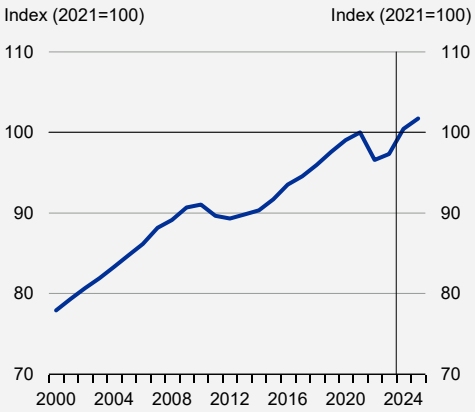
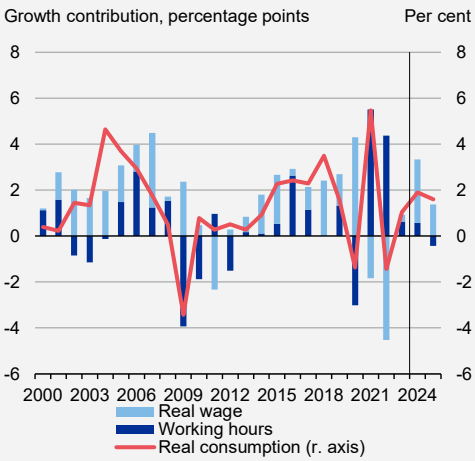


Figure 1.5 Increasing real wages supports growth in private consumption



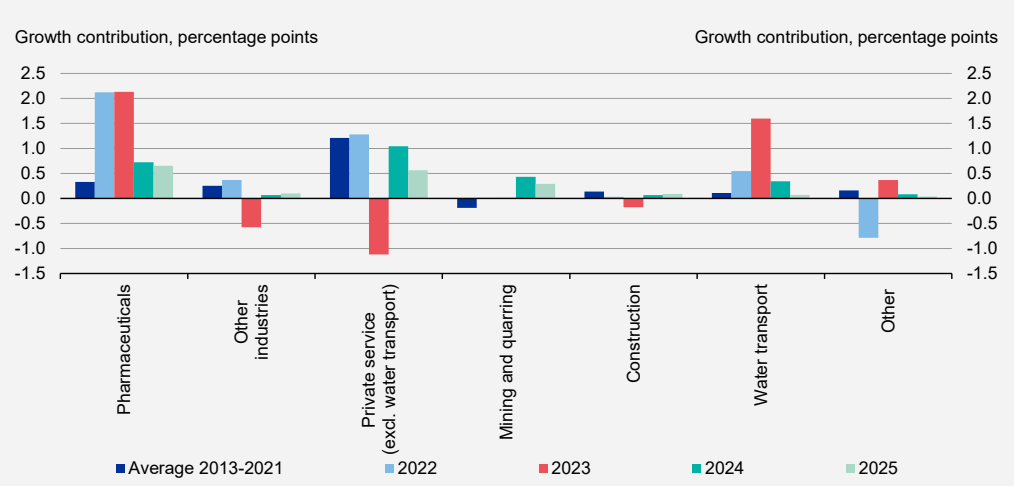
Note: Wage in the private sector (DA area) deflated with the consumer price index in figure 1.4. Figure 1.5 shows the growth rates in the actual hours worked among wage earners as well as in the implicit hourly wage deflated with the consumer price index, and thus the stacked bars are an expression of the real increase in the wage consumption of employees.
Source: Statistics Denmark and own calculations.

Private consumption is also supported by the repayment of property taxes and the personal tax reform *Aftale om reform af personskat* (December 2023), which will both lead to increased employment and reduce taxes for persons in employment. The agreement includes, among other things, an increase in the ordinary employment allowance from 2025 and from 2026 a reduction in the top-bracket tax as well as an extra top-bracket tax for income above DKK 2.5 million. In isolation, the reform will contribute to increasing disposable incomes by DKK 4.9 million in 2025 and more than DKK 10 billion in 2026 where most of the reform is phased in. Private consumption is also supported by the collective agreements in both private and public sector and by the *Trepartsaftale om løn og arbejdsvilkår* (December 2023).

More broad based growth across industries

In the coming years interest rates are expected to be lower and growth abroad to increase. Trade-weighted international GDP-growth is expected to increase from 0.8 per cent in 2023 to 1.5 per cent in 2024 and 2.0 per cent in 2025, which largely reflects an expectation that growth will pick up in Europe, *cf. chapter 7*. Domestic demand is expected to increase moderately in the forecast period after a decline in recent years. In the outlook a broader improvement across industries is thereby expected, but still with significant contributions from the pharmaceutical industry, *cf. figure 1.6*. The reopening of the Tyra field is also estimated to contribute to growth in BVT by 0.4 percentage points and 0.3 percentage points in 2024 and 2025, respectively.

Figure 1.6 Growth contribution to GDP across industries in the coming years is expected to be more aligned with the recovery in 2013-2021



Note: GDP for the pharmaceutical industry in 2021-2023 is a special extract of unpublished figures from Statistics Denmark and is therefore subject to extra uncertainty. *Other* includes the sectors agriculture, energy supply, housing and public sector. 2024 and 2025 are estimates.
Source: Statistics Denmark and own calculations.

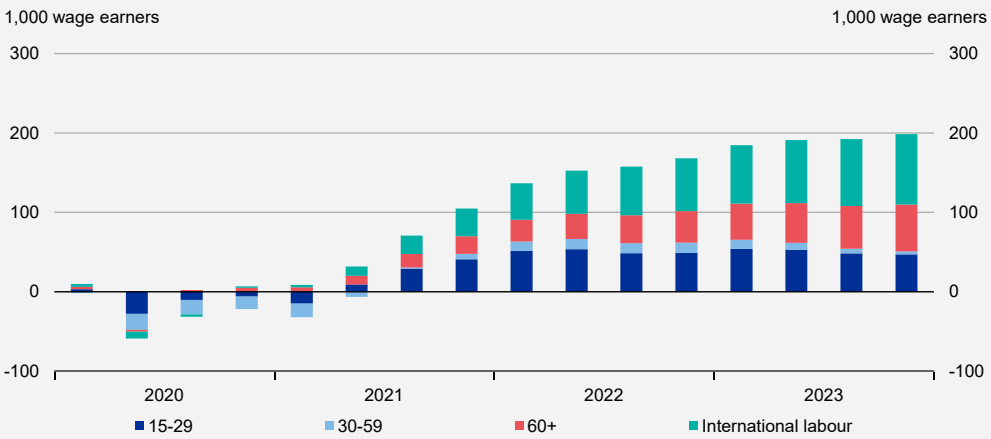
Expectation of a moderate adjustment on the labour market

The labour market has continued to surprise positively, with employment increasing across most sectors in the past year. The influx of international labour and increased employment among young and older individuals have been crucial for continued employment growth in Denmark, *cf. figure 1.7*. This has also helped prevent an unsustainable pressure on the labour market.

Lower domestic demand during 2022 and 2023 has so far only had a limited impact on the labour market. Employment has continued to rise, and wage-earner employment reached 3,015,000 persons in February. However, there are other signs of an impending adjustment in the labour market. The average working hours have been declining over the past couple of years, which has contributed to dampening the growth in total labour volume (measured in hours) despite continued rising employment (measured in persons). Additionally, unemployment has been slightly increasing since spring 2022, and the number of vacancies and newly posted jobs has been declining.

The expected adjustment in the labour market should be seen in the context of a 4.1 percent decline in hourly productivity since the fourth quarter of 2021, excluding the value creation associated with the merchanting and processing of goods abroad, which is particularly linked to the pharmaceutical industry, *cf. figure 1.8*. The weak productivity development in recent years is observed in several countries but appears to be more pronounced in Denmark.

Figure 1.7 The influx of international labour has been crucial for employment growth since 2020



Note: Accumulated change in employment since the 4th quarter of 2019. Age groups are shown for individuals of Danish origin and descendants of immigrants. International labour thus covers all age groups and is defined here as individuals who are neither of Danish origin nor descendants. There is a minor definitional difference relative to the classification based on citizenship.
Source: Statistics Denmark and own calculations.

Figure 1.8 Very weak development in hourly productivity without contributions from merchanting and processing

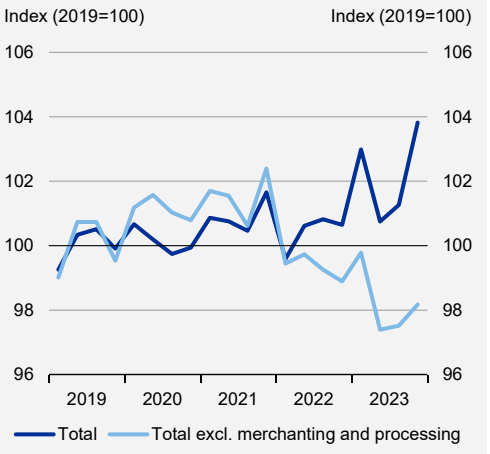
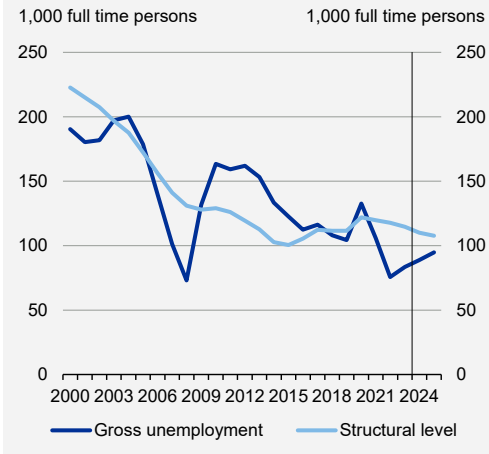


Figure 1.9 Unemployment has risen slightly and is expected to be close to the structural level by 2025



Note: Hourly productivity in figure 1.8 is calculated as real GVA per hour worked. This includes an own estimate of the value added associated with the production and sale of goods abroad, *cf. box 4.1 in Economic Survey, December 2023*.
Source: Statistics Denmark and own calculations.

Although there has been some improvement in productivity in the second half of 2023, there remains a significant lag following the decline in the previous period. This indicates that some companies – especially in light of high wage growth – are expected to adjust their labour input. Consequently, employment is expected to decrease on an annual basis in 2025. Lower employment will contribute to slightly higher unemployment, which is expected to be close to the structural level by 2025, *cf. figure 1.9*.

The housing market has adjusted to higher interest rates

The housing market has been significantly affected by higher interest rates and the transition to a new property tax system as of January 1, 2024, over the past few years. Until the first quarter of 2023, housing prices declined, partly due to higher mortgage rates. Housing prices rose again in the last three quarters of the year, which may be related to the introduction of the new property tax system. This is especially true for owner-occupied apartments, where homeowners could receive a tax rebate if their property taxes were lower under the old tax system.

The expiration of the tax rebate upon change of ownership after January 1, 2024, could affect the price of owner-occupied apartments, *cf. chapter 3*. Since December, the price of owner-occupied apartments nationwide has remained roughly unchanged, *cf. figure 1.10*. There is still a risk of weaker price development for owner-occupied apartments due to higher property taxes, especially in Copenhagen, due to a relatively large increase in the housing burden, *cf. figure 1.11*.

Figure 1.10 Housing prices appear to have stabilised for the country seen as a whole

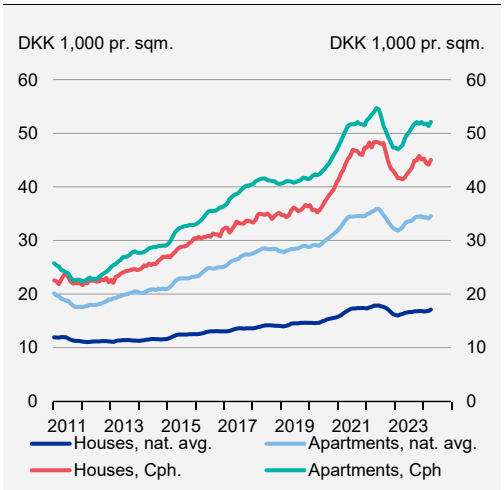
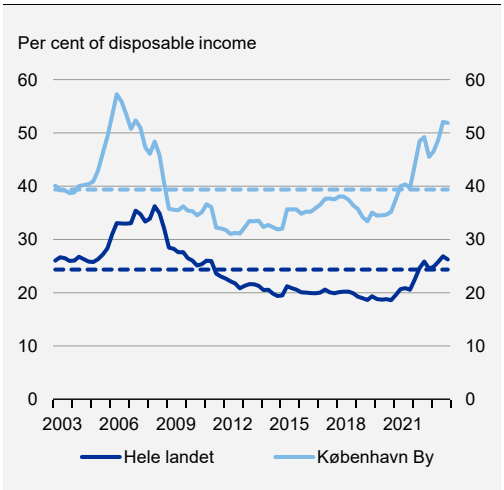


Figure 1.11 The housing burden for apartments have risen relatively more in Copenhagen



Note: In figure 1.11, *Entire country* indicates the housing burden for purchasing a single-family house, while *Copenhagen* indicates the housing burden for purchasing an owner-occupied apartment. See Chapter 3 for the calculation of the housing burden. The dotted lines show the average for the period from the first quarter of 2003 to the fourth quarter of 2023.
Source: Boligsiden, Finans Danmark, Nationalbanken, Statistics Denmark and own calculations.

The prices of single-family houses have remained largely unchanged in the first months of 2024, and housing prices for the country as a whole appear to have stabilised. With the restructuring of property taxes, the tax burden is particularly eased for homeowners outside the larger

cities. Lower property taxes will, all else being equal, support house prices to the extent that they are not already factored into the current housing prices.

Rising incomes due to wage increases and a continued high level of employment also contribute to supporting house prices, which are estimated to increase by 3.2 per cent in 2024 and 3.0 per cent in 2025 for the country as a whole. The outlook for gradual decreases in short-term interest rates due to anticipated monetary policy rate cuts is also expected to boost housing demand. This is also expected to affect housing investments, which are projected to rise again towards the end of 2025 after an adjustment period in 2022-2023, during which construction activity fell significantly due to increasing construction costs.

Continued significant risks

The main scenario in the forecast is a soft landing for the Danish economy, which involves a continued gradual adjustment towards a neutral economic situation from a high level of economic activity and employment. Considering the large shifts in production and demand in recent years, this is a positive outcome, which reflects, among other things, that significant imbalances have not built up in the Danish economy that would require correction. Such imbalances have led to more significant downturns during previous economic cycles. However, several factors in the coming years could lead to a less favourable development.

There continues to be pronounced geopolitical tensions affecting the global economy, *cf. figure 1.12*.

Figure 1.12 Geopolitical uncertainty continues to be higher compared to before Corona

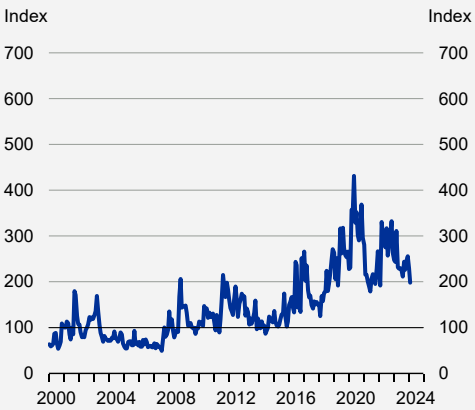
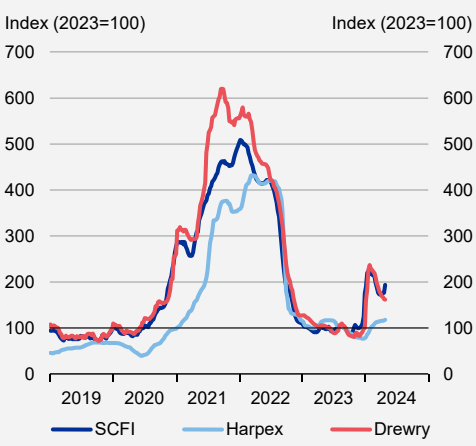


Figure 1.13 Freight rates has generally been rising over the past half year



Note: The index in Figure 1.12 is based on the number of times issues related to the economy, politics, and uncertainty are mentioned in articles in leading newspapers. The index is normalized to have an average of 100 in the period from 1997 (first year) to 2015. See S. Davis (2016): "An Index of Global Economic Policy Uncertainty," Macroeconomic Review, October 2016.
Source: Economic Policy Uncertainty Index, Macrobond and own calculations.

These tensions can, amongst of other things, impact the relatively volatile energy prices and thus spread more broadly across countries. The conflict in the Middle East, for instance, has already lead to an increase in oil prices since the end of last year. The tensions are additionally reflected in the increasing freight rates following the attacks on commercial shipping the Red Sea, *cf. figure 1.13*. If freight rates remain high, they could eventually be reflected in, for example, higher consumer prices.

A greater rivalry, especially between China and the US, increases the risk of rising geopolitical fragmentation, which could lead to higher prices for a series of consumer goods and reduce access to products necessary for the green transition. The number of trade-restrictive measures has already increased somewhat in previous years and with a bigger focus on reducing vulnerabilities in supply chains, this trend is pulling in the direction of dampening global trade. Smaller gains from trade could, for example, result in weaker productivity growth and a weaker development in household's purchasing power.

The forecast assumes that monetary policy interest rates will gradually be lowered, but there is a risk of higher interest rates for a longer period if inflation over the coming 1 to 2 years does not align with the monetary policy objectives of the US and the Euro area, necessitating tight monetary policy. Higher interest for a longer period will also have implications for the development of the Danish economy, including the spill-over effects on mortgage rates.

The forecast expects that domestic inflation will rise from an average below 1 per cent since September 2023 and will for a period exceed 2 per cent A relatively slow adjustment of the still relatively high price increases for services could keep the inflation elevated for a longer period. If the period of slightly higher inflation settles into expectations, it could potentially lead to higher wage increases.

The pressure on the labour market, has so far mainly been kept down by a large influx of international labour and increased employment among young and older individuals. The shortage of labour has decreased, but if domestic growth is stronger than expected or if international labour can no longer be attracted to the same extent, it could result in higher competition for labour and lead to higher wage pressure. The potential for growth in demand could, for example, come from households having large savings and a low consumption rate, which could be converted into increased consumption.

Developments in the domestic labour market also contains additional risks. Companies have retained employees and continued to hire in a situation where, according to the national accounts, there has been as slowdown in demand over the past few years. This has initially led to a decline in productivity and suggests the need for employment adjustment. A gradual and smooth adjustment is expected, which has to be seen in the context of a significant increase in the wage share. However, there is also the risk of a more abrupt adjustment in employment, *cf. box 1.2*.

Overall, there are still significant risks arising from both global and domestic factors. Depending on whether these risks materialise, the course of the Danish economy could either become better or worse, than assumed in the forecast. Compared to the latest assessment in the Economic Survey of December 2023, the estimate for GDP growth have been revised upwards for both 2024 and 2025, while the estimated inflation has been revised downwards for 2024, *cf. box 1.3*.

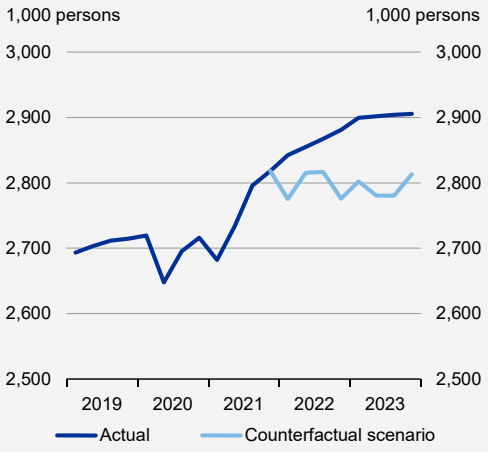
Box 1.2 Different scenarios for the development in employment

The continued progress in the labour market combined with stagnation or decline in the production in parts of the economy implies an implicit weakening of hourly productivity over the past few years. This box presents various scenarios for both historical and future employment development, depending on whether the previous levels of hourly productivity are restored or not.

