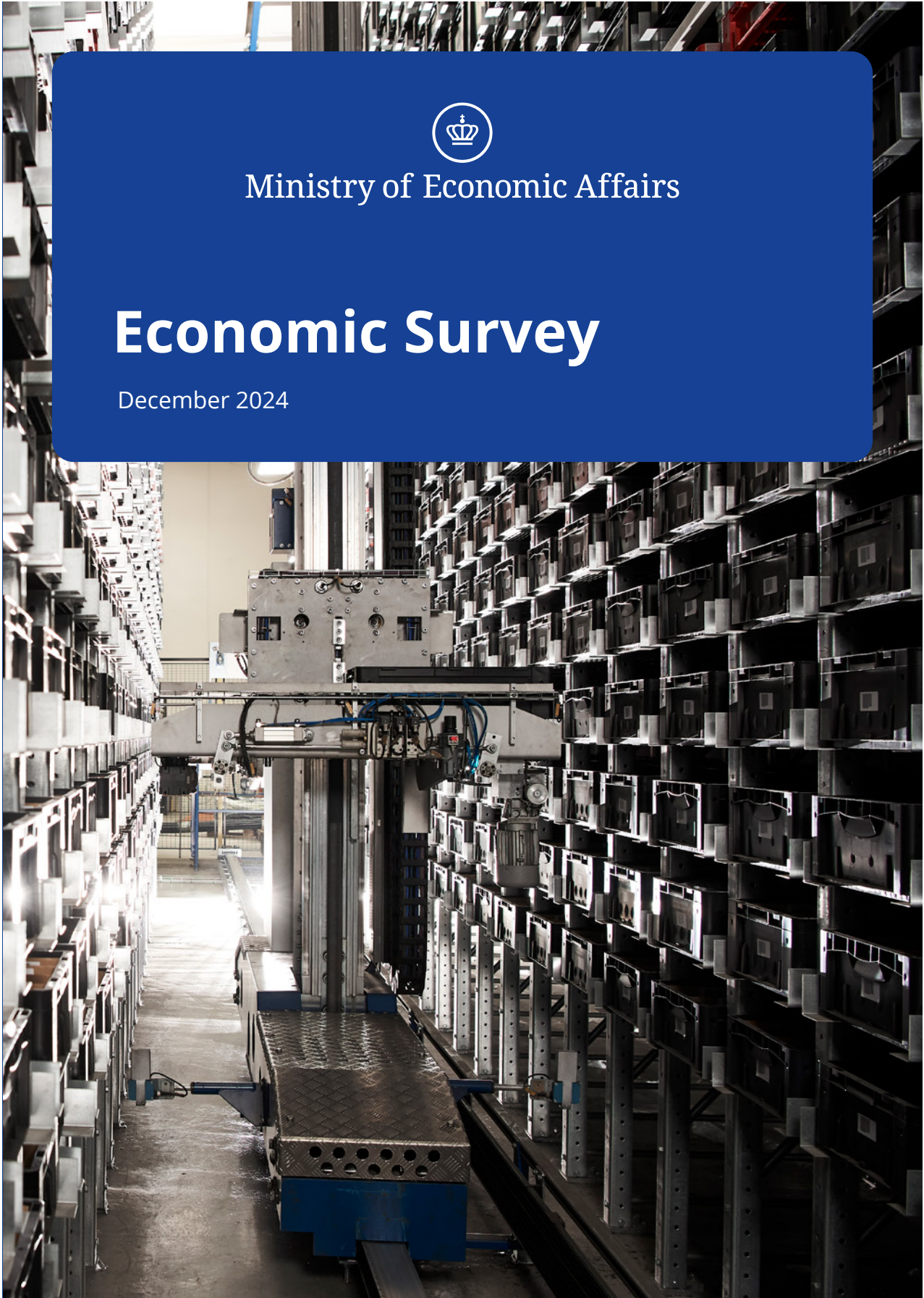




Ministry of Economic Affairs

Economic Survey

December 2024



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Ministry of Economic Affairs
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Overview

The Danish economy is expected to continue to expand robustly in the coming years. GDP growth is estimated to be high and around 3 per cent both this year and next year. More moderate GDP growth of 1.7 per cent is not expected until 2026. The pharmaceutical industry's production and exports in particular are driving growth in all three years, as in the two previous years, *cf. figure 1*. At the same time, increased domestic demand and an improvement in Danish export markets are expected to contribute to broader progress across industries. The expectation of gradually more moderate growth implies a gradual decrease in capacity pressure and less pressure on the labour market.

A slowdown in the labour market already seems to be on the way, and employment is estimated to develop relatively weakly in 2025 and 2026, *cf. figure 2*. This should be seen in the context of a delayed adjustment in companies' demand for labour in continuation of weak productivity growth in several industries in recent years. Employment will, however, remain very high.

Households have experienced a significant increase in purchasing power in recent years, and for many real wages are once again exceeding or close to the level from before the period of high inflation. At the same time, they are generally well-cushioned and thus have a good opportunity to increase consumption. However, households are continuing to hold back with respect to spending on the back of a period of high inflation and higher interest rates, as well as continued high uncertainty related to the geopolitical situation.

Figure 1 GDP growth set to moderate

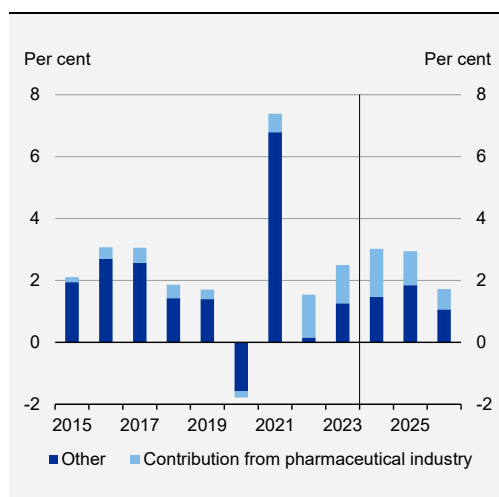
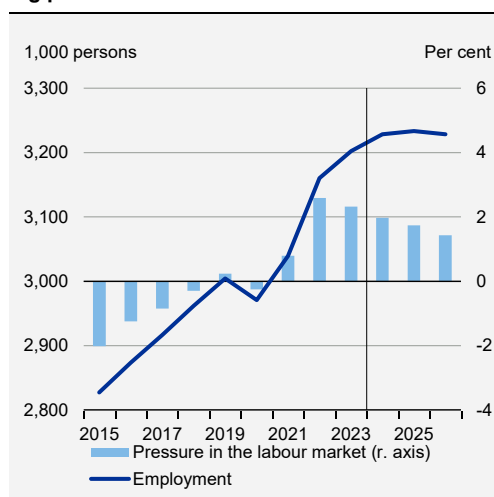