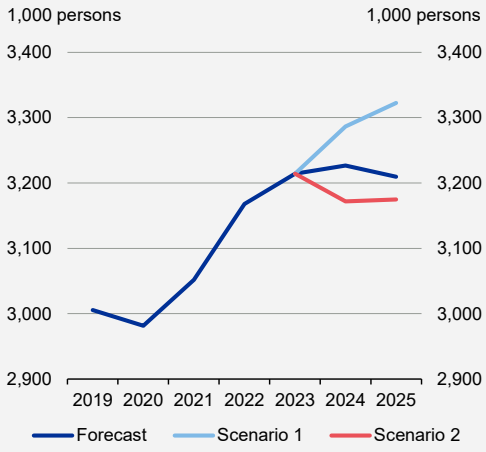
In Figure a, the actual development in employment for the economy excluding the industrial sector is shown, along with a counterfactual scenario where the individual sectors (10a3-grouping excluding the industrial sector) had increased hourly productivity after the 4th quarter of 2021 in line with the historical trend, while maintaining the average working hours at the level of the 4th quarter of 2021, thereby adjusting employment levels to the actual production during the period. The illustrative scenario indicates that employment in the economy excluding the industrial sector could have been up to 124,000 persons lower.

Figure b shows two alternative trajectories for the development in employment compared to the forecast. In scenario 1, companies continue to demand as much labour relative to production in 2024 and 2025 as in 2023. In scenario 2, the hourly productivity in 2024 is restored to the 2021 level, while hourly productivity in 2025 is approximately at the expected trend relative to the 2021 level. In the two scenarios, employment in 2025 could be both significantly higher (+113,000) and noticeably lower (-34,000) compared to the forecast.

Figure a The scenario for the economy excluding the industrial sector, where companies had increased productivity in line with the trend from 2000 to 2019



Figur b The scenario where companies either continue hiring at the current pace or restore productivity



Note: The scenario in Figure a shows an alternative need for employees (excluding the industrial sector) given hourly productivity growth after the 4th quarter of 2021 in line with the historical average from the 4th quarter of 2000 to the 4. quarter of 2019, and average working hours in each sector at the level of the 4th quarter of 2021, with the same real GVA. Scenario 1 in Figure b is based on the forecast but implies that the unexplained part in ADAM's equations for the private sectors' demand for working hours remains unchanged at the 2023 level. Scenario 2 involves the restoration of the sectors' (excluding oil refineries, energy supply, and manufacturing) hourly productivity to the 2021 level in 2024 and with growth in hourly productivity in 2025, so that the 2025 level corresponds to the 2021 level projected with 1 percent growth per year. All scenarios are illustrative.

Source: Statistics Denmark and own calculations using ADAM.

Box 1.3 The basis for the forecast and changes since the December Assessment

The forecast is based on the national accounts up to and including the fourth quarter of 2023, as well as a range of other indicators, where the indicators with the highest frequency extend into April. The forecast includes, among other things, the effects of political agreements made up to and including April 30, 2024, including the personal tax reform Agreement on the Reform of Personal Tax, the Agreement on Increasing Military Support under the Ukraine Fund in 2024, and the Second partial-agreement under the Defence Agreement 2024-2033.

Since the December assessment, new data on economic activity, employment, and inflation have been released. Stronger than expected GDP growth, especially in the fourth quarter of 2023, affects the annual growth from 2023 to 2024 and is the primary reason why the forecast for annual growth in 2024 has been revised upward, as shown in Figure a. Regarding the composition of growth contributions from different demand components, the estimates for exports have in particularly been revised upward in 2024. Employment has continued to grow, and a slowdown is now expected to occur later. Inflation has fallen faster than expected, but in line with the December assessment, it is still expected that inflation will rise during 2024 before falling back to around 2 percent in 2025, as shown in Figure b.

Figure a GDP-growth

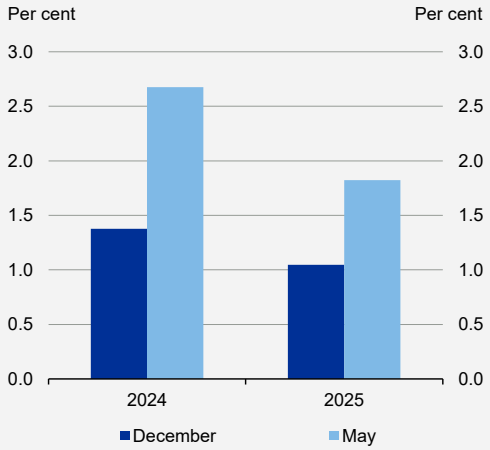
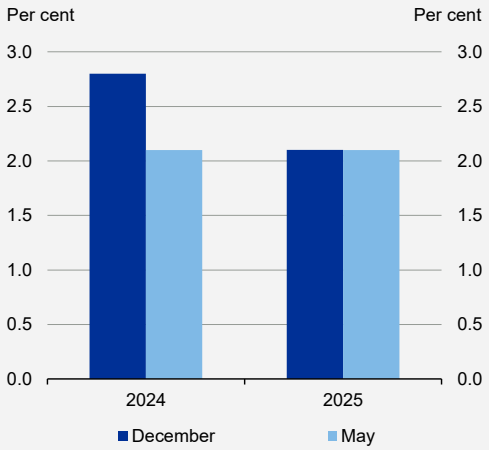


Figure b Inflation



Source: Statistics Denmark and own calculations.

1.2 The fiscal policy and the public finances

Denmark's public finances are robust, characterized by low debt, financial net assets, and budget surpluses. According to preliminary estimates from Statistics Denmark, the actual balance surplus for 2023 is around DKK 87 bn., equivalent to 3.1 per cent of GDP. Towards 2025, continued surpluses are expected, albeit gradually declining as the economy cools somewhat.

Despite the continued employment growth over the past year, various indicators of labour market pressure have diminished. The employment gap – defined as the extent to which actual employment exceeds the estimated structural level – is expected to decrease from 2.2 per cent this year to 1.4 per cent in 2025, *cf. figure 1.14*. This reduced pressure reflects both an anticipated moderate decline in employment next year and a continued increase in structural employment, supported by reforms, including the December 2023 personal tax reform.

The combination of decreasing labour market pressure and rising employment suggests that the employment growth is driven not only by currently favourable conditions but also by structural factors. This implies an increase in structural employment, see annex 1.1 for elaboration. Overall, structural full-time employment has been adjusted upwards by approx. 1 per cent or 28,000 full-time equivalents in 2024-2025 since *Economic Survey, December 2023*.

The higher structural employment can be partly attributed to more foreign nationals being employed in Denmark. From 2021 to 2023, the number of wage earners increased by almost 160,000 persons, with up to half of this growth consisting of international labour *cf. figure 1.7 (and Chapter 5 in the Danish version)*. This rise in international labour comes both from foreign nationals already residing in Denmark entering employment and from higher immigration from EU as well as non-EU countries, including persons displaced from Ukraine.

Given the current remarkable labour market performance, there is enhanced uncertainty regarding the structural employment trend in these years. This is partly due to uncertainties about future net immigration trends if and when capacity pressures ease, as well as the extent to which recent increases in labour force participation among non-Western immigrants are durable. If, for example, the recent weak productivity trends lead to greater-than-expected downward adjustments in employment, this could have negative ripple effects on the labour force, and vice versa if job opportunities again turn out better than anticipated.

Figure 1.14 Higher structural employment contributes to lower employment gap

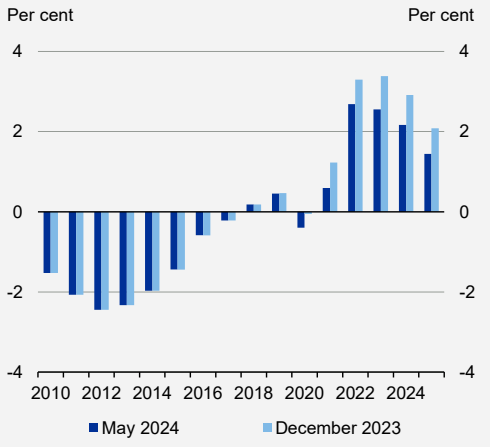
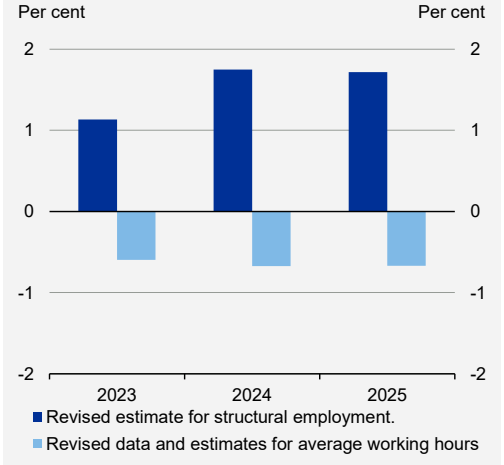


Figure 1.15 Part of the effect on full-time employment is offset by reduced working hours



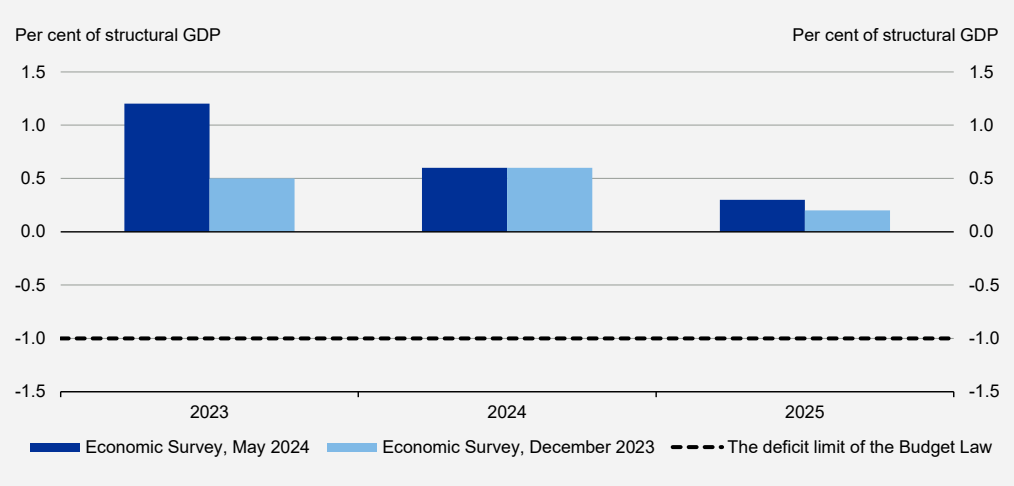
Source: Statistics Denmark and own calculations.

Alongside the adjustment to structural employment, Statistics Denmark's latest report indicates lower average working hours in 2023 than previously expected. This is partly due to a reduction in overtime from 2022 to 2023, and because a significant portion of the high employment growth includes students and retirees with part-time jobs. In 2025, the estimate for structural employment has been revised upward by approx. 1.7 per cent, while average working hours have been revised downward by approx. 0.7 per cent, *cf. figure 1.15*.

Structural surplus in 2024-2025 despite new increase in defense spending

The higher structural employment contributes to an upward revision of estimates for the structural budget balance. However, in 2024 and 2025, this is offset by recently decided increases in defense and security spending and support for Ukraine. This leads to continued structural surpluses but with significant weakening over the forecast period, *cf. figure 1.16*. The weakening reflects, among other things, high growth in total public consumption including defense spending, as well as a reduction in personal income taxes in 2025. The lower personal income tax in 2025 is financed through the so-called fiscal space (Danish terminology, i.e. the room for spending initiatives etc. within the given medium-term budget target for 2030), resulting in a corresponding downward adjustment of the assumed public consumption growth in 2025.

Figure 1.16 Structural surplus in 2023-2025



Source: Statistics Denmark and own calculations.

In April 2024, an agreement was reached to increase military support under the Ukraine Fund for 2024 and the second part of the broad political defense agreement for 2024-2033. Based on technical assumptions about the speed with which the increased defense appropriations can be spent in practice, a spending increase from the two agreements of about 0.25 per cent of GDP each year has been assumed. Additionally, the updated estimates for the structural budget balance reflect a number of other factors, which are described in more detail in chapter 8 (only available in Danish).

Beyond the specific priorities of increased spending on defense and security, public services, and lower personal income taxes, the reduction in the structural budget balance surplus from 2023 to 2025 should be viewed in the context of a fiscal policy that aims for a gradual adjustment towards the medium-term balance target of -0.5 per cent of GDP by 2030.

A reform of the fiscal rules in the EU has been adopted, as detailed in chapter 7 (only available in Danish). The reform does not change the Stability and Growth Pact's limits for the actual budget balance deficit of 3 per cent of GDP and the EMU debt of 60 per cent of GDP. Therefore, the reform does not alter the framework conditions of the Danish Budget Law, which is explicitly designed to be consistent with the (unchanged) deficit limit for the actual budget balance in the Stability and Growth Pact, as detailed in box 8.3 in chapter 8 (only available in Danish).

Reduced capacity pressure and less tight fiscal policy in 2025

Over the past two years, fiscal policy has tightened significantly, not least due to the withdrawal of COVID-19-related relief measures. The tightening measures, with a one-year fiscal impact of -1.6 per cent and -1.3 per cent in 2022 and 2023, respectively, have contributed to the easing of the high capacity and inflation pressures in the Danish economy.

In 2023, fiscal policy ended up being stricter than expected, as both public consumption and public investments were lower than estimated in the December report according to the preliminary accounting data from Statistics Denmark. Consequently, part of the planned tightening

has been brought forward from 2024 to 2023, equivalent to approximately 0.3 percentage points for the one-year fiscal effect. However, the lower realized expenditures in 2023 do not alter the overall planned fiscal policy for 2024.

The fiscal policy for 2025 will be determined in conjunction with upcoming economic agreements with municipalities and regions, as well as the 2025 budget. Based on current technical assumptions, a one-year fiscal effect of 0.4 percentage points is projected for 2025. The expansionary fiscal effect reflects, among other factors, increased spending on Danish defense and security.

The positive fiscal effect must be seen in context of the expected moderation in capacity pressures within the Danish economy. The reduction in capacity pressures thus eases the requirements for the strictness of fiscal policy. Compared to 2019 (pre-pandemic), the multi-year fiscal effect is estimated at -0.6 per cent in 2024 and -0.2 per cent in 2025. The positive one-year fiscal effect is consistent with a situation in which capacity pressures are expected to decline. In 2025, where output is anticipated to be positive and slightly higher than in 2019, the level of fiscal policy remains somewhat tighter than before the pandemic. Further details on the fiscal effects are provided in chapter 8 (only available in Danish).

Figure 1.17 One-year and multi-year fiscal effects

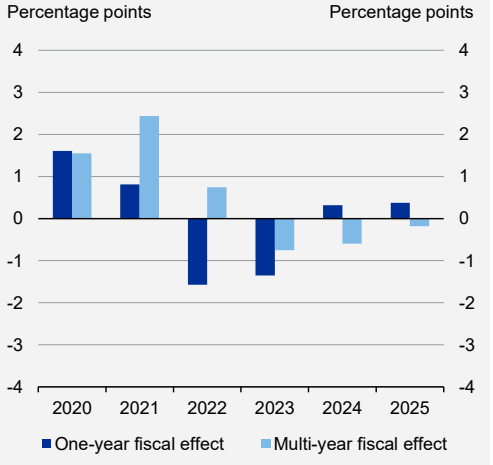
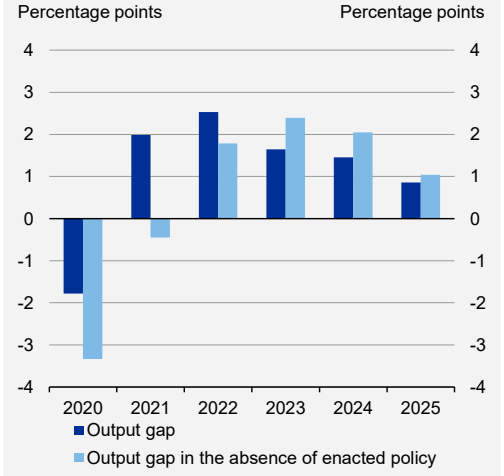


Figure 1.18 The fiscal policy dampens the capacity pressure in 2023-2025



Note: The impact on the output gap in figure 1.18 is measured by the multi-year fiscal effect, which describes the overall level effect of fiscal and structural policies relative to 2019.
Source: Own calculations.

The fiscal effect of increased defense spending in the coming years will depend on the specific implementation. Larger acquisitions of military equipment generally have a relatively high import content, which, in isolation, points to the calculated fiscal effects being on the high side.

Developments in public consumption

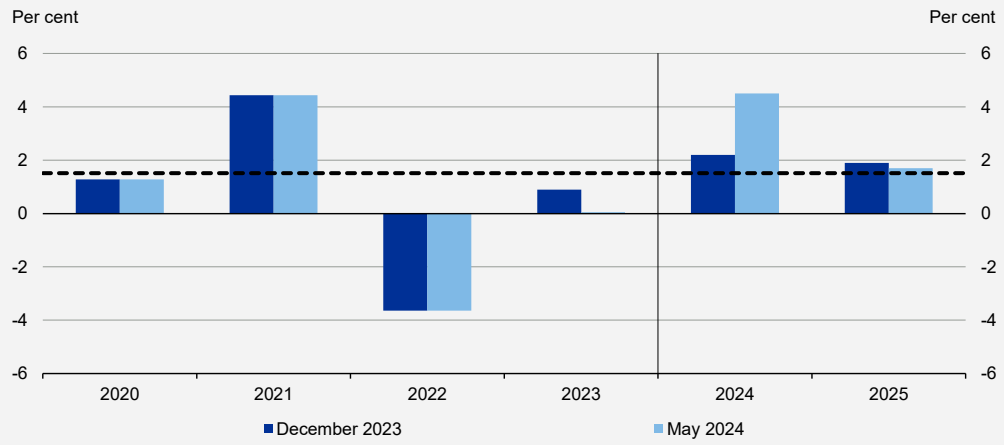
Real public consumption is estimated to grow by 4.5 per cent in 2024 and 1.7 per cent in 2025. This represents an upward adjustment of 2.3 percentage points in 2024 and a downward adjustment of 0.2 percentage points in 2025 compared to the projected growth rates in the *Economic Survey*, December 2023, *cf. figure 1.19*.

The upward adjustment in real growth for 2024 is mainly driven by lower preliminary data for public consumption expenditures in 2023 than initially estimated in the December report. Additionally, the impact of new political agreements, including the *Second Sub-agreement under the Defense Agreement 2024-2033* (April 2024), which includes further defense spending, contributes to this adjustment.

As of 2025, official budgets are not yet available. Therefore, the estimated 1.7 per cent growth in public consumption is based on technical assumptions from the medium term 2030-projection and the effects of reached political agreements. These agreements, beyond the increase in defense spending, also encompass the income tax reform from December 14, 2023, which, in isolation, reduces the calculated level of public consumption in 2025 due to financing via the already-available fiscal space within the technical projection of public consumption.

Over the period since 2019, the growth in public consumption has been significantly influenced by both efforts related to the COVID-19 pandemic and Danish support through the Ukraine Fund. The average annual real growth in public consumption from 2020 to 2025 is estimated at 1.4 per cent

Figure 1.19 Real growth in public consumption



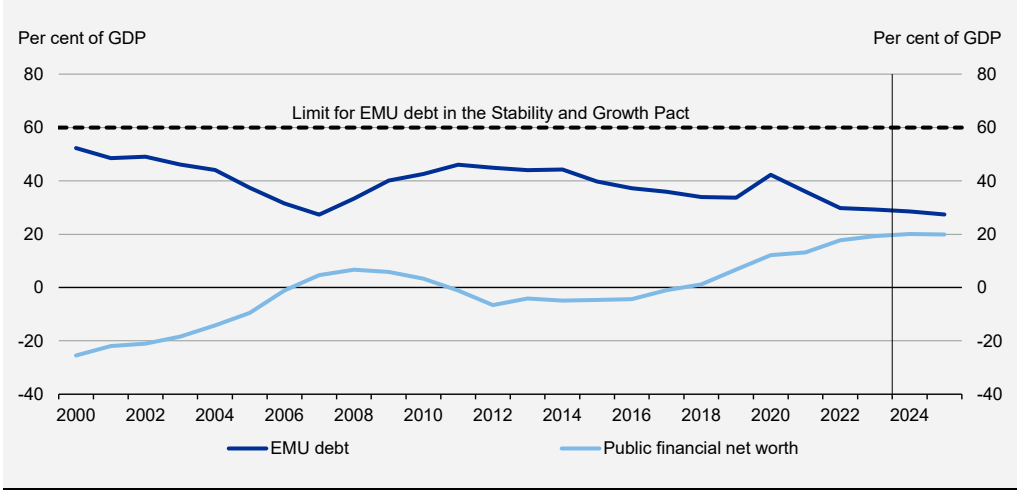
Note: Public consumption is calculated using the input method and includes depreciation og public investments. The dashed line indicates the average annual real growth from 2020 to 2025. At the completion of the December survey, no agreement on personal tax reform had been made, and the amount for this was therefore technically included as public consumption. Real growth in 2023 is calculated to be 0.0 percent.
Source: Statistics Denmark and own calculations.

Public financial net wealth and continued low EMU debt

Public debt in Denmark is low. Apart from a temporary increase in EMU debt in 2020 related to the COVID-19 pandemic, debt has been decreasing as a share of GDP since 2014, *cf. figure 1.20*. In 2023, Danish EMU debt is estimated provisionally at 29.3 per cent of GDP, which is the fourth-lowest level in the EU and approximately one-third of the average debt level across the EU. EMU debt is projected to further decline towards the end of 2025, reaching approximately 27.4 per cent of GDP. Thus, Denmark's EMU debt remains significantly below the debt threshold set by the Stability and Growth Pact at 60 per cent of GDP.

When considering various financial assets of the public sector, including the Danish National Bank's holdings, the public sector has a net financial asset position of nearly 20 per cent of GDP in 2023. The estimated net asset position for 2024 and 2025 has been adjusted upward by 0.9 per cent of GDP and 0.7 per cent of GDP, respectively, compared to the estimates in the *Economic Survey*, December 2023.

Figure 1.20 EMU debt and net wealth



Source: Statistics Denmark and own calculations.

Key figures for public finances in the period 2023-2025 are shown in table 1.2. The assessment of public finances is elaborated further in chapter 8.

Table 1.2 Central estimates regarding the determination of fiscal policy

	2023	2024	2025
Structural balance, per cent of structural GDP	1.2	0.6	0.3
Actual balance, per cent of GDP	3.1	1.7	0.7
Public consumption growth, percent[1)]	0.0	4.5	1.7
Multi-year fiscal effect, level, percentage points[2)]	-0.7	-0.6	-0.2
One-year fiscal effect, percentage points[3)]	-1.3	0.3	0.4
Memo: One-year fiscal effect excluding the second agreement under the defense settlement, percentage points	*-1.3*	*0.2*	*0.3*
Output gap, percent[4)]	1.6	1.5	0.9
Employment gap, percent[4)]	2.6	2.2	1.4
EMU debt, per cent of GDP	29.3	28.6	27.4
Public financial net wealth, per cent of GDP	19.3	20.1	20.0

1) The estimated public consumption growth is technically assumed to be the same for both the input and output methods. For 2023, the growth in public consumption is shown using the input method.
2) The multi-year fiscal effect is a measure of how much changes in fiscal and structural policies affect the output gap (level effect compared to 2019).
3) The one-year fiscal effect is a measure of how much the planned fiscal and structural policies contribute to changes in the output gap in a given year.
4) Calculated measure of how far production and employment are from their structural levels. When the gaps are positive, it indicates that resources in the economy are scarce relative to a normal business cycle situation.

Source: Statistics Denmark and own calculations.

1.3 Annex table

Table 1.3 Key figures from the May 2024 survey and comparison with the December 2023 survey

	2023	2024		2025	
		Dec.	May	Dec.	May
Real growth, percent					
Private consumption	1.0	1.6	1.9	1.5	1.6
Total public demand	0.0	1.6	4.7	1.9	2.0
- of which public consumption	0.0	2.2	4.5	1.9	1.7
- of which public investments	-0.5	-2.4	5.8	1.7	3.9
Housing investment	-10.2	-2.2	-1.5	1.2	2.4
Business investment	-4.0	-2.2	-2.1	0.1	0.5
Inventory changes (growth contribution)	-1.8	-0.5	0.0	0.1	0.0
Total domestic demand	-2.8	0.3	1.9	1.5	1.6
Exports	13.4	4.2	7.0	2.4	3.9
- of which manufacturing exports	4.4	4.6	6.0	2.3	5.0
Total demand	4.4	2.0	4.1	1.9	2.6
Imports	8.6	3.0	6.5	3.3	3.8
- of which imports of goods	2.7	2.7	4.3	3.2	3.2
GDP	1.9	1.4	2.7	1.0	1.8
Gross value added	2.2	1.5	2.8	1.0	1.8
- of which in non-farm private sector	0.8	1.0	2.9	1.0	2.0
Change in 1,000 persons					
Labour force, total	54	2	17	-17	-12
Employment, total	46	-9	13	-21	-18
- of which in the private sector	39	-12	7	-26	-23
- of which in public administration and services	7	3	6	5	5
Gross unemployment	8	13	5	4	6
Business cycle gap, per cent					
Output gap	1.6	1.9	1.5	1.4	0.9
Employment gap	2.6	2.9	2.2	2.1	1.4
Gross unemployment gap	-1.0	-0.6	-0.7	-0.3	-0.4

Note: Public consumption is calculated using the input method and includes depreciation og public investments.
Source: Statistics Denmark and own calculations.

Table 1.3 (continued) Key figures from the survey in May compared to estimates from the survey in December

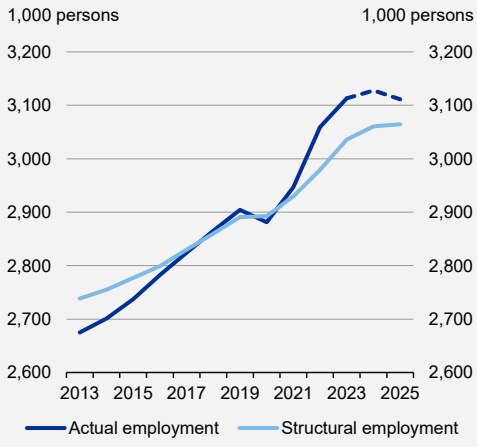
	2023	2024		2025	
		Dec.	May	Dec.	May
Change, per cent					
House prices (single-family houses)	-2.7	1.2	3.2	1.9	3.0
Consumer price index	3.3	2.8	2.1	2.1	2.1
Hourly wage in the private sector	4.2	5.4	5.4	3.4	3.4
Real disposable income, households	1.8	1.4	2.5	0.9	1.3
Hourly productivity in private non-farm sector	0.2	1.4	2.5	2.2	3.1
Percent p.a.					
Interest rate, 1-year adjustable-rate mortgage	3.4	3.3	3.2	2.8	2.7
Interest rate, 10-year government bond	2.6	2.8	2.5	2.8	2.5
Interest rate, 30-year mortgage bond	4.8	5.0	4.3	4.8	4.3
Public finances					
Actual public balance, billion DKK	87	44	48	23	21
Actual public balance, per cent of GDP	3.1	1.5	1.7	0.8	0.7
Structural public balance, per cent of GDP	1.2	0.6	0.6	0.2	0.3
EMU debt, per cent of GDP	29.3	29.1	28.6	27.9	27.4
Labour market					
Labour force (including leave), 1,000 persons	3,297	3,293	3,314	3,276	3,302
Employment (including leave), 1,000 persons	3,214	3,199	3,227	3,178	3,209
Gross unemployment, 1,000 full-time persons	84	97	89	101	95
Gross unemployment, per cent of labour force	2.5	2.9	2.7	3.1	2.9
External assumptions					
Trade-weighted international GDP growth, per cent	0.8	1.6	1.5	2.2	2.0
Export market growth (industrial goods), per cent	-0.6	2.4	1.3	3.1	3.1
Exchange rate, DKK per dollar	6.9	6.9	6.9	6.9	7.0
Oil price, dollars per barrel	82.5	81.3	86.4	81.9	85.8
Balance of payments					
Current account balance, billion DKK	304	347	325	339	332
Current account balance, per cent of GDP	10.9	11.8	11.2	11.1	10.9

Source: Statistics Denmark, OECD, Macrobond, Confederation of Danish Employers and own calculations.

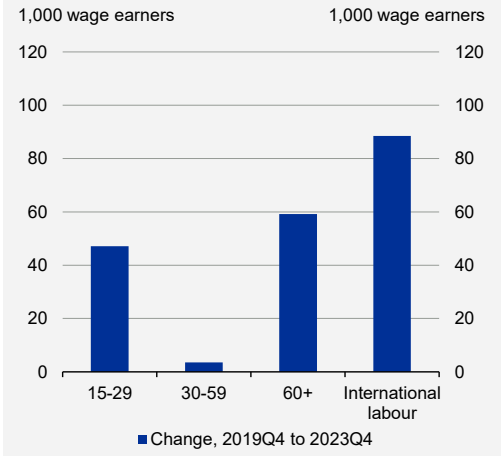
Appendix 1.1 Actual and structural employment is performing better than previously expected

Since 2013, actual employment has grown by over 440,000 individuals as a result of improved economic conditions and underlying structural improvements. More than two-thirds of the employment growth is estimated to reflect structural changes, with structural employment estimated to have increased by nearly 300,000 individuals from 2013 to 2023, *cf. appendix figure 1.1*.

Appendix figure 1.1 Large increase in actual and structural employment …



Appendix figure 1.2 … especially driven by young, elderly and international labour



Note: In appendix figure 1.1, actual and structural employment is reported excluding individuals on leave. In appendix figure 1.2, international labour covers employed immigrants. The remaining three categories are reported for individuals of Danish origin and descendants.
Source: Statistics Denmark and own calculation.

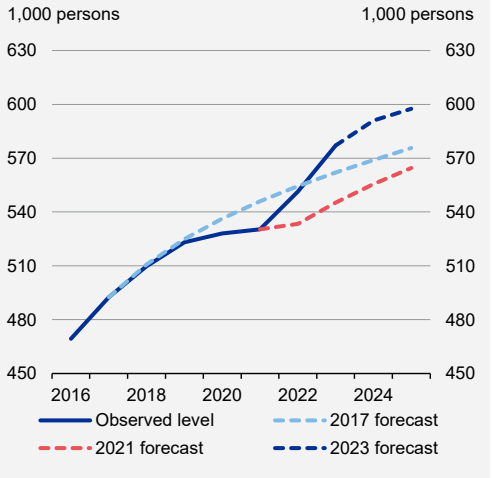
Employment performance has been remarkable in recent years. Actual employment has increased by 220,000 individuals since 2019, driven especially by rising wage-earner employment among youth, seniors, and international labour, *cf. appendix figure 1.2*. This development has been supported, among other factors, by labour market reforms contributing to improved structures in the labour market and increased structural employment. In recent years, for instance, there have been tightening of rules for graduates in the unemployment benefit system, increases in the retirement age for state pensions and early retirement benefits, and abolish-

ment of offsets against state pension due to own and spouse's income. Meanwhile, access to international labour has been improved, most recently through the agreement on strengthened international recruitment (June 2022), which included the establishment of the supplementary pay limit scheme.

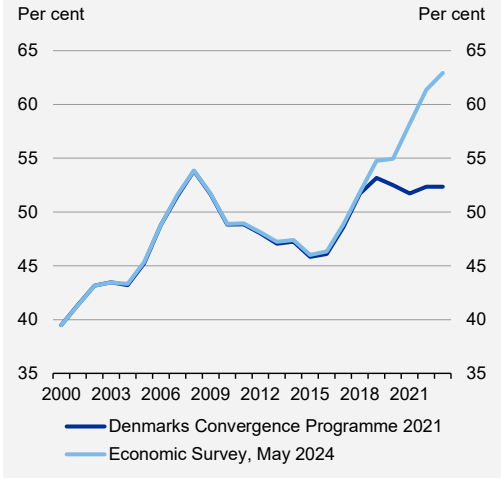
The increased influx of foreigners in working age coming to Denmark to work is also due to good job opportunities in Denmark as well as favourable Danish wages and working conditions. This has led to net immigration exceeding previous population projections, *cf. appendix figure 1.3*. In 2023, the number of immigrants in working age excluding Ukrainians under the special law was nearly 32,000 higher than assumed in DREAM and Statistics Denmark's Population Forecast 2021. The increased influx of international labour has thus contributed to an upward revision of estimates for both actual and structural employment.

At the same time, the employment rate among resident foreigners has grown significantly, *cf. appendix figure 1.4*. Labour force participation among non-Western immigrants in working age has increased from under 50 per cent in 2016 to more than 60 per cent in 2023. The substantial increase in the employment rate has also exceeded the assumptions in the latest medium-term projections, which generally assume that employment rates remain constant unless there are implemented measures and other factors affecting structural employment.

Appendix figure 1.3 Significant upward adjustment in the number of immigrants of working age excluding Ukrainians under the special law



Appendix figure 1.4 The employment rate of non-Western immigrants has grown more than expected



Note: The working age, as defined in appendix figure 1.3, spans from ages 15 to 66. The number of immigrants in appendix figure 1.4 represents the count of immigrants as of January 1st of the respective year.
Source: Statistics Denmark and own calculation.

The growing influx of immigrants, along with increasing employment rates, has thus been an important factor behind employment growing more than expected. This has led to upward revisions of the estimates of structural employment, as new data has become available, and contributed to the continued upward revision of employment projections in the ministries' short- and medium-term projections. This trend also applies to 2024, where the increase has continued, and employment has reached a historically high level.

The recent increase in employment is partly of a structural nature

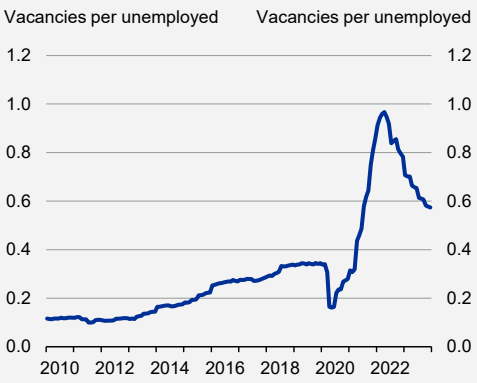
The growth in employment has continued through 2023 and the beginning of 2024, but at the same time, indicators of labour market pressures have diminished, *cf. chapter 5 (Danish version)*. For instance, the number of vacant positions per unemployed has significantly decreased since the peak in early 2022, *cf. appendix figure 1.5*. Nonetheless, the number of vacant positions per unemployed remains high, indicating a continued capacity pressure. Other indicators paint a similar picture. For example, the unemployment rate has increased over the past two years but remains at a low level, and labour shortages in the industry and construction have decreased but still exceed historical levels.

The combination of easing labour market pressures and still-rising employment suggests that the employment growth is not solely driven by transitory favourable conditions but also reflects structural factors. This implies that structural employment has also increased. This is supported by model projections for structural employment.

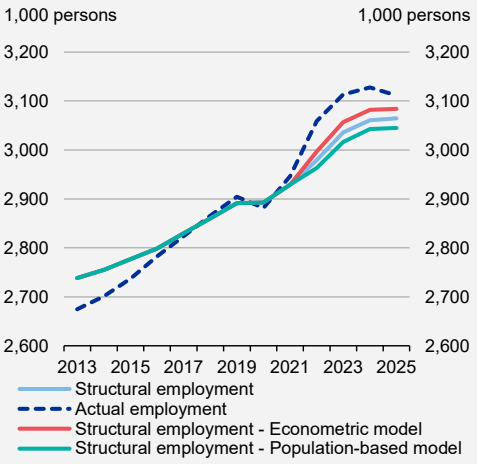
The Ministry of Finance uses two models for estimating structural employment. The first model is a bottom-up approach taking into account demographic developments and initially assuming unchanged structural employment rates for each demographic (by age, gender and country of origin). Moreover, the expected employment effects from changes in educational behaviour and various structural reforms are taken into account. Overall, this provides a detailed projection of the development in structural employment and the workforce. The second model is based on a more data-driven top-down approach using an econometric model, where the starting point is actual employment, which is split into a structural and cyclical component using a Kalman filter (state space model) using also coinciding indicators of capacity pressures in the economy, wage and price developments etc.

Both the population-based model and the econometric model show an increasing structural employment over several years, *cf. appendix figure 1.6*. The estimate for structural employment based on the econometric model exceeds the estimate coming from the population-based model. This is because the strong development in actual employment is given greater weight in the econometric model (which however can suffer from so-called endpoint uncertainty).

Appendix figure 1.5 Decreasing pressure on the labour market since 2022 …



Appendix figure 1.6 … supports the assessment of increased structural employment



Note: The series in appendix figure 1.5 is seasonally adjusted. In appendix figure 1.6, structural employment in the population-based model is adjusted for selected factors in the economic short-term forecast, including Ukrainians in employment.
Source: Macrobond, Jobindsats.dk, Statistics Denmark and own calculations.

Overall, the estimate for structural employment in 2023-2025 has been revised up significantly since the *Economic Survey*, December 2023. This is due to actual employment having grown more than expected in conjunction with declining pressure in the labour market, and both models used by of the Ministry of Finance indicating higher structural employment. The Ministry of Finance's estimate for structural employment for 2025 lies between the estimate from the two models, i.e. it is higher than the estimate based on the population-based model but lower than the estimate based on the econometric model. The population-based model can only to a limited extent capture structural shifts that are not due to reforms, and at the same time recent net immigration has been greater than assumed in the Population Forecast 2023. Conversely, the econometric model may be affected by endpoint uncertainty, i.e. the model tends to put emphasis on the observations at the end of the time series, which in this case are forecasts, not outturns. In practice, therefore, it is necessary to incorporate an element of judgment in the assessment and to take into account a wider range of labour market indicators.

Finally, it should be noted that the structural level is unobservable, which means there will always be uncertainty associated with the estimates. The two different model estimates in appendix figure 1.6 help shed light this uncertainty.

2. Households consume a smaller share of their income

Growth in the Danish economy is expected to be relatively moderate in the coming years, and at the same time there is a prospect of some adjustment in the labour market. In such a stage of the business cycle households could opt to spend a smaller proportion of their income on consumption expenditures.

Households already consume a relatively low proportion of their income. Consumption has not kept up with household income during the recovery that started in 2013, and the consumption ratio has therefore decreased. For some, it may reflect a need to bring down debt, while others may place greater emphasis on having a wealth buffer for uncertain times. During the period of low interest rates, reduced interest expenditures have also been used to a greater extent to increase savings and bring down debt rather than to increase consumption.

Households are generally well placed to increase their consumption expenditures. The real wage has already risen considerably after a few years of erosion of purchasing power, and many have had relatively large savings over a number of years. This has, among other things, increased liquid assets, which together with continued income growth will support consumption in the coming years.

Developments in private consumption are also affected by factors other than the business cycle. More structural factors such as changes in the composition of the population can in themselves lead to a lower or higher consumption ratio, because the propensity to consume varies across age groups, socio-economic groups and income distribution, among other things.

In this chapter, the development in consumption and income is examined, with a closer look at conditions which may have contributed to the reduction of the consumption ratio over recent years, and which may affect consumption in the coming years. Among other things, individual data is used to illuminate the propensity to consume across population groups.