Figure 2 Slight decline in employment and abating pressures in the labour market



Note: The indicator of labour market pressures shown in figure 2 is the employment gap, which shows how much employment is estimated to be above the structural level. A positive employment gap indicates that pressure on the labour market is greater than in a neutral economic situation.

Source: Statistics Denmark and own calculations.

Household spending restraint does not seem to apply to the housing market. Housing sales activity has increased, and house prices have continued to rise in 2024. This development is considered to be an expression, among other things, of the fact that the adjustment after interest rate increases has largely taken place. Lower inflation across countries has led to monetary policy interest rate cuts during 2024, and further easing is expected during the forecast period. The decline in interest rates and rising incomes are expected to contribute to continued increases in housing prices in 2025 and 2026.

Demand from abroad is supported, as in Denmark, by progress in real incomes, but low productivity growth is a widespread phenomenon that is pulling in the direction of a need for adjustment in the labour market and thus a more moderate income increase. In several European countries, including Germany and Sweden, the economic stagnation of recent years has begun to have an impact on employment. The forecast for the Danish economy assumes that the Danish export markets will undergo a relatively smooth transition towards a roughly neutral economic situation over the coming years, corresponding to the picture in the international organisations' latest forecasts for the international economy. At the same time, the pharmaceutical industry is expected to continue to make a significant contribution to the growth of the Danish economy through exports.

The central estimates in the forecast appear from table 1.

The forecast is associated with considerable uncertainty, including in particular for developments abroad, where risks are assessed to be primarily on the downside. This is not least related to a potential escalation of geopolitical and trade tensions between the largest economies, which could have a major impact on world trade. At the same time, there is considerable uncertainty about how quickly the economic situation will improve in the important export markets of Germany and Sweden. At home, a sharper turnaround in the labour market could weaken growth. However, the Danish economy has a good starting point for avoiding a major setback. This is due, among other things, to the absence of significant imbalances. Conversely, there is also potential for households to increase their spending propensity and thus stronger growth in domestic demand.

Table 1 Key numbers regarding the economic forecast and fiscal policy

	2024	2025	2026
GDP growth, per cent	3.0	2.9	1.7
Inflation, per cent	1.5	1.9	1.7
Hourly wage growth, private sector, per cent	5.3	3.4	3.2
House prices, percent change	3.8	3.3	3.0
Employment change, 1,000 persons	26	5	-5
Gross unemployment, 1,000 persons	87	91	91
Balance of payments, per cent of GDP	12.9	11.8	10.9
Output gap, per cent ¹⁾	1.4	1.0	0.9
Employment gap, per cent ¹⁾	2.0	1.7	1.4
Structural public budget balance, per cent of structural GDP	1.3	0.6	0.4
Actual general government balance, per cent of GDP	2.9	1.6	1.3
Real growth in public consumption, per cent ²⁾	2.6	3.0	0.5
Multi-year fiscal effect, level, percentage-points ³⁾	-1.0	-0.5	-0.3
One-year fiscal effect, percentage-points ⁴⁾	-0.2	0.5	0.2
Public debt, per cent of GDP	31.1	30.0	29.9
Public net wealth, per cent of GDP	23.2	24.7	26.0

1) Estimates of how much production and employment deviate from the structural levels. When gaps are positive, it indicates that there are scarce resources in the economy relative to a normal economic situation.

2) The estimated public consumption growth is assumed the same for input and output approaches. For 2024, the growth in public consumption is shown using the input method.

3) The multi-year fiscal effect measures how changes in fiscal and structural policies impact the output gap (level effect relative to 2019).

4) The one-year fiscal effect measures how much the planned fiscal and structural policies contribute to changes in the output gap in a given year.

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

The sustained high economic activity and high employment are reflected in the public finances. A surplus of nearly 3 per cent of GDP is estimated for this year, with continued surpluses expected in both 2025 and 2026. At the same time, updated estimates for the structural level of revenues from corporate taxes as well as further growth in structural employment contribute to a strengthening of the structural budget balance, which is estimated to be over 1 per cent of GDP this year and around ½ per cent of GDP in 2025 and 2026.

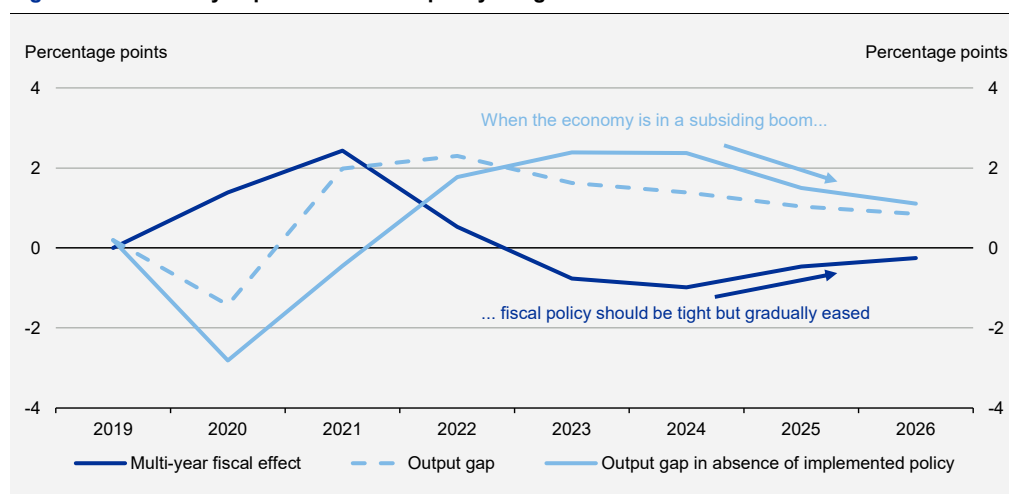
In the coming years, the expected dampening of employment in combination with rising structural employment – due to, among other things, the recent personal income tax reform, fewer recipients of voluntarily early retirement (efterløn), net inflows of foreign labor, and the extension of the special law for displaced persons from Ukraine – is anticipated to reduce capacity pressures. Hence, it is assessed to be appropriate to ease fiscal policy from its current tight stance. This supports a soft landing for the economy, while accommodating a gradual adjustment towards the medium-term fiscal target of -0.5 per cent of GDP by 2030.