The analysis in the chapter points to, among other things:

- The decreasing consumption ratio over the past ten years is connected, among other things, to the changes in different types of income, where incomes with less impact on consumption have grown relatively more than wage income. This applies, for example, to equity income. The consumption ratio is generally lower for households with high equity incomes, which may thus have contributed to pulling down the overall consumption ratio. If that trend continues, it will also be able to keep the consumption ratio down in the future.

- Tighter lending rules have also contributed to reducing the consumption ratio. During the period of very low interest rates, the households did not increase their debt further with a view to consumption, and saved interest expenses were used to a greater extent to pay off debt than on consumption. This reflects, among other things, a need for consolidation among households in the wake of the financial crisis, and it is also largely families with large

debts who have reduced the consumption ratio. Tighter lending rules have contributed to reducing homeowners' indebtedness, and the households as a whole today appear quite well-consolidated. This has made household finances and consumption more robust against shocks to the economy.

- The consumption ratio measured in relation to the core income, which is wage income and income from social transfers, has decreased somewhat less than the consumption ratio measured in relation to disposable income.

- Since 2013, the consumption ratio has decreased across the population, including across age groups, income groups, duration of education, origin and socio-economic groups. Shifts in the composition of the population seem to have only had a minor impact on the change in the consumption ratio. It is therefore predominantly changes in behaviour that have driven the development.

- Structural changes can affect the consumption ratio in the coming years in both an upward and downward direction. The demographic development with more elderly persons can, for example, seen in isolation, pull in the direction of a higher consumption ratio, because the elderly typically consume a larger proportion of their income.

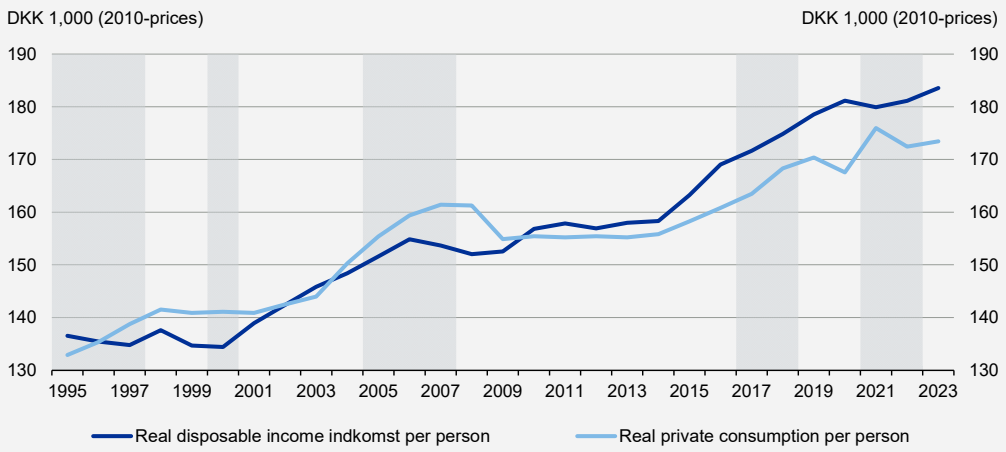
The analysis first looks at the development in consumption and incomes at the macro level, i.e. on the basis of the national accounts. Next, we delve into individual data, which is used to illuminate the development across the population.

2.1 Households save more and consume less relative to income

Private consumption makes up almost half of total demand and is important for the development of the Danish economy. During the recovery leading up to the corona pandemic (2013-2019), private consumption contributed on average approx. a quarter of the total growth in GDP, when correcting for the fact that part of the consumption is imported.

Household consumption depends to a large extent on income – when incomes rise, consumption typically grows. In the short term, however, there may be deviations in the context, which are affected by the business cycle, just as consumption can also be financed by taking out loans or consuming assets. During economic upswings, consumption will often grow slightly faster than incomes, and vice versa, households are more cautious when the economy grows more slowly and employment declines. During the recovery from 2013-2019, however, consumption has increased more slowly than incomes, which contrasts with the two previous recoveries in the mid-2000s and mid-1990s respectively, *cf. figure 2.1*.

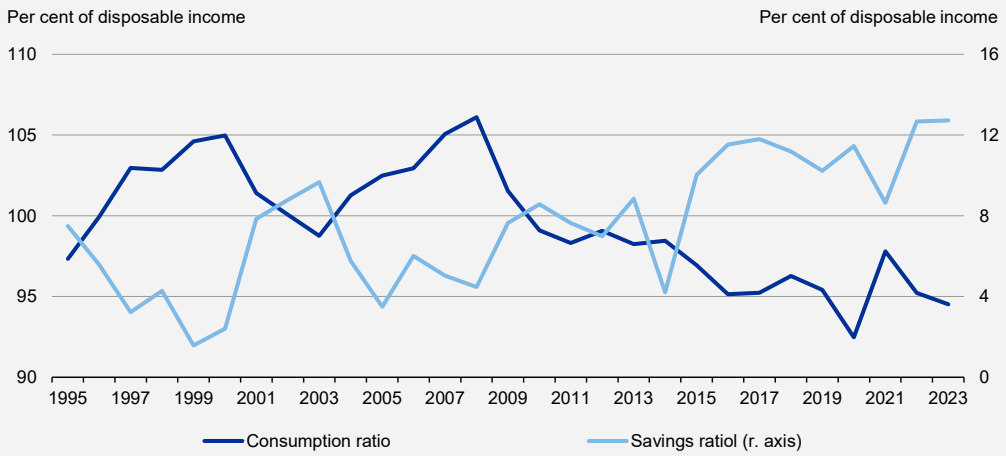
Figure 2.1 Household income have grown more rapidly than consumption in recent years



Note: The gray shaded areas are periods of expansion, defined as years with a positive and increasing output gap. In 2020 and 2021, the disposable income has been adjusted for the tax payment of the frozen holiday funds paid out.
Source: Statistics Denmark and own calculations.

Thus, in 2013 households used over 98 per cent of their disposable income on consumption, but this share has decreased to below 95 per cent in 2023. Correspondingly, the consumption ratio – which measures nominal consumption in relation to nominal disposable income – decreased by more than 3 percentage points, *cf. figure 2.2*.

Figure 2.2 Households have consolidated their balance sheets – increased savings and lower consumption ratio



Note: The consumption ratio measures total nominal private consumption relative to household disposable nominal income. The low level in 2020 must be seen in the context of the corona pandemic. In 2020 and 2021, the disposable income is corrected for the tax payment of the paid frozen holiday funds. The savings share is the part of the disposable income that is not used for individual consumption, and corrected for changes in pension fund reserves, i.e. net contributions to pension.
Source: Statistics Denmark and own calculations.

The counterpart to the declining consumption ratio is an increasing current savings. Savings have grown since the financial crisis, which reflects, among other things, that households have consolidated. It must be seen in the context of the high consumption in the years leading up to the financial crisis, which was largely financed by eating into the net worth (increasing debt or reducing wealth). This resulted in a consumption ratio of over 100 per cent.

The household debt ratio has been decreasing since the financial crisis, *cf. figure 2.3*. This reflects, among other things, that the low interest rates have been used to a greater extent to reduce debt and the effect of tighter loan rules.[1] Among other things, financial and macroprudential regulation has been tightened, which has contributed to a more balanced development in borrowing and the choice of loan types, and adjustments to loan rules have helped to dampen loan demand and reduce indebtedness.[2] This was evident, for example, in 2020 and 2021, when housing prices rose significantly, but this did not lead to a corresponding increase in housing debt, and only a small proportion of the growth in housing assets was converted into consumption via increased borrowing.

This, together with significant increases in the value of housing, pension and equity assets, has resulted in households all together today having a large net worth and appearing quite well-padded, *cf. figure 2.4*.

Figure 2.3 Household debt ratio has declined

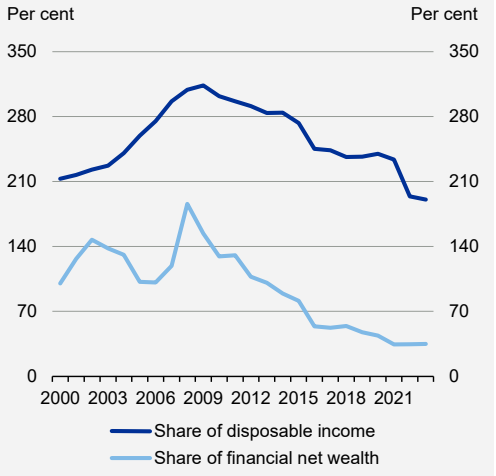
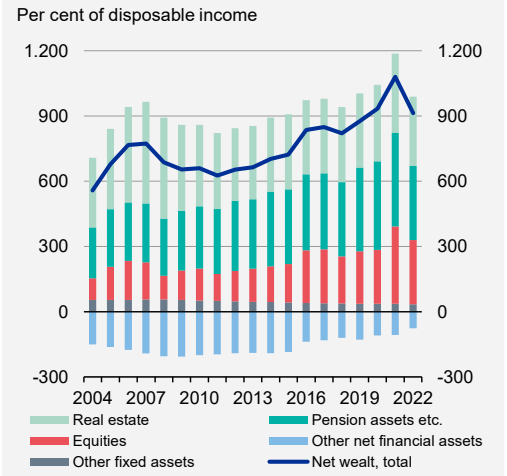


Figure 2.3 The total financial wealth of households has increased



Note: In figure 2.4, pension etc., equity assets included in pension deposits, and pension reserves in banks and pension funds, etc. Real estate covers both housing and land, including land used for agriculture. The land values in 2020-2022 are preliminary estimates which are subject to considerable uncertainty, especially the value in 2022. Debt is included in other financial net assets. No corrections have been made for deferred taxes on pension payments.
Source: Statistics Denmark and own calculations.

[1] See e.g. Economic Survey, August 2023, Chapter 2. Prospects for stabilisation in the housing market.
[2] The lending rules outlined by the Danish Financial Supervisory Authority so-called growth area guidelines and the Executive Order on good practice for mortgage lending includes a provision a provision on credit assessment at a fixed interest rate that is 1 percentage point higher than the current fixed interest rate, but at least 4 per cent and accompanying wording in case of high debt factor. The rules on the debt factor implies restrictions on the type of mortgage loans that are available, e.g. only fixed rate mortgages or variable rate mortgage with amortization and a rate-adjustment frequency no higher than 5 years, as well as certain wealth requirements on borrowers.

The high savings can be converted into consumption at a later stage and constitutes a buffer against shocks to the economy. However, it is of great importance for the spillover on private consumption, where the wealth is composed. Housing wealth and pension wealth can only be converted into consumption with difficulty, and a significant part of the wealth is precisely tied up in housing and pension wealth, where increases in value can thus be expected to have less effect on consumption in the short term.

The total pension savings have grown over the years in line with the maturation of the labour market pension system, and the pension assets today constitute a significant part of the households' total net assets. This has largely contributed to the increasing savings, including in the less liquid part of the assets. The incentive to pay into a pension is also affected by the tax system. The top tax payment can be reduced, for example, by increasing payments to private installment pensions up to a certain limit, and there is low taxation of pension returns.

It is mainly the liquid part of the assets that can easily be converted into consumption. This particularly applies to deposits in banks, which have also grown significantly over recent years. Private customers' deposits in banks amounted to DKK 1,160 bn. at the end of 2023, corresponding to DKK 241,000 on average per adult. However, there is great variation in deposits across households. It is different how inclined households are to convert liquid assets into consumption, and in general the marginal propensity to consume is greater in households with more limited assets.[3]

There may be several reasons why households save more. Often, the development in savings will be linked to the short-term business cycle. Uncertainty about future income and expenses can lead to greater precautionary savings, for example to ensure consumption options in the event of unemployment. Savings are also affected by the real interest rate, among other things - when the real interest rate rises, the incentive to save up and pay off debt increases. Developments in house prices and stock prices affect households' net worth, and if house prices and stock prices rise, it reduces the need for other savings. Taxation of capital income, including the interest deduction, can also have an impact on the incentive to save.

The increased savings can also be an expression of households becoming more risk-averse and wanting a larger asset buffer, or increased preferences for saving up for larger consumer goods, including, for example, for the future purchase of a home or car, or for a larger disposable amount in the pension-style room. Savings can also be motivated by a desire to leave a legacy. Basically, the decision to spend or save is a choice between present and future consumption.

In a number of other countries, a similar trend can be seen as in Denmark, with a decreasing consumption ratio over recent years. This applies, for example, in the Netherlands, Sweden and Germany. However, there are significant differences in the development across countries, and the consumption ratio is also increasing in some countries, *cf. box 2.1*.

[3] See e.g. Danmarks Nationalbank (2018): *Consumption Heterogeneity: Micro Drivers and Macro Implications.*

Box 2.1 Significant cross-country differences in the change in the consumption ratio

There is a big difference in the development of the consumption ratio across countries since the financial crisis. This may be related, among other things, to the development in net interest payments and the size and composition of assets and debts.

There are, for example, signs that the consumption ratio has particularly fallen since the financial crisis in countries where households' net interest expenditure has fallen and the opposite in countries where net interest expenditure has increased (or interest income has fallen), cf. figure a. This may reflect that households have consolidated in countries where the consumption ratio has fallen, and thus have less debt and accompanying interest expenses.

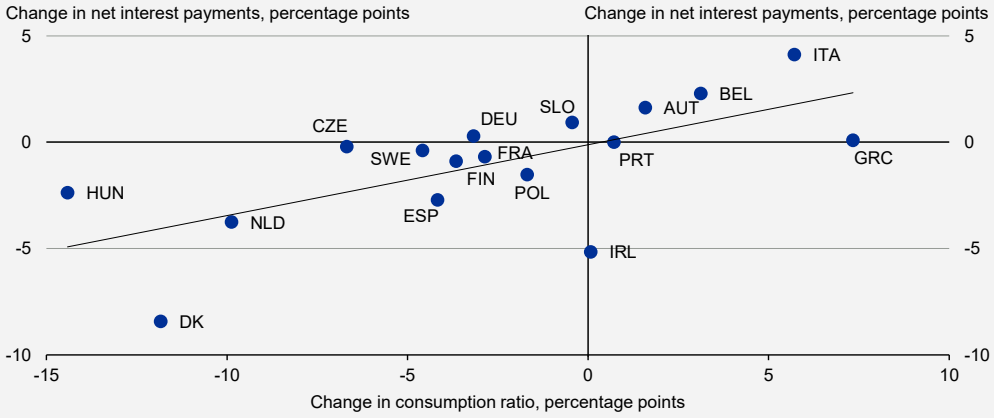
The trend is also evident if you look at the development in the consumption ratio and households' net interest expenditure over the past ten years, although it is a little less clear. In recent years, however, there does not seem to be a clear pattern in relation to the development of interest rates and consumption.

Although Danish households have consolidated over recent years and significantly reduced debt measured in relation to income, household debt is high in an international context. However, Danish households also have larger pension savings and equity holdings.

According to an analysis by Danmarks Nationalbank, the higher debt level in Denmark, combined with the fact that the interest rate fixation periods are shorter in Denmark and the loan turnover is greater, contributes to a greater impact of higher interest rates on consumption in Denmark than in the euro area as a whole.[1] In the euro area, households, in contrast to Denmark, have more deposits than debt, and the negative consumption effect of interest rate increases is therefore smaller. Conversely, the impact on wealth, including via equity prices and lower market value of real estate debt, can be greater here at home.

The development in the consumption ratio across countries is also influenced by a number of other factors. If, for example, there are shifts in the composition of the population, including in the age composition, this can in isolation affect a country's consumption ratio, because the marginal propensity to consume varies across population groups.

Figure a Change in the consumption ratio and net interest payments from 2008 to 2023



Note: Calculated on the basis of averages of quarters in 2008 and 2023 respectively. For individual countries, 2023 covers the period 4th quarter 2022 to the 3rd quarter 2023 due to missing data for the 4th quarter 2023.
1) See Danmarks Nationalbank (2024): The household cash-flow effects of monetary policy in Denmark and the euro area.
Source: ECB, Eurostat and own calculations.

Households are generally well positioned to increase their consumption in the future. Although the economic situation could point towards consumption restraint in the coming years, the need for this seems to be less. The consumption ratio has been relatively low in recent years, and households are generally well-padded.

However, it is important how the assets are distributed across households. If it is especially the wealth among high-income groups that has increased over recent years, the consumption effect will probably be smaller in the short term, as households in the upper part of the income distribution generally have a lower marginal propensity to consume than households in the lower part of the income distribution.[4]

Income developments help to explain the fall in the consumption ratio

There is considerable difference in the extent to which different types of income are converted into consumption. Households spend, for example, a relatively large proportion of their wage income on consumption, while, for example, income from equities has less impact on consumption. Among other things, this must be seen in the context of the fact that equity income is a more volatile type of income, while wage income is more stable, and that equity income is to a greater extent concentrated in the upper part of the income distribution, where households generally have a lower marginal propensity to consume. [5]

It is therefore also important for the interpretation of the consumption ratio, to which the income concept consumption is put in relation.

The disposable income is the income that households have available – for either consumption or savings – when taxes, interest and contributions to pension etc. has been paid. The income can be divided into core income, payments from pension and net asset income, etc. Core income is the income that households earn on the labour market (wages), plus income transfers.

The core income makes up the vast majority of disposable income for households taken together, while net asset income in the form of net interest income, equity income and pension returns on individual voluntary pension schemes are smaller items. These income items, on the other hand, fluctuate considerably more from year to year than, for example, salary income, which grows more stably over time.

Consumption measured in relation to core income has not fallen as much as the more traditional calculation of the consumption ratio, cf. Figure 2.5. Disregarding the corona years 2020 and 2021, consumer spending has made up a roughly constant share of core income over the past 10 years.

The difference can be connected, among other things, to the development in the net asset income, which is included in the disposable income, but not in the core income. The development in interest and equity income has contributed to pulling down the consumption ratio since 2013.

Interest rates fell to very low levels during the recovery from 2013 onwards, which resulted in saved interest expenses, especially for homeowners with relatively high mortgage debt. The saved interest expenses were, among other things, utilized for repayments on mortgage loans

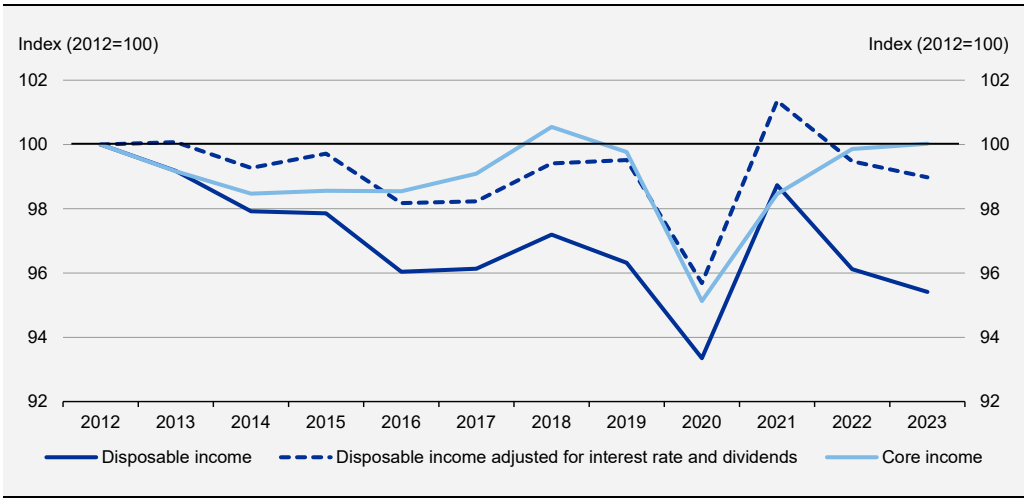
[4] See e.g. Danmarks Nationalbank (Narch 2024): Inflation is on track but some inflationary pressure persists.
[5] See e.g. *Economic Survey, May 2022*.