With the budget bill for 2025 and the economic agreements for municipalities and regions, municipal and regional welfare services will improve, while households' disposable income will be strengthened through lower personal taxes. Additionally, investments related to the recently concluded *Agreement on the Implementation of a Green Denmark* (November 2024) and *Agreement on a Health Reform* (November 2024) will be implemented.

The gradual easing of fiscal policy follows the tightening of economic policy during the strong recovery after the COVID-19 pandemic, when capacity pressure in the Danish economy was high. Fiscal policy is therefore assessed to have contributed to mitigating economic fluctuations since 2019, cf. *figure 3*. During the pandemic, fiscal policy helped support the Danish economy. In the following years, when capacity pressure and inflation increased – partly due to the energy crisis following Russia's invasion of Ukraine—fiscal policy was tightened to reduce the risk of overheating and to alleviate inflationary pressures. Compared to 2019, the year before the pandemic, the multi-year fiscal effect is still expected to remain negative through 2026.

The continued surpluses in 2025 and 2026, both for the actual and structural public balance, contribute to a projected decline in Denmark's public debt to below half of the Stability and Growth Pact's threshold of 60 per cent of GDP by 2026, the lowest level since 2007. Simultaneously, the public financial net wealth is expected to grow to over 25 per cent of GDP by 2026.

Figure 3 The activity impact of the fiscal policy mitigates economic fluctuations



Source: Own calculations.



1. The economic outlook

Despite a period of high inflation and large increases in interest rates, the global economy has avoided a recession. This is largely due to the fact that companies in many countries have maintained a high demand for labour. Thus, while inflation has been quickly reduced across countries, unemployment has generally remained at a low level. World trade is growing anew, and according to international organisations, there is a prospect of stable – albeit quite modest – growth in the world economy in the coming years.

However, there are large differences in the economic situation across countries. For example, there is relatively strong growth in the U.S. economy, while economic activity has developed weakly in many European countries. This is particularly true in Germany, where industrial exports have fallen significantly. The automotive industry is particularly challenged due in part to the transition to electric cars and competition from abroad. Overall, German GDP is at the same level as just before the corona pandemic, *cf. figure 1.1*.

The economic situation in Sweden is also relatively weak, partly because high interest rate sensitivity of firms and households has led to a significant decline in private consumption and investment. The stagnation in many European countries that has lasted since 2022 must be seen, among other things, in the context of high inflation and monetary policy interest rate changes that have been necessary to dampen demand and thereby reduce inflation. Labour markets are now gradually starting to be affected by the weaker demand and production, *cf. figure 1.2*.

Figure 1.1 Stagnation in the euro area and Sweden

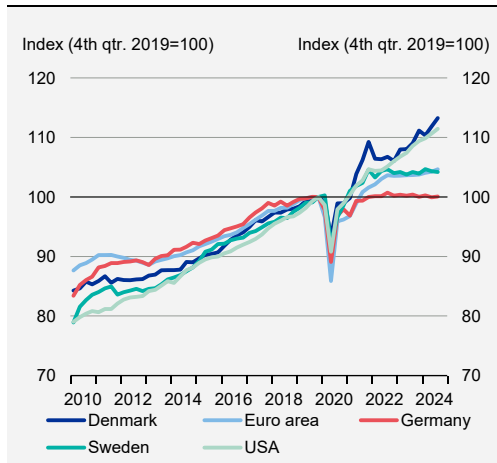
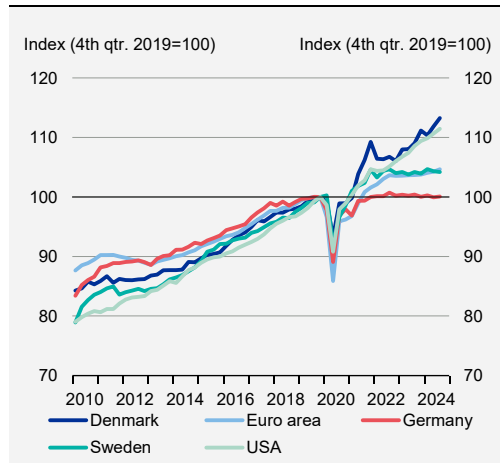


Figure 1.2 Weaker economic activity has only slowly begun to weigh on employment



Note: Figure 1.1 shows the level of GDP in constant prices. Figure 1.2 shows Denmark's wage employment, while Germany and the Netherlands show similar register-based figures. Sweden's is based on the LFS and is shown as a 3-month moving average.

Source: Statistics Denmark, Eurostat, Macrobond and own calculations.

Inflation is now close to the central banks' target, *cf. figure 1.3*. Against this background, the European Central Bank and the Federal Reserve in the United States have reduced monetary policy interest rates during 2024, *cf. figure 1.4*. The reductions in interest rates and expectations of further easing are reflected in falls in market interest rates, and short-term interest rates in particular. Increased purchasing power as a result of wage increases and lower inflation, together with lower interest rates, will support private consumption and investment and contribute to a gradual increase in growth in the euro area, among others. However, there is considerable uncertainty surrounding the outlook, including as a result of the geopolitical situation and trade tensions.

Figure 1.3 Inflation has come down and is close to the central bank target level of 2 per cent

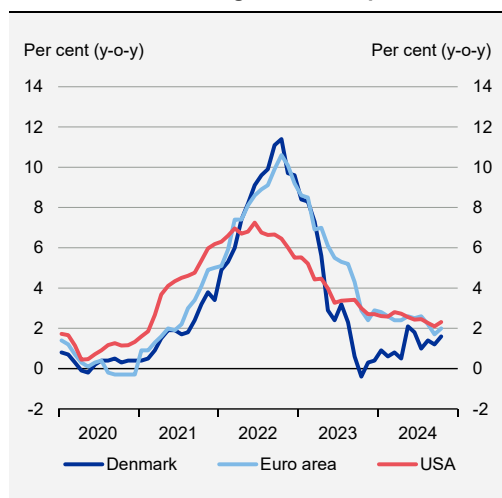
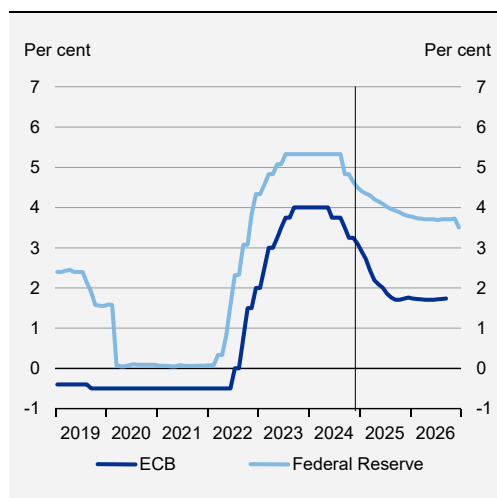


Figure 1.4 Lower monetary policy interest rates



Note: Figure 1.4 shows monetary policy interest rates from the ECB and the Federal Reserve and market expectations for these calculated from futures contracts. For the ECB, market expectations are calculated on the basis of €STR futures, and a spread between the ECB's deposit rate and the €STR rate of 0.083 percentage points is assumed, corresponding to a historical average. For the Federal Reserve, interest rate expectations are calculated on the basis of Federal Funds futures.

Source: Macrobond and own calculations.

Signs of a slowdown in the domestic labour market

Overall, economic growth has been somewhat stronger in Denmark than many other countries through the corona pandemic and the period of high inflation. Since the fourth quarter of 2019, Danish GDP has grown by an average of 2.7 per cent per year, while in the euro area it has grown by 1.0 per cent per year.

However, there are significant nuances to this picture. Economic growth has mainly been due to the pharmaceutical industry, while there has been stagnation in large parts of the rest of the business community in recent years, in line with the situation in many other countries. This applies, among other things, to the trade and transport industry, etc., which has seen lower demand, including as a result of the period of high inflation.

Despite the slowdown in demand, there are still no clear signs that a general turnaround in the labour market has taken place. Thus, the significant increase in employment since 2013 has continued in 2024. However, there are differences across industries. Employment growth in

manufacturing is driving the overall increase, while employment in trade and transport, among other sectors, has levelled off, *cf. figure 1.5*. At the same time, average working hours have fallen, and recently there has been a decline in the total number of hours worked.

Figure 1.5 Employment continues to rise, although it has levelled off in certain sectors

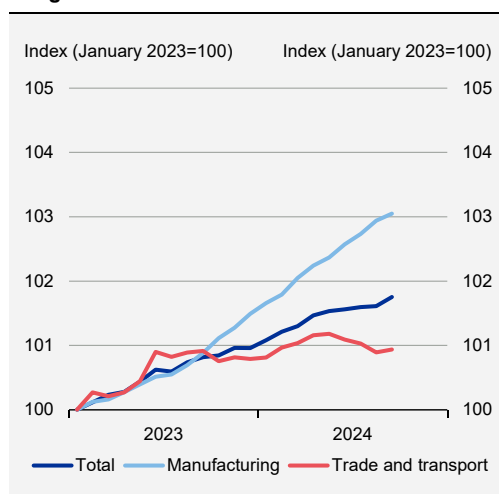
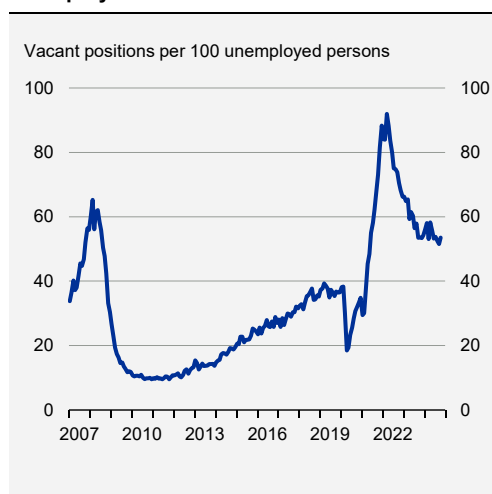


Figure 1.6 The number of vacant positions per unemployed has declined since 2022



Source: Statistics Denmark and own calculations.

Other indicators also point to a slight slowdown in the labour market. Gross unemployment has had a slightly increasing trend since 2022, and the number of vacancies per gross unemployed person has fallen significantly, although the ratio remains at a high level, *cf. figure 1.6*.

The slow adjustment in the labour market has, as in other countries, contributed to a more even development in the Danish economy during and after the period of high inflation and rising interest rates. However, it has also led to weak productivity growth in several industries, and it must be expected that companies will gradually adjust the demand for labour to production during the forecast period. This will contribute to restoring productivity, *cf. Chapter 4* (only available in Danish).

The latest development in the labour market means that employment remains high, unemployment is low, and there is also some pressure on parts of the labour market. For example, a relatively high proportion of companies still report a shortage of labour. There is thus no immediate indication of a sharp slowdown. The Danish economy is well positioned to handle a period of slowdown in the labour market. This is due, among other things, to the absence of significant imbalances in the economy, stable developments in the housing market and generally high savings.