(where repayments themselves increase when the interest rate falls) and were not fully translated into increased consumption. The consolidation effect may have been strengthened by the fact that there was uncertainty about the time horizon for the very low interest rates.

At the same time, equity income has been record high for a number of years. This, together with the low interest rates, contributed to an extraordinarily large increase in disposable incomes until 2019, but was not accompanied by a corresponding increase in consumption, and the consumption ratio therefore fell. This must be seen in the light of the fact that to a certain extent this is extra income of a temporary nature, which therefore affects consumption to a lesser extent, and that households with high equity income typically have a lower consumption ratio.

If an estimated correction is made for the saved interest expenses and the extra dividend payments since 2012, the consumption ratio has thus not fallen to the same extent, *cf. figure 2.5*.

Figure 2.4 Alternative measures of the consumption ratio do not show the same trend decline



Note: In the consumption ratio adjusted for interest and dividends, an increased consumption corresponding to the saved interest expenses and the extra dividend payments since 2012 has been factored in. It is assumed that the saved interest expenses and larger dividends do not have a full impact, but an impact of 0.5 (roughly equivalent to the short-term propensity to spend in ADAM). In 2020 and 2021, the disposable income has been adjusted for the tax payment of the frozen holiday funds paid out. There is particular uncertainty in these years, including in relation to the payment of holiday pay and the tax treatment thereof. Core income is defined as wages plus income transfers.
Source: Statistics Denmark and own calculations.

Since the middle of 2022, interest rates have gone up, and the rising interest costs are taking hold of a larger part of the home owners' finances in particular in these years. Viewed in isolation, this reduces disposable incomes and consumption options, cf. chapter 3.

Shifts in income therefore affect the development of the consumption ratio. Income from equity dividends has increased from approx. 1¼ per cent of the disposable income in the mid-1990s to amount to 4-5 per cent in 2022 and 2023, and at the same time the net interest expenses have fallen, *cf. figure 2.6*. Core income has on the other hand, decreased as a share of total income, *cf. figure 2.7*. If this trend continues, it may also put a damper on the development in the consumption ratio in the future.

Figure 2.5 Equity dividends and net interest income has increasingly accounted for a larger share of disposable incomes …

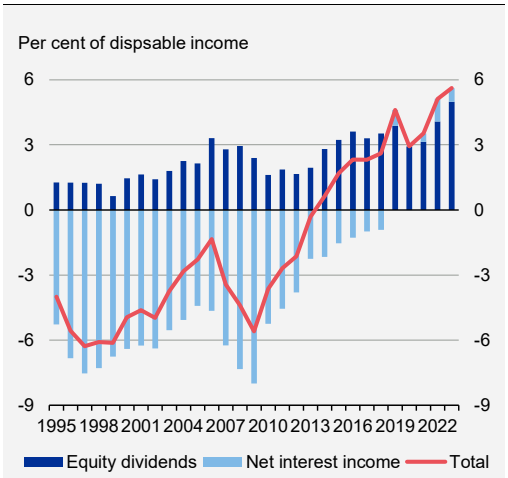
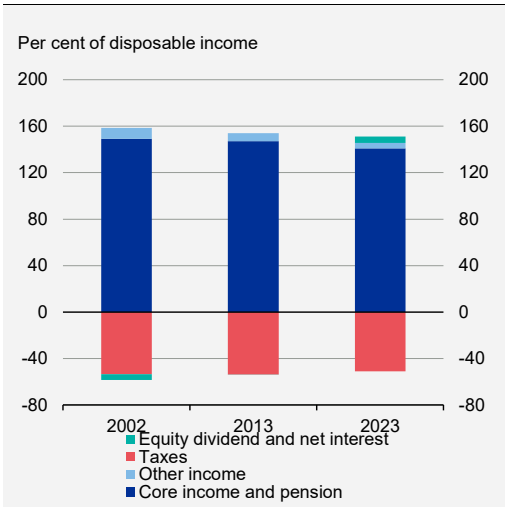


Figure 2.6 … while core income accounts for the a smaller share of disposable income



Note: Stock dividends are dividends from shares and certificates of ownership. Figure 2.7 shows the individual income types' share of the total disposable income in selected years. Core income is wages and income transfers, and pension covers payments from collective schemes.
Source: Statistics Denmark and own calculations.

The composition of consumption has changed

Over recent years, there has been a change in the composition of household consumption. Households spend, among other things, a smaller proportion of their income on electricity, gas and petrol etc. It probably reflects both energy efficiency improvements and changes in prices. Expenses for clothes etc. also constitutes a slightly smaller share of income, *cf. figure 2.8*.

When households have lower expenses for e.g. electricity, gas and petrol – which must be described as being a kind of necessity – there is more for either other consumer goods or for savings. However, this has not resulted in an increased consumption share for, for example, clothing or home and household equipment, which are perhaps to a lesser extent necessities. The consumption of restaurant and hotel visits etc. has, however, made up a larger share of household income in recent years than, for example, 10 years ago.

Housing costs are the households' largest budget item. These expenses have remained relatively constant since 2013, but in a longer perspective housing expenses have increased, cf. figure 2.9. Housing expenditures include taxes and also consist of rent, water and maintenance costs etc. To some extent, this can be described as necessities, but the rising housing costs probably also reflect increased housing preferences in general.

Figure 2.7 Consumption of electricity and natural gas as well as clothing etc. has declined since 2012

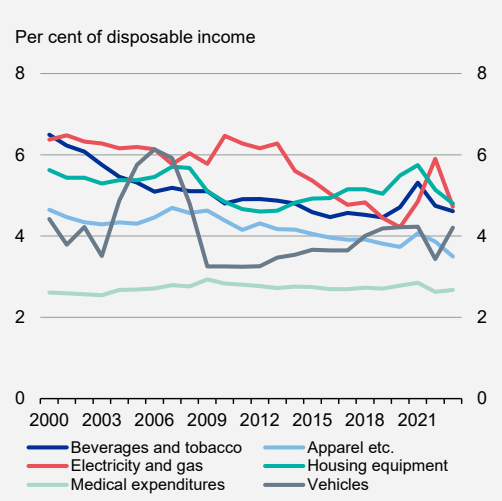
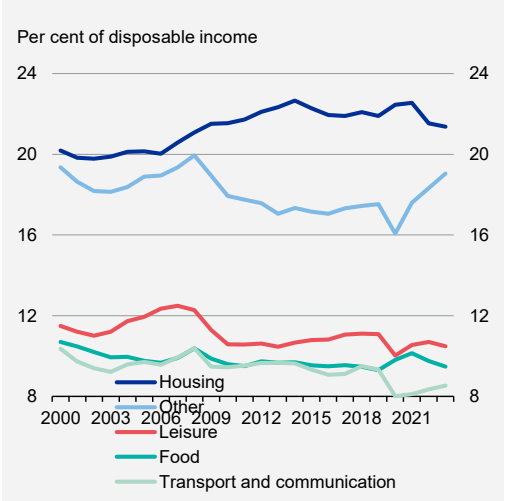


Figure 2.8 Housing expenditures account for a larger share of expenditures compared with the early 2000's



Note: Consumption ratios for the smallest and largest consumption items respectively in the two figures (the 11 groupings of the national accounts). Residential use is incl. calculated rental value of own home (imputed housing consumption). Other goods and services include visits to restaurants and hotels, purchase of insurance and financial services, etc. (the more detailed list of 41 groups is only available until 2022).
Source: Statistics Denmark and own calculations.

In addition to the development in the various income elements, assets and consumption, the consumption ratio is also affected by a number of other conditions, including changes in the composition of the population.

2.2 The consumption has declined for all age groups

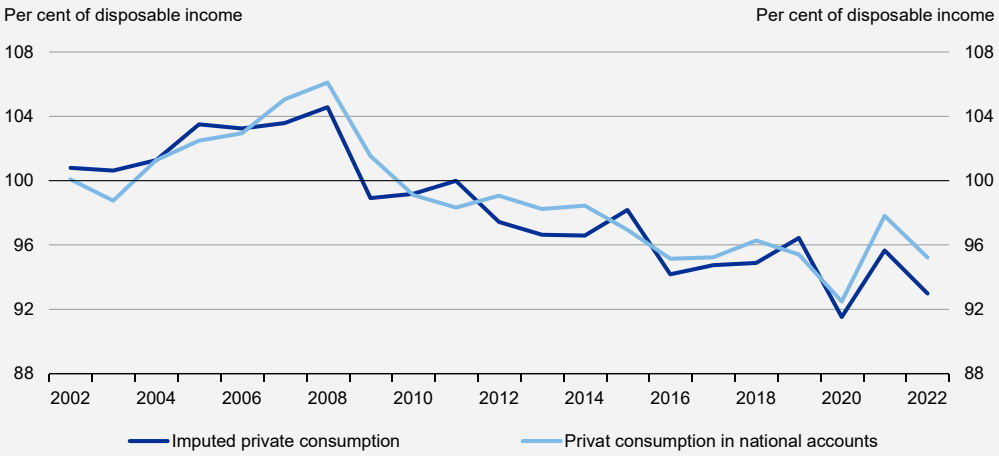
Income varies over a lifetime. Younger persons typically have lower income, and a desire to even out consumption over the course of a lifetime can be reflected in a relatively high consumption ratio among younger generations. Income also varies across the population in relation to e.g. length of education and labour market outcomes, and this is also reflected in differences in consumption ratios.

Data at the individual level makes it possible to look at the propensity to spend across different population groups. Consumption cannot be observed directly in individual data and must therefore be approximated in the form of an imputed private consumption. The starting point for the calculation is that consumption is equal to income minus savings. What is not saved is consumed, and if savings is negative, it must be an indication that consumption is either financed by taking on debt or consuming assets.

Imputed private consumption is based on a number of assumption and has some methodological limitations. Therefore, it should be interpreted with some caution, *cf. box 2.2*.

Generally, the consumption ratio calculated on the basis of imputed private consumption roughly follows the consumption ratio based on the national accounts, although there are a number of methodological differences between the two calculations, *cf. figure 2.10*.

Figure 2.9 Imputed consumption ratio roughly follows consumption ratio based on the national accounts



Note: In the consumption ratio calculated on the basis of the national accounts, the disposable income is corrected for the tax payment of the paid frozen holiday funds in 2020 and 2021, as the holiday money is included here at the time of accrual. The imputed consumption ratio includes the holiday pay (net) at the time of payment. The imputed consumption ratio is formed by summing consumption and income for all families in the year in question, and the consumption ratio is thus implicitly weighted. See in detail the delimitation and method in box 2.2.
Source: Statistics Denmark and own calculations based on the law model database.

Box 2.2 Computation of imputed private consumption

The calculation of the imputed private consumption is based on register data for the population, including individual information on income and asset size. All calculations are aggregated up to family level based on the consideration that consumption decisions are largely based on the household's total income and wealth. The calculations have been made on a full census of the population in Statistics Denmark's registers.

The calculation of the imputed consumption is subject to methodological limitations, and it is necessary to base the calculation on a number of assumptions, which must therefore be interpreted with caution.

Consumption cannot be observed directly in individual data and must therefore be formed as an approximation. The starting point for the calculation is that consumption equals income minus savings. Savings, however, cannot be observed either, but can be approximated as the change in net worth (which is cleaned of value increases to the greatest extent possible). Consumption is thus calculated as the disposable income minus changes in the value of the net assets. Disposable income is the income minus tax and interest expenses and added to the calculated rental value of one's own home. Contributions to pension schemes are not included in the income, just as contributions to retirement savings and contributions to early retirement are not included.

In the calculation of disposable income, tax-free payments of post-retirement and flexible benefit contributions are added in the years in which payments have been made. In addition, estimated payouts from retirement savings from and including 2013, when the scheme has existed, have been added. In addition, taxable increased pensions such as ATP, SP, LD, late pay and flexible benefit contributions are added. No corrections have been made for interest expenses on public debt.

The net worth consists of deposits in financial institutions, equities, bonds and mortgages in custody, mortgage debt and bank debt, etc. The net worth is excl. pension assets and unlisted shares. In addition, foreign assets, private debt and debt in institutions abroad and debt to the public sector are not included (there is only information on this in 2013-2016). Price changes on equities and bonds are estimated on the basis of the development in the C25 index.

A number of exclusions are made, including:

- Self-employed persons are deducted in the years they are registered as self-employed, as well as one year before they become self-employed and the year after they are no longer self-employed. This is based on a desire to look at consumption ratios for the typical household.
- Families who have bought a home or sold a home are excluded in the year in question as well as the year before, those who bought/sold a home. This is to avoid large fluctuations in the net worth.
- Families who have extended their homes are not excluded. This implies that consumption is in some cases overestimated, as such housing investments will thereby also count as consumption.
- Families where a parent passes away are excluded in the year in question (as an inheritance may be paid out).
- Persons with negative disposable income, when pension payments have been deducted, are excluded.
- Families with equity assets of over DKK 500,000 (2010 prices) are excluded. This is to avoid large fluctuations in equity prices in individual years affecting the calculated consumption ratio to a greater extent.

Box 2.2 (continued) Computation of imputed private consumption

When calculating consumption ratios across socio-economic groups, age, education and origin, etc. it is the oldest person in the family who decides the location. Families with a consumption ratio among the lowest or highest 5 per cent are sorted out so that the results are not affected by either very high or very low values (outliers).

Imputed consumption has grown somewhat less than disposable income over the last approx. ten years, *cf. figure a*. The consumption ratio has thus decreased. The consumption ratios are weighted in relation to consumption and income. This implies, among other things, that families with very high incomes (and thus typically a lower consumption ratio) will take up relatively much and reduce the total consumption ratio, while families with a very high consumption will increase the consumption ratio. When the consumption ratio is below 100 per cent, it tends towards an underestimation, and conversely an overestimation when the consumption ratio is above 100 per cent. If the consumption ratio is calculated on the basis of median income and median consumption instead of the average income and consumption, the consumption ratio is thus lower in the years where the consumption ratio is above 100, and vice versa when the consumption ratio is below 100, *cf. figure b*.

The calculation of consumption ratios based on individual data differs from the consumption ratio calculated on the basis of the national accounts, where consumption is calculated directly (housing consumption is, however, including imputed housing consumption), and the disposable income is calculated differently. This applies, among other things, to the calculation of pension payments and payments and the accrual of holiday pay.

Figure a Imputed consumption and disposable income calculated from data at the individual level

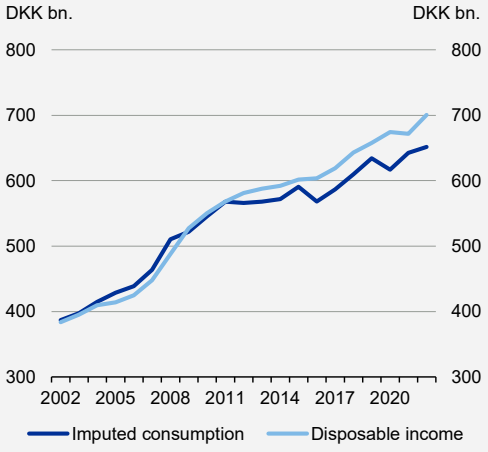
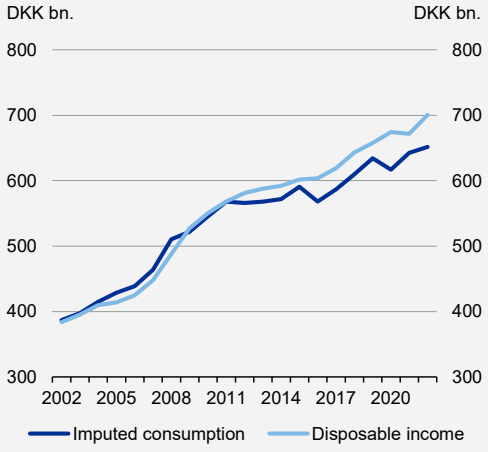


Figure b Consumption ratio imputed from register data at the individual level

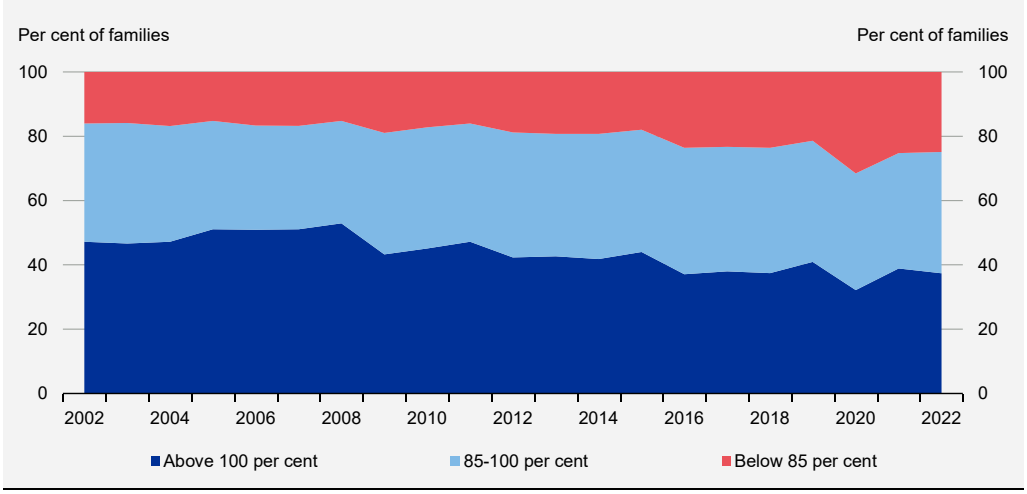


Source: Statistics Denmark and own calculations.

There is a big difference in the consumption ratio across the population. Approximately 37 per cent of the families in 2022 had a consumption that exceeded their disposable income, while approx. 25 per cent had a consumption ratio below 85 per cent, *cf. figure 2.11*. When the consumption ratio is below 100 per cent, part of the income is saved, while a consumption ratio above 100 per cent means that the family's consumption is either financed by consuming saved assets or incurring debt.

Since the financial crisis, there have been fewer households that consume more than their income, and more that spend less than 85 per cent of income on consumption.

Figure 2.10 Fewer household with high consumption ratios and more with lower consumption ratios



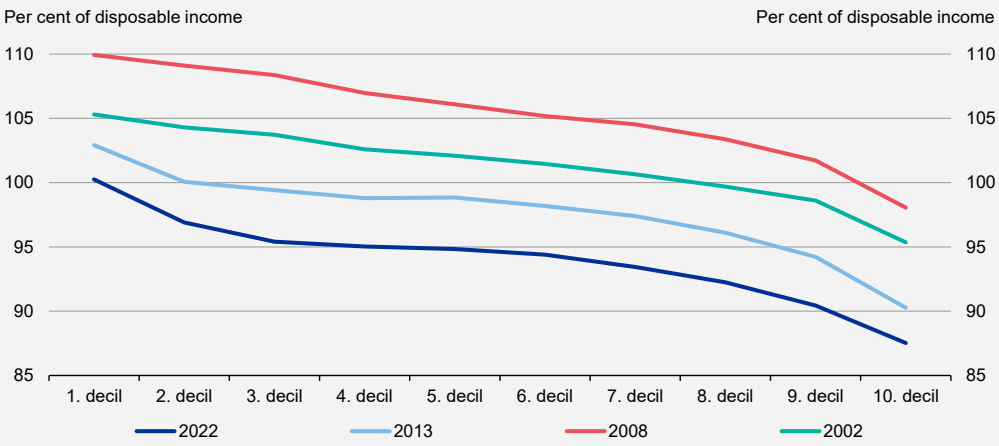
Note: The three series indicate the proportion of families with consumption ratios of less than 85 per cent 85-100 per cent respectively and over 100 per cent. The consumption ratios are calculated for each family. Families are divided into groups each year, which is why the composition within each group changes from year to year. See also Box 2.2 for method and definitions.
Source: Statistics Denmark and own calculations based on the law model database.

There is considerable difference in the proportion of income that goes to consumption across the income distribution. In general, the propensity to convert income into consumption is higher in the lower part of the income distribution and lower in the upper half. In 2022, families in the 1st decile had on average a consumption that roughly corresponds to their income, while families in the 10th decile used just under 88 per cent of income on consumption, and in general the consumption ratio falls with income, *cf. figure 2.12*.

Overall, the income deciles are composed differently with regard to labour market attachment, so that, for example, there are most students, unemployed and persons outside the labour force in the lower part of the income distribution, while wage earners make up the majority of the upper part. Income mobility over life means that persons most often move between deciles over a lifetime.

Consumption measured in relation to income has decreased across income groups over a number of years, and there does not seem to be any evidence that some groups have particularly driven the decline in total consumption. Thus, the consumption ratio has shifted down in parallel.

Figure 2.11 The consumption ratio has shifted down across all income levels



Note: The 1st decile includes families with the 10 per cent lowest incomes, while the 10th decile are families with the 10 per cent highest incomes. The decile groups are formed based on the family's equivalent disposable income. The consumption ratio is calculated by summing up consumption and income for each income group, so that the consumption ratio is implicitly weighted. The income deciles are defined in each year. There is thus replacement in the groups over time. See also Box 2.2 for method and delimitation.
Source: Statistics Denmark and own calculations based on the law model database.

The development covers progress in both incomes and consumption in all income groups since 2013. Incomes have increased most in the highest income groups, but there has been approximately the same lower growth in consumption across income groups.

The net worth has increased especially for income groups at the upper end of the distribution, where the average marginal propensity to consume is generally lower than among other income groups. The increase in wealth (and additional savings over recent years) therefore probably only has a limited effect on consumption, and will probably only have it in the coming years.

Consumption measured in relation to income is affected by a number of cyclical conditions, including fluctuations in interest rates, just as more structural conditions can also affect the consumption ratio.

The business cycle impacts households differently

Households' consumption options vary with the economic cycle and are, among other things, influenced by the trend in interest rates. For families with debt, increased interest rates reduce, other things being equal, consumption options, as interest payments on the debt increase. On the other hand, increased interest rates will in isolation increase the consumption possibilities for households with positive balances in the bank, although there may also be opposite effects via the influence of any other assets and debts.

Families with negative net financial wealth have reduced the consumption ratio to a greater extent since the financial crisis than families with positive financial wealth, *cf. figure 2.13*. This reflects, among other things, that households with debt have consolidated. The consumption ratio has decreased across income groups for families with negative net worth. For households

with positive net worth, the development varies more across income groups, where families at the high end of the income distribution have reduced the consumption ratio the most.

The consumption ratio has particularly decreased for families with high debt ratios since the financial crisis, while the consumption ratio for families with a relatively low debt ratio has fallen to a somewhat lesser extent, *cf. figure 2.14*.

This has contributed to the fact that there have been fewer families with very high debt ratios since the financial crisis, while more have a debt ratio below 100. This reflects, among other things, the consolidation among particularly indebted families and the financial regulation after the financial crisis.

Figure 2.12 Since 2008 the consumption ratio declined most for families with negative net wealth

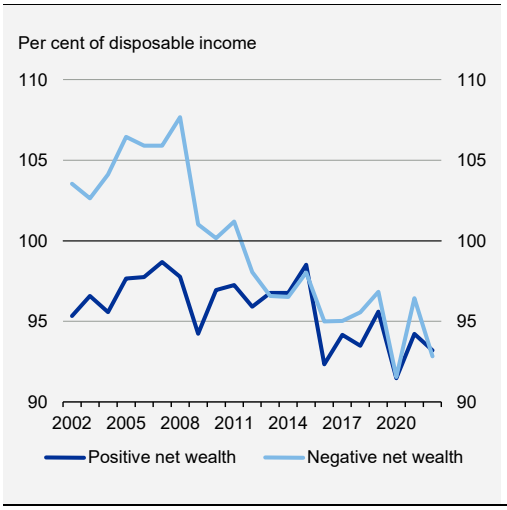
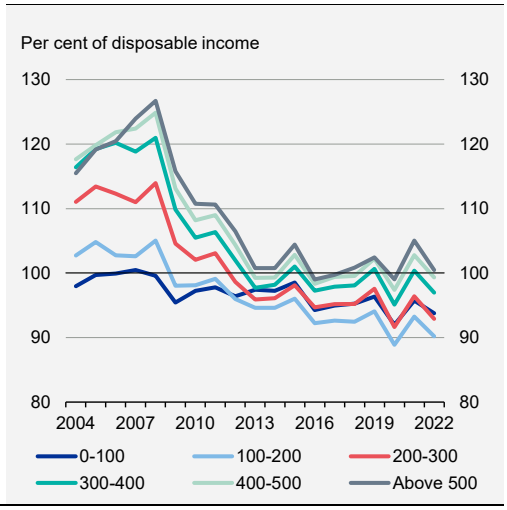


Figure 2.13 The consumption ratio has declined more for families with high debt ratios



Note: In figure 2.13 the net worth is defined by the financial net worth. In figure 2.14, debt is defined by bank debt, mortgage debt (bond value), debt to the public sector (only calculated from 2013-2016), mortgage debt and debt to foreign mortgage and banking institutions. The consumption ratio is formed by summing over consumption and income for each debt ratio group, so that the consumption ratio is implicitly weighted. See also Box 2.2 for method and delimitation.
Source: Statistics Denmark and own calculations based on the law model database.

Viewed in isolation, the currently higher interest rates reduce the consumption options for families with debt. However, the lower debt ratio for many home owners on top of the consolidation years means that the impact of higher interest rates on consumption, all other things being equal, is expected to be lower than before. Compared to, for example, the euro area, the impact on disposable income is greater in Denmark, *cf. box 2.1*.

The consolidation among households with debt is also reflected in the development in the consumption ratio for home owners and families who live for rent, respectively. Homeowners' consumption ratio has decreased somewhat more than renters' since the financial crisis, *cf. figure 2.15*. Homeowners' consumption ratio is also generally slightly more volatile than renters'. This may reflect, among other things, that home owners are more exposed to changes in interest rates.

There is considerable variation in the development depending on the mortgage levels of the home owners. It is especially home owners with high mortgage rates who have reduced their consumption ratio in the years following the financial crisis. Before the financial crisis, there was thus a large difference in the consumption ratio for home owners with high and low loan-to-value ratios, respectively, but in 2022 the differences have largely equalized, *cf. figure 2.16*.

Figure 2.14 The consumption ratio has declined more for homeowners than renters

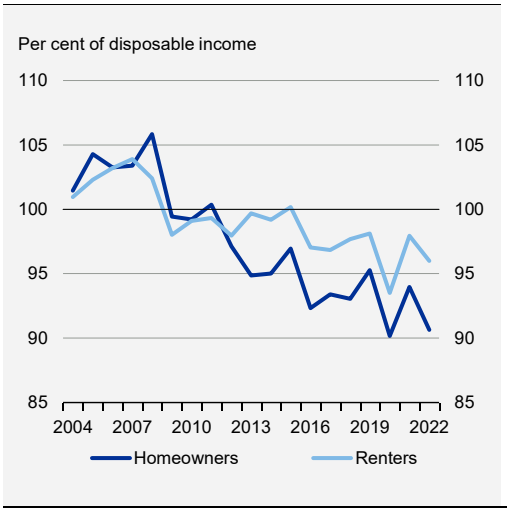
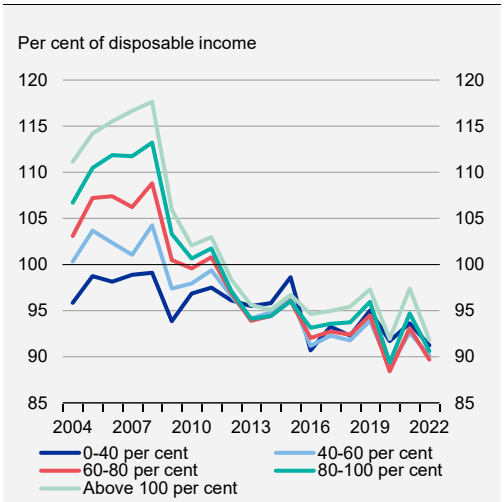


Figure 2.15 The consumption ratio has declined more for homeowners with a high LTV



Note: The figures are based on data that only exists back to 2004. In figure 2.16, loans are defined by home owners' mortgage loans and bank debt. Loan-to-value ratios (LTV) are the sum of these loans divided by the property value. The composition of the individual groups can vary from year to year, as the division is based on the loan-to-value ratio for the individual year. See also Box 2.2 for method and delimitation.
Source: Statistics Denmark and own calculations based on the law model database.

The interest rate trend affects households differently and depends, among other things, on the level of debt, the choice of loan type and the trend in house prices in the area in question. Rising interest rates over recent years have increased the housing burden nationally, but there are significant differences across parts of the country. The housing burden has particularly increased in Copenhagen, *cf. chapter 3.3*. This must be seen in the context of higher house prices, greater prevalence of variable interest loans and a relatively greater debt in relation to income. Outside the big cities, household debt is generally smaller in relation to income, and there is less use of variable interest loans, which is why home owners here are less exposed to interest rate increases. It thus also has an impact on the consumption possibilities.

However, there are generally not large differences in the levels of consumption ratios in the different parts of the country, and the consumption ratio has decreased across parts of the country over recent years, *cf. figure 2.17 and figure 2.18*. The consumption ratio has decreased slightly less in the eastern part of Denmark since 2013.

Figure 2.16 The consumption ratio has declined in Jutland, Funen and Bornholm…

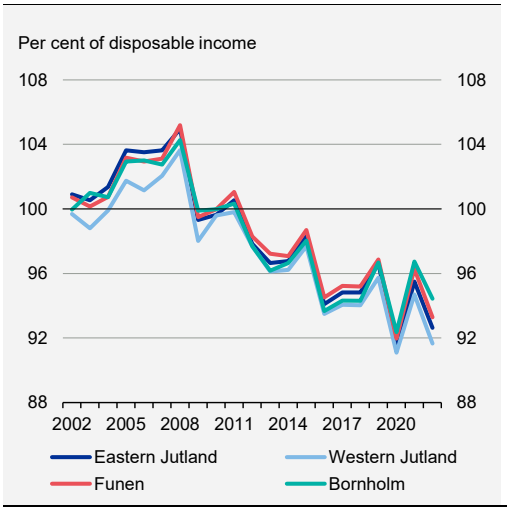
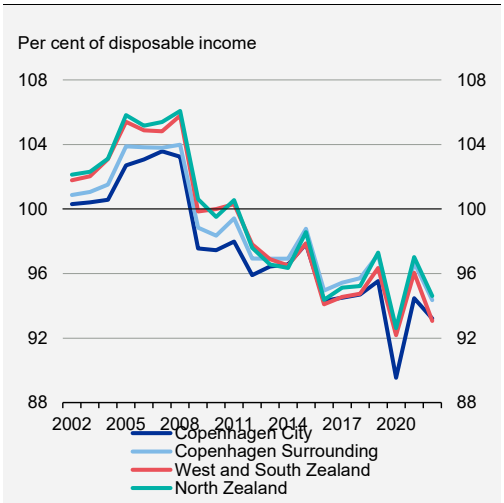


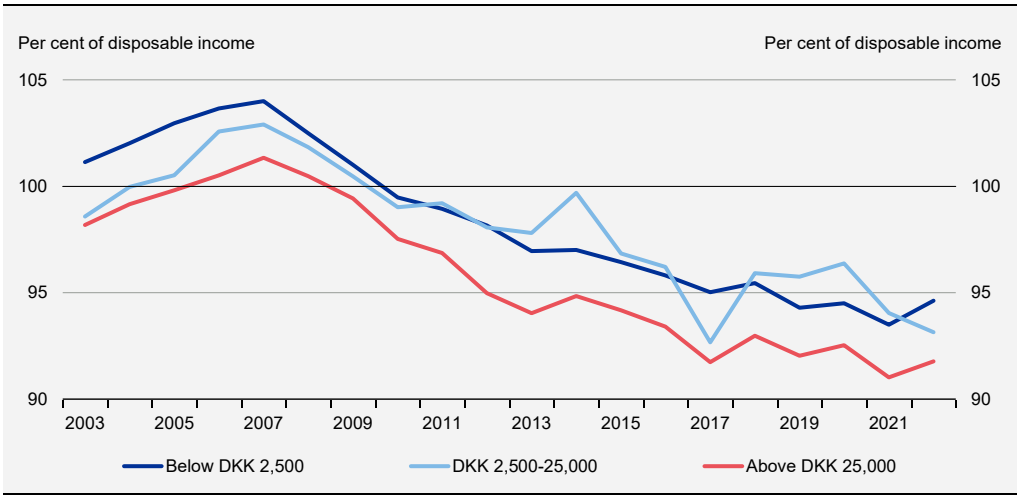
Figure 2.17 … and across regions on Zealand



Note: The consumption ratios vary only slightly across regions in Jutland and Zealand and therefore only selected regions are shown.
Source: Statistics Denmark and own calculations based on the law model database.

Just as the amount of wealth and debt has an effect on the consumption ratio, it also matters how the wealth is composed. The increasing contribution from equity income to disposable incomes over recent years has helped to pull down the consumption ratio, because the marginal propensity to consume out of equity income is lower, and because families with high equity income generally have a lower consumption ratio, as they typically lies in the upper part of the income distribution, *cf. figure 2.19*.

Figure 2.18 The consumption ratio is lower for families with high equity income



Note: The figure shows the average of three years. Families can be included in different equity income groups within the three-year period. The consumption ratio is formed by adding up consumption and income for each equity income group. Families with equity holdings over DKK 500,000 (in 2010 prices) are excluded, *cf. box 2.2*.
Source: Statistics Denmark and own calculations based on the law model database.

Only minor significance of shifts in the composition of the population

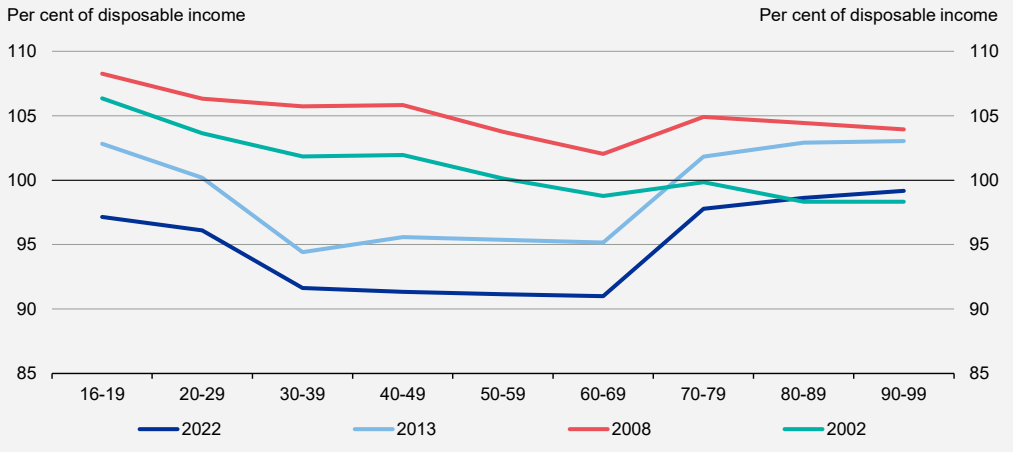
Changes in the composition of the population can affect the consumption ratio in both directions. In recent years, for example, the average population age has increased, more persons are taking a longer education, and the proportion with an ethnic background other than Danish has increased. Such shifts can affect the total consumption ratio, because there are differences in the propensity to spend across age groups, education and origin, etc. However, there are not necessarily differences in the consumption ratios of various groups over a lifetime.

The majority of income is earned during working age. It provides a significant motive to save up in this part of life and use up the savings or borrow for consumption in other periods of life to even out the consumption possibilities. Young person's thus often have a high consumption measured in relation to their disposable income and may take out loans for part of the consumption, while working persons on average have a lower consumption than their income, cf. figure 2.20. With pensioners, the consumption ratio is again typically higher, because the elderly often have a lower income but high wealth and can thus finance consumption.

The consumption rate has generally decreased across age groups since 2008, and especially among 30-60-year-olds. Over the past ten years, all age groups have reduced the consumption ratio to roughly the same extent – the consumption ratio has shifted roughly parallel downwards from 2013 to 2022. There are therefore no signs that certain age groups have driven the decline in the consumption ratio.

Viewed over a longer period – since 2002 – the picture is slightly different, as the consumption ratio for the oldest age groups is largely unchanged in 2022 compared to 2002.

Figure 2.19 The consumption ratio has declined across different age groups



Note: The oldest person in the family defines the age of the family. The consumption ratio is formed by summing consumption and income for each age group, so that the consumption ratio is implicitly weighted. Families are divided into groups every year, which is why the composition within each group changes from year to year. 16-19-year-olds and 90-99-year-olds are very small groups, while the age groups 20-29, 30-39, 40-49, 50-59, 60-69 and 70-79 each make up 14-17 per cent. of the population in 2022. See Box 2.2 for method and delimitation.
Source: Statistics Denmark and own calculations based on the law model database.

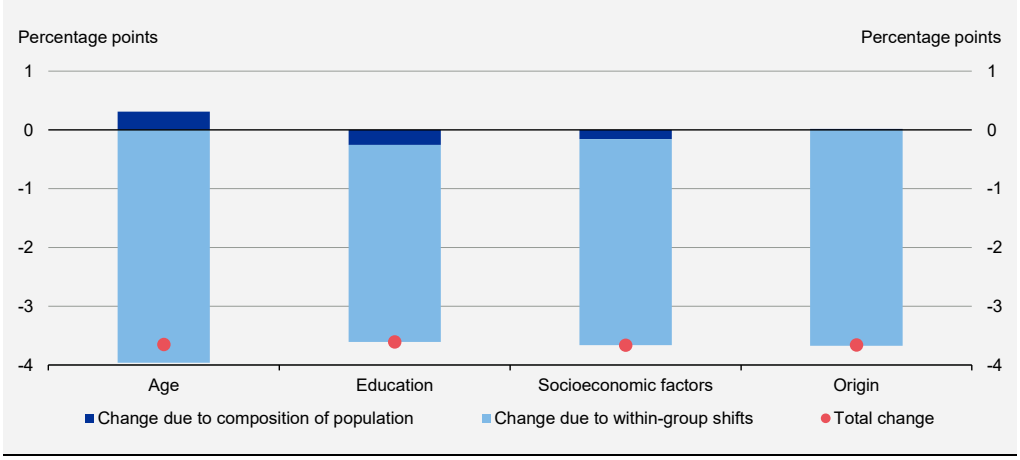
The composition of the population has changed since 2013, so that, among other things, there has been a greater proportion of older citizens. In isolation, this will lead to a higher consumption ratio. The demographic development since 2013 has also slightly increased the consumption ratio, but the significance of this is modest, *cf. figure 2.21*. The development, on the other hand, is driven by a fall in the consumption ratio across age groups.

A similar picture emerges if one looks at the significance of shifts across educational groups, socio-economic groups and ancestry. Changes in the composition of the population have only a minor impact on the fall in the consumption ratio, while changes within the individual groups can explain virtually the entire fall since 2013.

This indicates that the development in the consumption ratio has not been driven by either shifts in the age or educational composition, the distribution of the population into socio-economic groups or shifts in the population's ethnic background. On the other hand, there has been a fall in the consumption ratio across groups since 2013.

The individual groups' contribution to the overall decrease in the consumption ratio depends on the group's overall weight in the population. For example, it is predominantly the development in the consumption ratio among Danes that has driven the overall decline in the consumption ratio, because Danes make up the vast majority of the population.