Hesitant households

With declining inflation and wage increases, household purchasing power improved during 2023 and 2024, although not equally quickly for everyone. Many private-sector employees received significant pay rises due to collective agreements and locally negotiated wage increases in 2023. In contrast, the majority of public-sector employees experienced these increases in

2024 and, therefore, achieved noticeable real wage growth later. For many, purchasing power is now above or close to the level seen before the period of high inflation, *cf. figure 1.7*. Recipients of transfer incomes have their benefits adjusted based on the wage rate adjustment, which is determined by wage developments in the DA sector two years prior. On this basis, transfer income recipients are expected to see a substantial increase in their benefits, especially in 2026.

Figure 1.7 Purchasing power has improved significantly since 2022

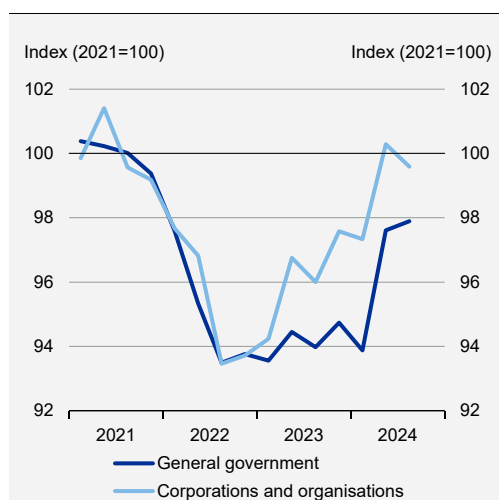
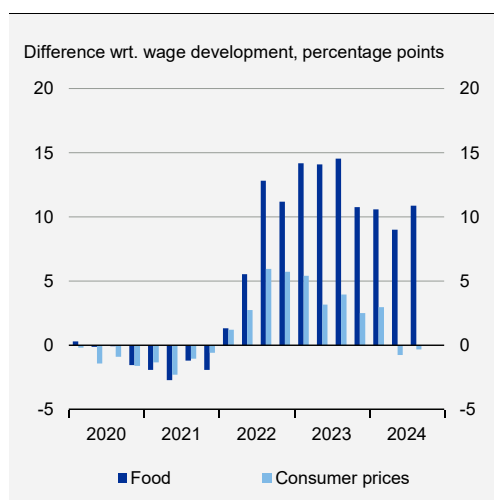


Figure 1.8 The prices of food have increased more than wages since the fourth quarter of 2019



Note: In figure 1.7 is shown hourly wages as calculated using Statistics Denmark's standard wage index, deflated by the consumer price index. In figure 1.8, the difference between price increases and wage increases since the fourth quarter of 2019 is displayed. Wage increases are calculated based on the development in Statistics Denmark's standard wage index for all sectors combined

Source: Statistics Denmark and own calculations.

Increases in wages and transfer incomes, combined with the currently low inflation and continued employment growth, have contributed to the growth of real disposable incomes in 2024. At the same time, households are generally well-positioned financially, as their total net wealth in 2023 amounted to more than nine times their disposable incomes, *cf. Chapter 4*. Households have thus had favourable opportunities to increase consumption.

Nevertheless, households have been hesitant and have only to a limited extent converted the increased purchasing power into consumption. In the first half of 2024, total private consumption declined, and the improved purchasing power was reflected solely in a modest increase in retail sales. In the third quarter, total private consumption increased, and this is also expected to be the case in the fourth quarter. Overall, private consumption in 2024 is estimated to have grown weakly, with an increase of 0.3 per cent, which is notably less than the rise in households' disposable incomes.

Households' hesitation comes after a period of high inflation and increased interest rates, and there remains significant uncertainty regarding the development of the global economy. This includes the impact of the geopolitical situation and trade tensions, which may influence households' willingness to consume.

The weak development in private consumption may also reflect the fact that prices for goods such as food have increased relatively more than the prices of other goods and services and have also risen more than wages since the end of 2019, *cf. figure 1.8*. For instance, the price of meat has increased by approximately 20 per cent during this period, while wages have risen by around 15 per cent. Some food prices have increased even more.

For some households, food expenses constitute a significant part of the budget. At the same time, price increases on groceries are highly visible to consumers and may have influenced both their willingness to spend and consumer confidence. Additionally, it can take time for consumers to adjust to price changes, even though purchasing power has also increased. Since August 2023, inflation has been close to or below 2 per cent. Inflation is also expected to remain close to 2 per cent in 2025 and 2026, aligning with the inflation target in the euro area, which, due to the fixed exchange rate policy, serves as a benchmark for inflation domestically in the medium term.

The increase in private consumption in the second half of 2024 is expected to continue into 2025 and 2026, with projected growth in private consumption of 2.2 per cent and 1.8 per cent, respectively. The growth in consumption in 2025 is supported by wage increases, income tax reductions agreed upon as part of the Personal Income Tax Reform of December 2023, and the increase in the supplementary pension benefit (ældrecheck) from 1 January 2025. Employment levels remain largely unchanged, and repayments of property taxes are at roughly the same level as in 2024. The higher growth in private consumption in 2025 should also be viewed in the context of the low growth and hesitancy seen in 2024, implying a degree of deferred consumption. Households are thus expected to be less hesitant than in 2024, driven by inflation remaining below 2 per cent, continued increases in purchasing power, and lower income taxes. However, private consumption is not expected to grow at the same pace as incomes in the coming years.

In 2026, further real wage growth and additional income tax reductions resulting from the Personal Income Tax Reform are expected to boost disposable incomes. However, this will be partially offset by a slight decline in employment levels.

Since the financial crisis, the consumption ratio has generally been declining, including during years of rising employment. This decline may partly reflect the development of various income types, as there has been relatively strong growth in income types where the propensity to consume is relatively low, such as income from shares, *cf. Economic Survey, May 2024, chapter 2*. This is partly because share income, for instance, forms a significant part of the income base for individuals in the higher end of the income distribution, where rising incomes are less frequently converted into ongoing consumption.¹

Transfer incomes are more concentrated at the lower end of the income distribution, and both wage and transfer incomes are more frequently converted into ongoing consumption. When the consumption ratio is calculated as a share of these types of income, it has not shown the same decline as the consumption ratio measured as a share of total disposable income. In 2025 and 2026, a significant portion of the growth in disposable incomes is expected to stem from rising wages and transfer incomes, which are anticipated to be largely converted into consumption.

¹ Cf. Ministry of Economic Affairs (2023): *Fordeling og incitamentener 2023*.

Households' hesitation does not appear to extend to the housing market. Trading activity and house prices increased in 2024, *cf. chapter 5*. This development is partly seen as an indication that the adjustment to previous interest rate increases has largely been absorbed, including for adjustable-rate mortgages. However, there will still be homeowners with F3 and F5 loans (mortgage loans with interest rate adjustment intervals of 3 and 5 years), last adjusted in 2020-2021, who will face higher interest rates at their next adjustment. Rising incomes and lower interest rates are expected to contribute to continued progress in 2025 and 2026. It is thus anticipated that house prices will rise by around 3 per cent in both 2025 and 2026.

The pharmaceutical industry boosts total business growth

The pharmaceutical industry has significantly boosted industrial production and exports in recent years. Further substantial growth in the pharmaceutical sector is expected in the coming years, though not as pronounced as in recent years. Continued growth will partly depend on opportunities to expand production capacity through acquisitions and the development of production facilities both domestically and abroad. Currently, material and/or equipment shortages are the primary causes of production constraints in the pharmaceutical industry.

In contrast, a lack of demand has impacted the rest of the industrial sector. Value creation in the industry excluding the pharmaceutical sector has been stagnant in recent years, though signs of improvement emerged during 2024, *cf. figure 1.9*. With the expected growth in export markets, the rest of the industrial sector is anticipated to continue this positive development in the coming years. At the same time, increasing global trade is also expected to lead to greater activity in maritime transport, following a period in early 2024 marked by declining total real service exports due to rising freight rates and supply chain disruptions.

Figure 1.9 The pharmaceutical industry has lifted the industrial gross value added in recent years

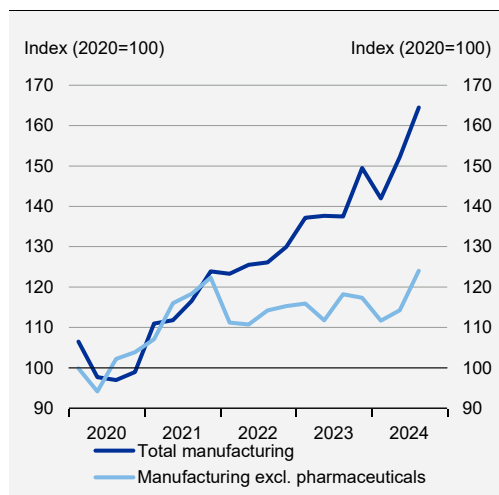
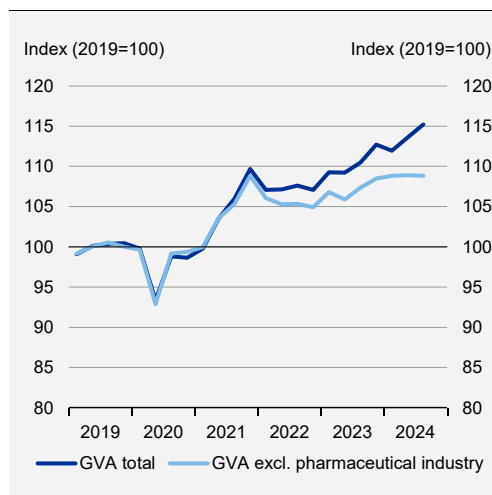


Figure 1.10 Flat development in other parts of the economy

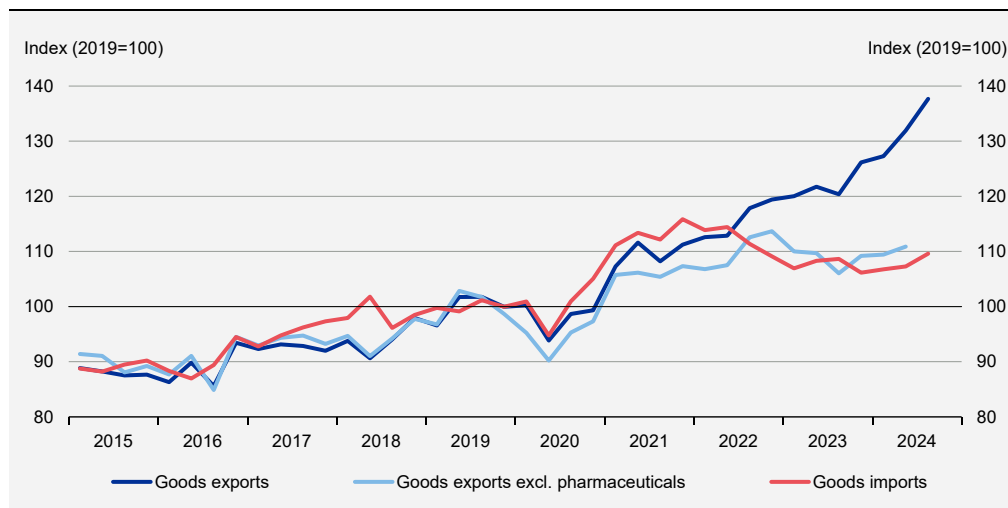


Note: Industry excluding the pharmaceutical sector and GVA excluding the pharmaceutical sector are based on a special extract and calculation of Statistics Denmark's measurement of the pharmaceutical industry's GVA, derived from the quarterly national accounts. According to Statistics Denmark, these figures are subject to greater uncertainty than those in the published national accounts.

Source: Statistics Denmark and own calculations.

In other parts of the economy, there has also been very limited progress in production in recent years, *cf. figure 1.10*. However, it is expected that, for example, the service industries and the construction sector will experience growth in line with increased domestic demand. Companies also seem to be more optimistic than households regarding developments in the coming years, and business confidence in 2024 has risen to a level that is slightly higher than the average for the period from 1990 to 2018.