Figure 2.20 The change in the consumption ratio from 2013-2022 has been driven by a decline across groups and only to minor degree by changes in the composition of the population



Note: Decomposition of changes in the consumption ratio from 2013 to 2022 divided by age, education, socio-economic groups and origin, where the individual decompositions have been carried out independently of each other. Thus, possible cross-effects have not been taken into account. The individual subgroups for each category contribute relatively to their weight of the total population. See Figures 2.20, 2.22 and 2.23 for subgroups for age, education and ancestry. The composition effect is calculated by first calculating a counterfactual consumption ratio, where the population groups make up the same income share as in 2013, while their consumption ratio is the consumption ratio for 2022. The change in behaviour for each population group is calculated as the difference between the real consumption ratio and the counterfactual consumption ratio. The sum of the behavioural changes gives the total behavioural change for the population. The demographic contribution to the composition effect is calculated residually as the difference between the real change in the consumption ratio and the behavioural contribution.

Source: Statistics Denmark and own calculations based on the law model database.

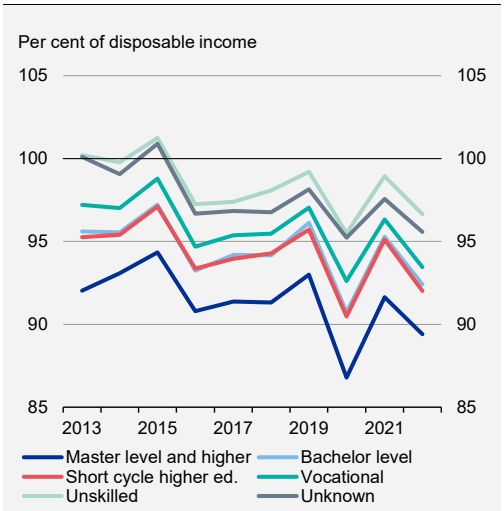
There is considerable variation in consumption ratios across both education groups and socio-economic groups in the short term, which is largely a reflection of the variation in consumption propensity across the income and age distribution. Unskilled persons, for example, consume a larger share of their income than persons with longer-term education, *cf. figure 2.22*.

Correspondingly, persons outside the labour force and the unemployed generally have a higher consumption ratio than wage earners, just as the consumption ratio for wage earners at basic level is higher than for wage earners at higher levels and with management work.

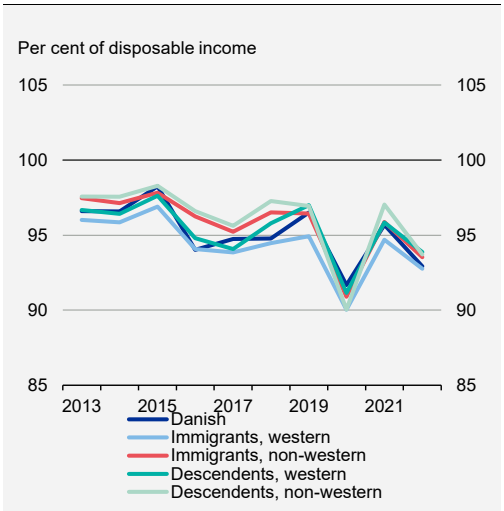
A generally higher level of education and income in society can thus, other things being equal, pull in the direction of a lower consumption ratio in the short term. Over a lifetime, however, it is not a given that there will be this connection. Persons with a longer education, for example, can hardly be expected to spend a smaller proportion of their lifetime income on consumption than persons with a shorter education, but measured in one phase of their lives, their average consumption ratio is lower - and below their lifetime average. This can be due to, for example, a desire to put a larger share of the income aside to protect against a drop in consumption in the event of, for example, unemployment or illness, or a desire to have a larger amount available in retirement.

In contrast, there is no particular difference in the proportion of income that goes to consumption across origins. The consumption ratio thus does not vary significantly for families with a Danish background, descendants and immigrants. The consumption ratio has decreased across ethnic groups since 2013, *cf. figure 2.23*.

Figur 2.21 The consumption ratio has declined across all educational attainment groups since 2013



Figur 2.22 The consumption ratio has declined across all population groups related to origin since 2013



Note: In the data for figure 2.22, it is the family's most completed education that is decisive. Vocational training and Unskilled respectively make up approx. 32 per cent and 29 per cent of the population in 2022, while Bachelor level is the 3rd largest group with a share of approx. 20 per cent In figure 2.23, it is the oldest person in the family who defines ethnic affiliation. Descendants are persons who were born in Denmark, but where neither parent is both a Danish citizen and born in Denmark. The group of descendants is only approx. 2 per cent of the population in 2022, while immigrants make up approx. 14 per cent (western 6 per cent and non-western 8 per cent). See also box 2.2.

Source: Statistics Denmark and own calculations based on the law model database.

There are therefore no signs that changes in the composition of the population since 2013 have had a major impact on the development of the consumption ratio. It seems to be predominantly changes in behaviour that have driven the development.

Shifts in the composition of the population may well affect the consumption ratio in the future. The demographic development with an increasing proportion of the elderly will, in isolation, pull in the direction of a slightly higher consumption ratio if the older part of the population continues to have a higher consumption ratio.

Immediately, the development over recent years seems to point more towards a consumption ratio at approximately the current level than a higher consumption ratio at the level of the beginning of the 2000s, as there seems to have been a change in consumption behaviour. But it is estimated that consumption will not be kept down due to a lack of financial resources – households generally have solid balance sheets and have the financial ability to increase consumption.

Annex tables

Table B.1 Demand, imports and production

	2023	2024	2025	2023	2024	2025	2023	2024	2025
	DKK bn.			Volume, per cent			Prices, per cent		
Private consumption	1,275	1,327	1,376	1.0	1.9	1.6	3.1	2.1	2.1
Public consumption[1)]	631	686	724	0.0	4.5	1.7	2.2	4.0	3.8
Public investments[2)]	90	99	106	-0.5	5.8	3.9	2.5	3.3	2.8
Residential investment	141	142	150	-10.2	-1.5	2.4	5.9	2.6	2.7
Business fixed investment	375	371	381	-4.0	-2.1	0.5	2.9	1.0	2.2
Domestic demand excl. inventory investment	2,515	2,629	2,740	-0.7	2.0	1.6	3.0	2.5	2.6
Inventory investment[3)]	3	9	8	-1.8	0.0	0.0			
Total domestic demand	**2,518**	**2,637**	**2,748**	**-2.8**	**1.9**	**1.6**	**2.9**	**2.8**	**2.6**
Exports of goods and services	1,922	2,014	2,122	13.4	7.0	3.9	-14.5	-2.0	1.4
Total demand	4,440	4,652	4,870	4.4	4.1	2.6	-5.5	0.6	2.1
Imports of goods and services	1,655	1,741	1,838	8.6	6.5	3.8	-8.6	-1.2	1.7
Gross domestic product	**2,785**	**2,911**	**3,033**	**1.9**	**2.7**	**1.8**	**-3.5**	**1.8**	**2.3**
Taxes on products, net	318	342	358						
Gross value added	2,467	2,569	2,675	2.2	2.8	1.8	-3.3	1.3	2.3
- Non-farm private sector[4)]	1,716	1,834	1,920	0.8	2.9	2.0	5.6	3.9	2.7
Gross national income	2,855	2,993	3,115						

Note: The division into volume and price components is made based on a fixed price calculation in the previous year's prices.
1) The change in volume for public consumption is calculated using the output method. For 2023-2025, growth in public consumption using the input method is assumed to equal growth using the output method.
2) Public investments exclude general government net purchases of buildings, and therefore the figures will deviate from public investments in table B.7.
3) The volume figures reflect changes in inventories compared to GDP.
4) Non-farm private sector consists of manufacturing, construction and private service excluding shipping.
Source: Statistics Denmark and own calculations.

Table B.2 Interest rates, oil price, exchange rates and external assumptions

Interest rates, per cent		2021	2022	2023	2024	2025
USA	Federal Funds Target Rate	0.3	1.9	5.2	5.5	4,9
	3-month LIBOR	0.2	2.4	5.4	5.5	4,9
	10-year government bond	1.4	3.0	3.8	4.5	4,6
Euro area	Main Refinancing Operations Rate	0.0	0.6	3.8	4.3	3.4
	3-month EURIBOR	-0.8	0.8	3.6	3.7	2.9
	10-year government bond (Germany)	-0.4	1.1	2.4	2.4	2.5
Denmark	Certificates of deposit rate	-0.6	0.0	2.9	3.4	2.5
	3-month CIBOR	-0.2	0.6	3.5	3.6	2.9
	1-year adjustable mortgage rate	-0.5	0.9	3.4	3.2	2.7
	10-year government bond	-0.2	1.4	2.6	2.5	2.5
	30-year mortgage interest rate	1.5	3.7	4.8	4.3	4.3
	Average interest rate	-0.2	1.4	2.8	3.4	3.1
Oil price						
Dollar per barrel		70.7	100.8	82.5	86.4	85.8
DKK per barrel		444.4	713.1	568.2	595.2	597.4
Exchange rate						
DKK per 100 dollar		628.7	707.6	689.0	688.9	696.0
DKK per 100 euro		743.7	744.0	745.1	745.7	746.0
Effective Krone Rate Index (1980=100)		103.9	101.9	104.7	104.9	105.0
		Real growth rate, per cent				
External assumptions						
Export market growth[1)], per cent		10.2	7.2	-0.6	1.3	3.1
Trade weighted GDP-growth[2)], per cent		6.6	2.9	0.8	1.5	2.0

Note: The projections are based on data through April 19th. 2024. Annual averages are own calculations. For monetary policy interest rates, the interest rate estimate is based on an assessment of the latest announcements by central banks and market expectations. For money market rates and the yield on 10-year government bonds, estimates are based on market expectations, which are based on the prices of swap interest rates. For the 1-year and 30-year mortgage rate bonds, data is Finance Denmark's bond rates and estimates are based on spreads to the 3-month money market rate and the 10-year government bond rate respectively. Estimates for exchange rates are calculated technically by assuming that the exchange rate for the remaining forecast period corresponds to the average during the last ten days prior to the estimation. Estimates for the oil price are based on the International Energy Agency, World Energy Outlook. October 2023, as well as futures prices.

1) Calculated as the weighted average of import growth in Denmark's 36 most important trade partners. The weights reflect the countries' share of Danish manufacturing exports in 2022.

2) Calculated as the weighted average of the GDP-growth in Denmark's 36 most important trade partners. The weights reflect the countries share of Danish export of goods and services in 2022.

Source: Macrobond. Nordea Markets, The International Energy Agency, OECD Economic Outlook May 2024 and own calculations.

Table B.3 Population and labour force

	2021	2022	2023	2024	2025
1,000 persons					
Total population	5,857	5,890	5,917	5,936	5,952
- Labour force	3,156	3,242	3,297	3,314	3,302
- Total employment	3,052	3,168	3,214	3,227	3,209
- Ordinary employment[1)]	2,954	3,066	3,108	3,115	3,096
- Subsidised employment[2)]	98	102	106	111	113
- Gross unemployment (incl. activation)[3)]	106	76	84	89	95
- Net unemployment	94	65	72	73	78
- Outside the labour force	2,700	2,647	2,620	2,622	2,650
- Recipients of unemployment benefits outside the labour force	85	80	75	78	77
- Early retirement pensioners outside the labour force	198	204	212	212	214
- Senior pensioners outside the labour force	11	18	24	27	28
- Voluntary early retirement	52	47	34	26	21
- Persons under 15 years	947	943	937	933	930
- Pensioners outside the labour force	978	963	979	993	1,006
- Others outside the labour force	430	392	359	353	374

Note: Recipients of education assistance benefit, the special education benefit and other temporary benefits (kontantydelse) are included as cash benefit recipients.
1) Calculated as the difference between employment as determined in the national accounts and subsidised employment, which is based on data from AMFORA. Due to differences in the definition of employment in the two sources, the data is subject to a degree of uncertainty
2) Includes persons in employment with wage subsidies (including flex jobs and light duty jobs)
3) The number of unemployment benefit recipients in activation and labour-market-ready cash benefit recipients includes persons in subsidised employment.
Source: Statistics Denmark and own calculations.

Table B.4 Employment by industry including leave

	2021	2022	2023	2024	2025
1,000 persons					
Employment, total	3,052	3,168	3,214	3,227	3,209
- Service industries	1,597	1,682	1,710	1,715	1,701
- Construction	204	212	212	211	206
- Manufacturing	307	317	323	327	323
- Agriculture	71	70	70	70	69
- Public sector	853	865	872	878	883

Note: The industry division is based on the division in the ADAM model, which is not identical to the division in the national accounts. The employment levels for oil refineries etc. and housing are not shown in the table.
Source: Statistics Denmark and own calculations.

Table B.5 Unemployment

	2021	2022	2023	2024	2025
1,000 persons					
Gross unemployment	106	76	84	89	95
- per cent of workforce	3.4	2.3	2.5	2.7	2.9
Net unemployment	94	65	72	73	78
LFS unemployment (per cent)	5.1	4.5	5.1	5.0	5.3

Note: Differences in the definition of the labour force between the Ministry of Economic Affairs and the Ministry of Finance on one side and Statistics Denmark on the other means that the gross unemployment rate in per cent of the workforce is estimated at a lower level.
Source: Statistics Denmark and own calculations.

Table B.6 Benefit recipients etc.

	2021	2022	2023	2024	2025
1,000 persons					
Unemployment benefits (excl. activation)	82	55	63	64	68
Cash benefits (excl. activation)	75	64	61	60	58
Recipients of unemployment benefits and cash benefits in activation[1)]	22	21	20	28	29
Holiday benefit	2	2	2	2	3
Early retirement pensioners[2)]	219	226	234	234	237
Senior pension	12	19	26	30	31
Resource assessment benefit	33	38	37	36	36
Voluntary early retirement	52	47	34	26	21
Early retirement	0	7	12	14	14
Flex job scheme benefit	3	3	2	2	2
Disablement rehabilitation benefit[3)]	2	2	1	1	1
Sickness benefit[4)]	86	86	79	79	77
Maternity leave	54	53	50	50	52
Benefit for unemployed	16	13	15	15	15
Self-support, home-travelling and transitional benefits[5)]	10	14	14	12	14
Total	**668**	**650**	**650**	**653**	**658**
Student grant (SU)	315	300	289	298	297
Total, including SU	**983**	**950**	**939**	**951**	**955**
Pensioners	1,118	1,102	1,120	1,135	1,151
Total, including SU and pensioners	**2,101**	**2,052**	**2,059**	**2,086**	**2,106**
Subsidised employment[6)]	98	102	106	111	113
Total, including SU, pensioners and subsidised employment	**2,199**	**2,154**	**2,165**	**2,197**	**2,219**

Note: Recipients of education assistance benefit, the special education benefit and other temporary benefits (kontantydelse) are included as cash benefit recipients. From mid-2025, the new cash benefits system will come into effect. The new system abolish educational benefits and self-support, home-travelling and transitional benefits. Self-support, home-travelling and transitional benefits will be replaced by a minimum rate, which is included in the calculation with half-yearly effect in 2025.

1) The data does not cover persons in subsidised employment and thereby differs from other register-based data and table B.3. Furthermore, both labour market ready and non-labour market ready cash benefit recipients are included in the group of recipients of unemployment benefits and cash benefits in activation schemes.

2) Early retirement and retirement pension include pensioners living abroad as well as pensioners, who are employed.

3) Excl. persons on disablement rehabilitation with wage support.

4) The number of sickness benefit recipients does not reflect the total absence due to illness. It includes the part of the sickness absence, which is not covered by the employer. Specifically, this covers sickness absences longer than 30 days as well as sickness among the unemployed.

5) The number of self-support and home-travelling as well as transitional benefits are calculated excl. recipients of wage subsidies

6) Includes persons in employment with wage subsidies (including flexi-jobs and sheltered jobs).

Source: Statistics Denmark, DREAM and own calculations.

Table B.7 Gross investments

	2022	2021	2022	2023	2024	2025
	DKK bn.	Real growth rate, per cent				
Gross fixed capital formation	616	6.6	3.2	-5.0	-0.6	1.4
Divided into groups:						
- Construction investments	295	9.7	-3.8	-3.6	-0.6	1.9
- Tangible and intangible investments	321	3.4	10.4	-6.1	-0.5	0.9
Divided into groups:						
- Residential investments	148	10.0	-8.5	-10.2	-1.5	2.4
- Public investments[1)]	88	-3.1	0.8	-0.4	7.3	3.4
- Total business investments	380	7.8	9.2	-4.0	-2.1	0.5
- Construction investments	98	11.4	0.7	2.8	-2.8	0.0
- Tangible and intangible investments	281	6.3	12.3	-6.3	-1.8	0.7

1) Public investments are incl. public acquisitions of buildings, which is why numbers differ from what is stated in table B.1.
Source: Statistics Denmark and own calculations.

Table B.8 Balance of payments

	2021	2022	2023	2024	2025
DKK bn.					
Goods exports	886	1,050	1,134	1,205	1,272
Goods imports	813	989	944	990	1,036
Goods balance, total	**73**	**61**	**190**	**215**	**236**
Service exports	611	933	788	809	850
Service imports	513	680	712	751	801
Service balance, total	**98**	**253**	**76**	**58**	**48**
Balance of goods and services	171	314	266	273	285
- Per cent of GDP	6.7	11.1	9.6	9.4	9.4
Investment income from abroad, net	112	110	87	100	100
Wage income from abroad, net	-15	-18	-20	-21	-21
EU payments, net	-16	-12	-13	-12	-15
Other current transfers from abroad, net	-19	-16	-16	-16	-17
Net transfers from abroad, total	62	64	38	52	47
Current account, total	233	379	304	325	332
- Per cent of GDP	9.1	13.4	10.9	11.2	10.9
Net assets against other countries	1,851	1,647	1,641	2,448	3,128
- Per cent of GDP	72.6	58.2	58.9	84.1	103.1

Source: Statistics Denmark and own calculations.

Table B.9 Exports and imports

	2023	2021	2022	2023	2024	2025
	DKK bn.	Real growth rate, per cent				
Exports						
Goods, total	1,134	10.4	7.1	10.4	5.2	4.5
- Agricultural goods etc.	152	4.7	-2.5	-8.2	1.6	2.1
- Industrial goods (excl. ships etc.)	835	10.3	9.6	4.4	6.0	5.0
- Other goods[1)]	147	24.9	1.4	66.6	4.8	4.2
Services, total	788	3.5	16.3	16.9	9.4	2.9
- Sea transport	343	7.5	5.8	11.9	10.0	4.2
- Other services	371	-1.0	20.1	28.0	10.0	1.8
Total	**1,922**	**7.7**	**10.8**	**13.4**	**7.0**	**3.9**
Imports						
Goods, total	944	10.7	1.2	2.7	4.3	3.2
- Agricultural goods etc.	112	5.5	3.4	-4.4	4.7	2.2
- Industrial goods (excl. ships etc.)	551	12.9	0.3	-9.5	3.7	4.8
- Other goods[2)]	281	6.2	2.6	33.8	5.5	0.6
Services, total	712	6.0	14.9	17.1	9.4	4.6
Total	**1,666**	**8.8**	**6.5**	**8.6**	**6.5**	**3.8**
Memo		Nominal growth rate, per cent				
Export of basic goods[3)]	1,020	10.2	14.2	6.7	7.0	5.9
Export prices		Change, per cent				
Goods, total	-	2.7	10.6	-2.1	1.0	1.0
Services, total	-	18.8	31.3	-27.7	-6.2	2.1
Total	-	**8.7**	**19.5**	**-14.5**	**-2.0**	**1.4**
Import prices						
Goods, total	-	8.7	20.2	-7.1	0.6	1.4
Services, total	-	6.9	15.2	-10.6	-3.5	2.1
Total	-	**8.0**	**18.1**	**-8.6**	**-1.2**	**1.7**

1) Raw materials, energy and ships etc.
2) Raw materials, energy, cars and ships etc.
3) Export of basic goods consists of export of goods excluding energy, ships and airplanes.
Source: Statistics Denmark and own calculations.