The division within the Danish economy, where a significant portion of growth originates from the pharmaceutical industry, is also reflected in the decoupling of the historically close link between exports and imports since 2022, *cf. figure 1.11*. The increasing activity in the pharmaceutical industry is evident in rising exports, but not a corresponding increase in imports, as the import content of production in the pharmaceutical industry is relatively low compared to the general import content of exports. At the same time, households' hesitant demand also extends to goods from abroad, contributing to subdued growth in imports. Exports are estimated to have grown by 6.0 per cent in 2024 and are expected to continue growing by 4.7 per cent and 3.5 per cent in 2025 and 2026, respectively. In contrast, imports are estimated to have grown by only 1.6 per cent in 2024, with projected growth of 4.6 per cent in 2025 and 3.4 per cent in 2026. The developments in 2025 and 2026 are partly linked to expectations of increased investments following lower interest rates and higher private consumption driven by increased purchasing power.

Figure 1.11 Exports have become decoupled from imports

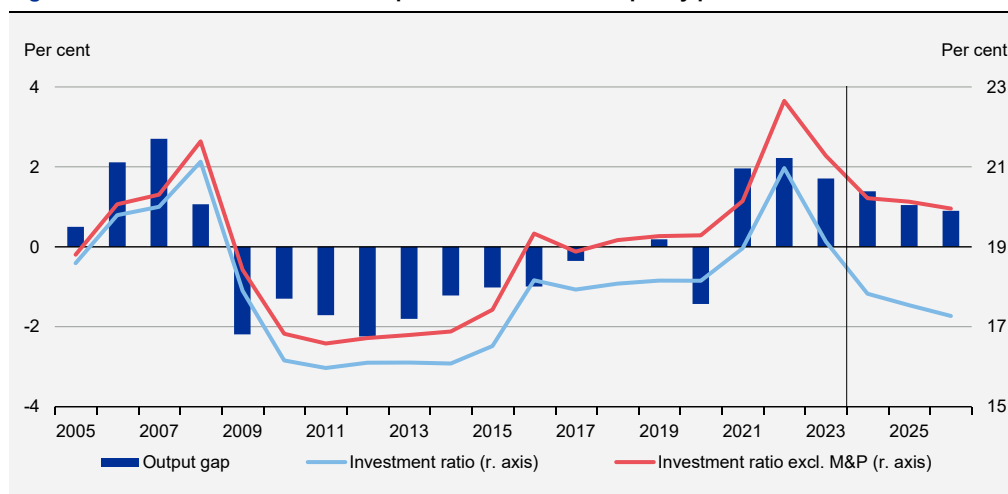
Note: In the figure, goods exports excluding pharmaceutical products are estimated based on data for the pharmaceutical industry's share of the total sales of goods produced by subcontractors within the industry.

Source: Statistics Denmark and own calculations.

The gradual decoupling of exports from imports in recent years has led to a steadily increasing surplus on the balance of payments. Reflecting expectations for exports and imports, a continued large balance of payments surplus of over 10 per cent of GDP is anticipated in both 2025 and 2026. Trade in goods produced and sold outside the country's borders alone has accounted for a surplus of approximately 8 per cent of GDP in the past year.

The division within the Danish economy also affects business investments. Value creation linked to merchanting and processing (M&P) does not require investments in physical capital in Denmark but may instead be reflected in Denmark's direct investments abroad. To the extent that Danish companies reduce their investments domestically and invest more internationally, it leads to a lower investment ratio. Partly for this reason, the investment ratio is estimated to have declined to a relatively low level in 2024. When considering a corrected investment ratio that excludes maritime transport and M&P, the investment ratio remains relatively high, *cf. figure 1.12*. Higher interest rates, lower demand, and increased uncertainty related to the development of the global economy have contributed to keeping business investments subdued.

Business investments are expected to grow by approximately 1.5 per cent in both 2025 and 2026, following declines in the previous two years. This growth is partly driven by expectations of lower interest rates and increased demand in export markets. However, the progress is relatively moderate and is expected to result in a decline in the investment ratio, consistent with a more subdued capacity pressure.

Figure 1.12 The investment ratio is expected to decline as capacity pressure eases

Note: The investment ratio represents business investments as a share of GVA in the private sector, excluding maritime transport and raw material extraction. It is based on an own estimate of the value added associated with M&P. GVA from M&P has been excluded from the GVA calculation, while investments have not been adjusted. The correction for M&P in the investment ratio presented here is considered to be an upper-bound estimate.

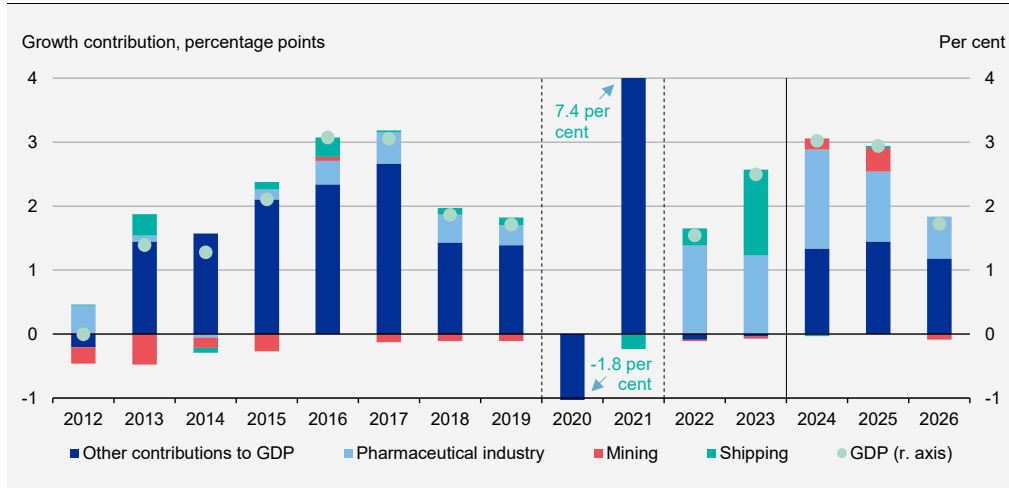
Source: Statistics Denmark and own calculations.

Gradually moderate growth and less pressure on the labour market

The Danish economy is expected to continue to be in a boom phase in the coming years with high activity and employment. GDP growth is expected to be high at around 3 per cent both this year and next. A more moderate GDP growth of 1.7 per cent is expected in 2026.