Table B.10 Private consumption

	2023	2021	2022	2023	2024	2025
	DKK bn.	Real growth rate, per cent				
Total consumption	**1,275**	**5.5**	**-1.4**	**1.0**	**1.9**	**1.6**
Retail trade	413	8.1	-3.3	-3.9	2.1	1.9
- Food, drinks and tobacco	190	6.1	-6.5	-4.6	2.0	1.2
- Other goods	223	9.7	-0.6	-3.4	2.2	2.4
Purchase of vehicles	57	0.2	-18.1	27.3	5.0	2.0
Electricity, fuels and gas	64	9.3	-8.2	-1.9	4.0	0.5
Gasoline and similar	32	3.3	-0.4	4.1	-0.2	-0.2
Housing	278	1.1	1.7	1.7	1.0	1.0
Other services	456	4.8	8.5	2.1	2.0	2.3
Tourist expenditures	50	26.1	18.6	21.2	2.0	2.0

Source: Statistics Denmark and own calculations.

Table B.11 Net lending by sectors

	2021	2022	2023	2024	2025
DKK bn.					
Private sector, total	132	288	210	271	308
- Households	-30	30	48	52	41
- Corporations	162	258	162	219	267
- Non-financial corporations	115	189	36	97	146
- Financial corporations	47	69	125	122	121
General government	103	95	87	48	21
Total	**235**	**382**	**297**	**319**	**329**

Note: Net lending of general government corresponds to the general government budget balance. The total (except for the typically small net capital transfers from abroad) corresponds to the current account balance, cf. table B.8.
Source: Statistics Denmark and own calculations.

Table B.12 Gross value added (GVA)

	2023	2021	2022	2023	2024	2025
	Share, per cent	Real growth rate, per cent				
Total GVA	100	6.9	3.6	2.2	2.8	1.8
Public sector	19	3.3	1.1	0.0	1.4	1.2
Private sector	81	7.9	4.2	2.7	3.1	1.9
Private sector excl. mining and quarrying	80	7.9	4.2	2.7	2.6	1.6
Non-farm private sector[1)]	70	9.1	4.2	0.8	2.9	2.0

1) Non-farm private sector consists of manufacturing, construction and private services excluding shipping.
Source: Statistics Denmark and own calculations.

Table B.13 Hourly productivity in selected industries

	Avg. 2004-2023	2021	2022	2023	2024	2025
Real growth rate, per cent						
Total	1.0	0.8	-0.5	1.8	2.3	2.3
Public sector	0.3	-1.5	-0.5	0.5	0.7	0.3
Private sector	1.2	1.3	-0.8	1.9	2.6	3.0
Private sector excl. mining and quarrying	1.5	1.3	-0.8	2.0	2.2	2.7
Non-farm private sector[1)]	1.4	2.3	-1.0	0.2	2.5	3.1

Note: Hourly productivity is defined as gross value added in constant prices relative to the total number of hours.
1) Non-farm private sector consists of manufacturing, construction and private services excluding shipping.
Source: Statistics Denmark and own calculations.

Table B.14 Contributions to growth in households' real disposable income[1)]

	2021	2022	2023	2024	2025
Real growth rate, per cent					
Disposable income[2)]	0.2	2.5	1.8	2.5	1.3
Contribution, percentage points					
Compensation of employees[3)]	3.7	-0.4	1.2	3.5	1.0
Social benefits	-0.5	-2.4	0.0	0.9	0.7
Income taxes	-2.1	2.0	-0.5	-0.8	-0.1
Net interest income	0.4	0.7	-0.4	-0.4	-0.8
Dividend etc,[4)]	0.2	1.0	1.0	-0.7	0.1
Pension contribution	-0.7	1.7	-0.3	-0.8	0.0
Payment from pension schemes[5)]	-0.6	0.3	1.0	0.9	0.4
Others[6)]	-0.2	-0.4	-0.2	-0.2	0.1

1) The household sector in the Economic Survey includes Non-Profit Institutions Serving Households (NPISH).
2) Taxation on payments of frozen holiday funds is subtracted in the calculation of disposable income.
3) Covering only employees residing in Denmark.
4) Incl. dividends from investment funds.
5) Occupational pensions etc. (but not individual pension schemes in banks, etc.).
6) Including the self-employed.

Source: Statistics Denmark and own calculations.

Table B.15 Households' net lending[1)]

	2021	2022	2023	2024	2025
DKK bn.					
Disposable gross income[2)]	1,167	1,286	1,349	1,412	1,461
Private consumption	1,156	1,225	1,275	1,327	1,376
Gross investment[3)]	139	155	143	143	150
Net capital transfers[4)]	-2	8	5	6	5
Direct net lending	**-130**	**-86**	**-64**	**-52**	**-61**
Adjustment for the change in pension entitlements[5)]	99	116	112	103	101
Net lending[6)]	**-30**	**30**	**48**	**52**	**41**
Per cent of disposable gross income					
Direct net lending	-11.1	-6.7	-4.7	-3.7	-4.2
Net lending	-2.6	2.3	3.6	3.7	2.8

1) The household sector in the Economic Survey includes Non-Profit Institutions Serving Households (NPISH).
2) Taxation on payments of frozen holiday funds is subtracted in the calculation of disposable income.
3) Households' gross investments include investments in owner-occupied housing and investments in buildings and materials by sole proprietors.
4) Net capital transfers in 2022 include property taxes refunded to owner-occupied property owners, funds for specific challenges as a result of covid-19 and further stimulants as well as reimbursement of contributions to the voluntary early retirement scheme.
5) Net payments to and returns (excl. tax on pension yield) on household capital in life insurance companies and pension funds.
6) Households' (net) acquisition of financial assets (incl. shares) in other sectors.

Source: Statistics Denmark and own calculations

Table B.16 Real estate market and housing construction

	2021	2022	2023	2024	2025
Per cent					
Change in the price of traded single-family houses[1)]	12.0	1.9	-2.7	3.2	3.0
Housing gross investment (real growth)	10.0	-8.5	-10.2	-1.5	2.4

1) The change is adjusted for developments in the volume of housing sales.

Source: Statistics Denmark and own calculations.

Table B.17 Labour wage ratio, wage increases and computational preconditions

	2021	2022	2023	2024	2025
Labour wage ratio, per cent					
Private sector	56.5	53.5	57.0	57.8	56.9
The entire economy	61.5	58.6	61.8	62.6	61.9
Wage increase, per cent					
Private sector					
- Hourly earnings (excl. nuisance bonus)	2.9	4.0	4.2	5.4	3.4
Public sector					
- Hourly earnings (excl. nuisance bonus)	2.5	2.5	2.4	-	-
- Budgetary impact	2.5	1.9	2.4	5.0	4.3
Wage adjustment rate, per cent[1)]	2.0	1.2	2.7	3.2	3.6

Note: The labour income ratio is calculated as aggregate labour income relative to the GVA (gross value added) and adjusted for the number of self-employed. The hourly wage increases in the private sector in 2021-2022 are published by The Confederation of Danish Employers. The hourly wage increases in the public sector are a weighted average of wage indices for the state, the municipalities and the counties, all reported by Statistics Denmark. No estimates are made on the development in public sector hourly earnings. The budgetary impact is based on the contractually agreed wage increases including contributions from the adjustment scheme (reguleringsordningen) but excluding any residual increases. The hourly wage increases for the private and public sectors are not comparable.

1) The announced wage adjustment rates are shown for 2021-2024, while 2025 is an estimate based on the estimated wage increase in the private sector for 2023.

Source: The Confederation of Danish Employers, Statistics Denmark, and own calculations.

Table B.18 Price developments and explanatory factors

	2021	2022	2023	2024	2025
Change, per cent					
Net price index	1.5	7.7	4.0	0.8	1.9
Tariffs and housing benefits, contribution	0.4	0.1	-0.8	1.3	0.2
Consumer price index	1.9	7.7	3.3	2.1	2.1

Note: The contribution from tariffs and housing benefits is computed as the difference between the consumer price inflation and the net price inflation. Changes in the prices of taxed goods such as energy can therefore influence the contribution from taxes, even though the tax level remains unchanged.

Source: Statistics Denmark and own calculations.

Table B.19 Public finances

	2021	2022	2023	2024	2025
DKK bn.					
Public consumption	612.2	616.7	630.5	685.6	723.7
Income transfers[1)]	387.7	386.9	398.8	420.1	438.6
Investments	84.2	88.8	90.5	98.9	105.6
Interest expenditures	14.1	20.4	15.3	16.2	17.1
Subsidies	63.3	39.9	36.8	41.9	42.7
Other expenditures[2)]	84.8	90.1	108.6	107.9	109.1
Total expenditure[3)]	**1,246.3**	**1,242.7**	**1,280.5**	**1,370.5**	**1,436.9**
Personal income taxes, etc,[4)]	544.0	567.9	593.0	611.9	625.1
Labour market contributions	112.4	116.8	120.9	128.4	132.3
Pension yield taxation	63.8	11.1	12.9	11.9	19.7
Corporate taxes	100.8	89.2	106.1	112.1	102.3
VAT	251.2	264.7	257.7	278.4	291.7
Other duties	147.5	145.0	133.5	133.3	138.0
Other taxes[5)]	2.8	1.2	1.0	1.0	1.0
Interest revenues	23.9	29.6	37.8	38.4	37.7
Other revenues[6)]	107.1	116.4	108.4	107.2	113.6
Tariffs etc. to the EU	-3.7	-4.6	-3.6	-3.7	-3.9
Total revenue[7)]	**1,349.8**	**1,337.4**	**1,367.6**	**1,418.9**	**1,457.4**
General government budget balance	**103.5**	**94.6**	**87.1**	**48.4**	**20.5**
Net interest expenditure	-9.8	-9.1	-22.5	-22.2	-20.7
General government primary balance[8)]	93.7	85.5	64.6	26.2	-0.1

1) Income transfers exclude other regular transfers to households such as mileage allowance and index supplement.
2) Other expenditures include capital transfers, transfers to the Faroe Islands and Greenland and the Danish EU-contributions.
3) Total expenditure differs from Statistics Denmark's equivalent. Total expenditure is calculated from a definition of the total expenditure, where all sub-elements of public consumption – e.g. imputed expenditure from depreciation and revenue from sales of goods and services – are defined as expenditures.
4) Personal income taxes include withholding taxes, tax on imputed income from owner-occupied dwellings, specific taxes from households, tax on estates of deceased persons and other personal taxes.
5) Other taxes include media license and mandatory pension payments for civil servants.
6) Other revenues include profits from public enterprises, current and capital transfers from other domestic sectors and the EU, and imputed (calculated) revenues such as contributions to civil servants' earned pension. Moreover, revenues from oil and gas explorations in the North Sea, duty on pipelines, and the hydrocarbon tax are included in other revenues.
7) Total revenue differs from Statistics Denmark's equivalent, where the sales of public goods and services are counted as revenue and not – like here – counted as a part of the total expenditures. Furthermore, total revenue here includes a revenue-counterpart to the imputed depreciation expenditures included in public consumption.
8) The general government primary balance states the balance of the general government finances before net interest expenditures.

Source: Statistics Denmark and own calculations

Table B.20 Taxes and tax burden

DKK bn.	2021	2022	2023	2024	2025
Indirect taxes	**395.0**	**405.1**	**387.5**	**408.0**	**425.7**
- VAT	251.2	264.7	257.7	278.4	291.7
- Registration tax	16.4	11.5	11.0	9.0	8.9
- Excise duties	71.7	70.3	58.7	66.2	68.9
- Energy (incl. PSO)	37.6	38.4	28.3	35.8	37.2
- Environmental	3.7	3.7	3.5	3.6	4.5
- Tobacco and spirits etc.	13.2	11.3	11.9	11.5	11.5
- Others	17.1	16.8	15.0	15.3	15.6
- Property taxes	32.4	33.1	33.5	27.4	27.5
- Motor vehicle tax paid by businesses	4.1	4.1	4.1	4.0	5.7
- Other indirect taxes	19.3	21.4	22.5	23.0	23.1
Direct taxes	**815.6**	**777.6**	**826.2**	**857.7**	**872.5**
- Withholding taxes[1)]	522.1	544.6	570.0	589.4	602.5
- State tax	182.3	189.8	197.2	208.4	215.1
- Bottom-bracket tax	159.9	163.8	172.8	181.1	187.3
- Top-bracket tax	20.5	21.6	22.4	24.5	24.9
- Health contributions	0.0	0.0	0.0	0.0	0.0
- Limited tax liability	2.4	2.9	2.7	2.8	2.9
- Total municipal tax	277.9	284.1	298.2	316.9	321.8
- Property value tax	14.2	14.4	14.4	14.3	13.7
- Other withholding taxes[2)]	47.7	56.3	60.1	49.8	51.9
- Pension yield tax	63.8	11.1	12.9	11.9	19.7
- Corporate tax	100.8	89.2	106.1	112.1	102.3
- Other personal taxes	8.1	8.7	9.2	8.7	8.7
- Media license	1.2	0.0	0.0	0.0	0.0
- Motor vehicle tax paid by households	7.2	7.2	7.1	7.2	7.0
- Labour market contributions	112.4	116.8	120.9	128.4	132.3
Social security contributions[3)]	1.5	1.2	1.0	1.0	1.0
Capital taxes	6.6	7.4	6.7	6.6	6.9
Customs and import duties (collected by the EU)	3.7	4.6	3.6	3.7	3.9
Total taxes	**1,222.5**	**1,196.0**	**1,225.0**	**1,277.1**	**1,310.0**
GDP	2,550.6	2,831.6	2,784.8	2,910.7	3,033.0
Total taxes, share of GDP	**47.9**	**42.2**	**44.0**	**43.9**	**43.2**

1) For 2020-2022, the distribution of withholding taxes to the state and municipalities is from Statistics Denmark. For 2023-2025, an estimate is used based on the Ministry of Finance's tax base forecast.
2) Includes equity income tax, tax on estates of deceased persons and revenue from the Danish business scheme etc.
3) Includes mandatory pension payments for civil servants in public enterprise etc.
Source: Statistics Denmark

Table B.21 Development in the tax base for municipalities

	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
	DKK bn.					Per cent				
Aug. 2020	1,044.9	-	-	-	-	-0.9	-	-	-	-
Dec. 2020	1,070.7	1,087.2	-	-	-	0.7	1.5	-	-	-
May 2021	1,070.3	1,085.6	-	-	-	0.9	1.4	-	-	-
Aug. 2021	1,075.5	1,081.7	-	-	-	1.6	0.6	-	-	-
Dec. 2021	1,094.1	1,104.2	1,153.8	-	-	2.8	0.9	4.5	-	-
May 2022	1,102.1	1,105.9	1,148.2	-	-	3.5	0.3	3.8	-	-
Aug. 2022	1,136.4	1,122.8	1,148.8	-	-	6.8	-1.2	2.3	-	-
Mar. 2023	1,132.9	1,154.2	1,185.7	1,233.2	-	6.4	1.9	2.7	4.0	-
May 2023	1,132.9	1,160.9	1,193.6	1,230.1	-	6.4	2.5	2.8	3.1	-
Aug. 2023	1,132.9	1,140.0	1,195.7	1,249.2	-	6.4	0.6	4.9	4.5	-
Dec. 2023	1,132.9	1,140.0	1,203.3	1,265.4	1,310.3	6.4	0.6	5.5	5.2	3.6
May 2024	1,132.9	1,140.0	1,193.2	1,280.9	1,300.8	6.4	0.6	4.7	7.3	1.6

Note: Rows show the time of the budgeting of the municipal tax base. The columns show the tax base in the year concerned.
Source: Statistics Denmark and own calculations.

Table B.22 Income transfers

	2021	2022	2023	2024	2025
DKK bn.					
Unemployment benefits (excl. activation)	17.7	11.7	13.7	14.6	15.8
Cash benefits[1] (excl. activation)	26.9	27.8	29.4	32.2	32.9
Vacation allowance	0.6	0.5	0.5	0.4	0.5
Anticipatory pensions[2]	46.3	47.7	51.2	52.2	54.7
Resource rehabilitation allowance	5.8	6.6	6.5	6.6	6.9
Early retirement benefit	8.9	7.8	5.7	4.4	3.5
Rehabilitation benefit	0.5	0.4	0.3	0.3	0.2
Sickness benefit	16.2	16.5	14.8	16.3	16.6
Maternity pay	12.1	12.0	11.9	12.1	13.1
Rent benefit	15.5	15.6	16.0	17.1	17.8
Child and youth benefit	14.9	14.9	15.8	16.3	16.7
Other transfers[3]	21.8	23.7	22.3	22.4	23.9
Student grants (SU)	21.0	20.0	19.9	21.4	22.1
Public pension scheme[4]	146.2	145.2	151.7	162.8	171.0
Other pension schemes[5]	33.5	36.4	39.0	41.0	42.8
Total[6]	**387.7**	**386.9**	**398.8**	**420.1**	**438.6**
Total, excl. public and other pensions	**208.1**	**205.3**	**208.1**	**216.3**	**224.9**
Total, excl. education grants, public pensions and other pensions	**187.1**	**185.2**	**188.2**	**194.9**	**202.7**

Note: The expenditures to income transfers is not directly equivalent to the number of benefits recipients in table B.6.
1) Taxable and non-taxable benefits incl. the integration benefit.
2) Incl. early retirement benefits to retired citizens in foreign countries.
3) Activation benefits, dependent child allowance, subsidy for childcare, unemployment benefits, special education benefit, green check and pay scheme for holders of flexi-jobs etc.
4) Incl. differentiated allowances and heating allowance for pensioners. Incl. pension schemes for citizens in foreign countries.
5) Civil servants in public enterprises and part-time early retirement scheme etc.
6) Income transfers exclude other regular transfers to households such as mileage allowance and index supplement.
Source: Statistics Denmark and own calculations.

Table B.23 Key figures estimated at different times

	Aug. 2022	Mar. 2023	May 2023	Aug. 2023	Dec. 2023	May 2024
2022						
GDP (real growth rate, per cent)	2.8	3.6	3.8	2.7	2.7	2.7
Gross unemployment (1,000 persons)	78	76	76	76	76	76
Consumer prices (change, per cent)	7.3	7.7	7.7	7.7	7.7	7.7
Balance of payments (DKK bn.)[1)]	231	371	367	383	379	379
Actual budget balance (DKK bn.)	32	82	93	97	95	95
2023						
GDP (real growth rate, per cent)	0.8	0.2	0.6	1.2	1.2	1.9
Gross unemployment (1,000 persons)	93	93	91	85	84	84
Consumer prices (change, per cent)	3.3	3.9	4.3	3.8	3.4	3.3
Balance of payments (DKK bn.)[1)]	208	269	232	266	300	304
Actual budget balance (DKK bn.)	22	45	51	56	77	87
2024						
GDP (real growth rate, per cent)	-	1.5	1.4	1.4	1.4	2.7
Gross unemployment (1,000 persons)	-	97	97	94	97	89
Consumer prices (change, per cent)	-	2.8	3.0	3.0	2.8	2.1
Balance of payments (DKK bn.)[1)]	-	264	243	287	347	325
Actual budget balance (DKK bn.)	-	24	16	29	44	48
2025						
GDP (real growth rate, per cent)	-	-	-	-	1.0	1.8
Gross unemployment (1,000 persons)	-	-	-	-	101	95
Consumer prices (change, per cent)	-	-	-	-	2.1	2.1
Balance of payments (DKK bn.)[1)]	-	-	-	-	339	332
Actual budget balance (DKK bn.)	-	-	-	-	23	21

1) Show current amount on the balance of payments.
Source: Statistics Denmark and own calculations

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