At the same time, a more broad-based growth across industries is expected in the coming years. While GDP growth in 2022 and 2023 was solely attributable to the pharmaceutical industry and shipping, other parts of the economy have contributed more to the overall growth in 2024. It is expected that the contribution from, for example, the service industries and construction will be higher in 2025 and 2026, supported by growth in domestic demand. Growth is also sustained by the pharmaceutical industry, but the contribution is expected to gradually decrease compared to recent years. The reopening of the Tyra field in the North Sea in 2025 is expected to boost growth further. Without contributions from the pharmaceutical industry and the Tyra field, expected growth is limited to 1.5 per cent in 2025 and 1.2 per cent in 2026, *cf. figure 1.13*.

Figure 1.13 GDP growth continues to be supported - but to a lesser extent - by the pharmaceutical industry



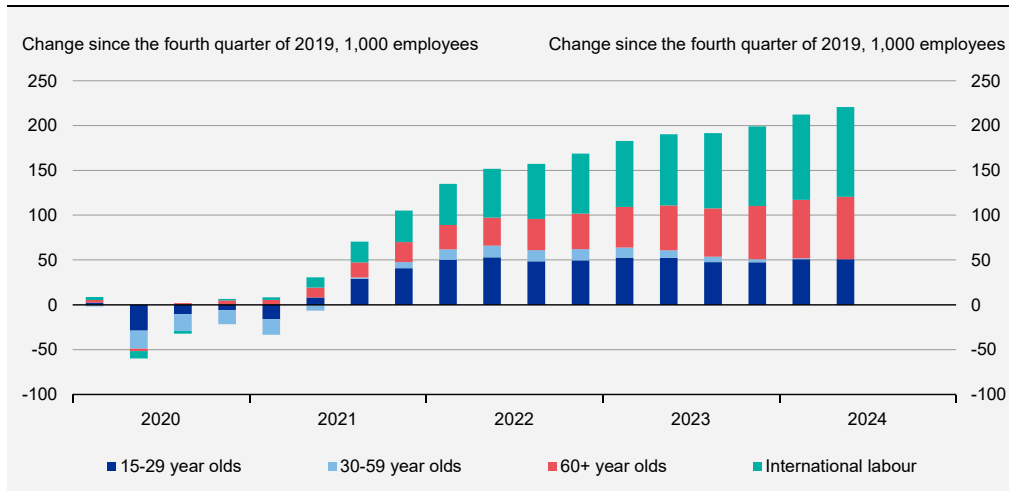
Note: For the sake of illustration, the full fluctuations in GDP growth of -1.8 per cent in 2020 and 7.4 per cent in 2021 are not shown between the dashed lines. The industries' growth contribution to GDP is calculated on the basis of gross value added (GVA).

Source: Statistics Denmark and own calculations.

The expectation of gradually more moderate growth implies a gradual easing of capacity pressures and less pressure on the labour market. There are already signs that labour market pressures are easing, including slightly rising unemployment, weaker employment growth and declining average working hours. The rate of wage growth is also slowing, which reduces the risk of a price-wage spiral. In the DA area, wage increases are estimated at 3.4 per cent in 2025 and 3.2 per cent in 2026, while inflation is estimated at 1.9 per cent and 1.7 per cent respectively in the same period.

Pressure on the labour market has also been mitigated by an increase in structural employment due to the influx of international labour and older workers staying longer in the labour market, *cf. figure 1.14*. Several initiatives have helped to support this development. These include the deduction from the state pension for own and spouse's earned income, which was removed for state pensioners with effect from January 2023. Together with the high demand for labour, this has contributed to more seniors remaining in or re-entering the labour market. International recruitment has been boosted by, among other things, the supplementary pay limit scheme that has been in place since 2023.

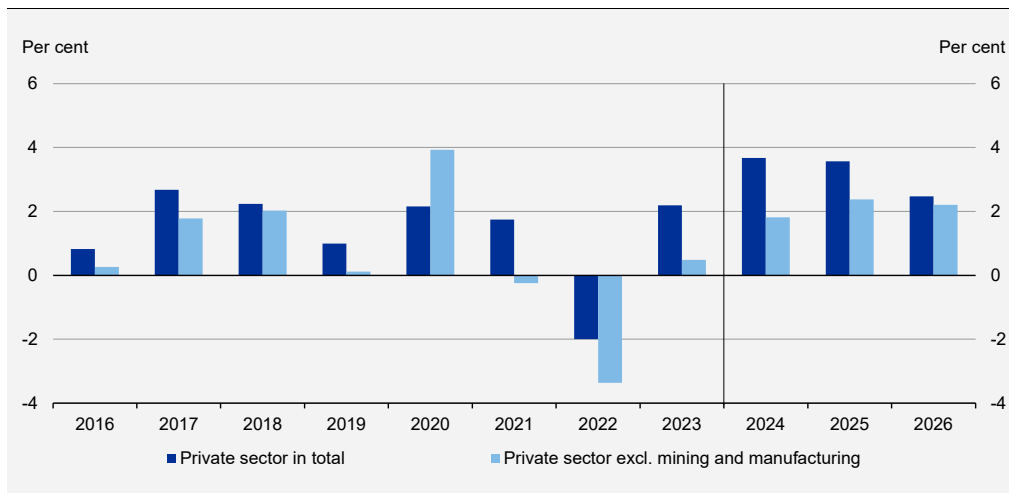
Figure 1.14 More older workers and more international labour in the labour market



Note: The figure shows the total change in wage employment since the fourth quarter of 2019.
 Source: Statistics Denmark and own calculations.

In the forecast, employment is expected to grow by 5,000 persons in 2025 and fall by 5,000 persons in 2026. Together with the expected development in production and gross value added, this should lead to a decent increase in productivity after the weak productivity development in recent years, cf. figure 1.15 and chapter 4.

Figure 1.15 Productivity growth is expected to accelerate in the coming years



Note: Manufacturing is equivalent to manufacturing in the national accounts, excluding oil refineries etc.
 Source: Statistics Denmark and own calculations.

This implies some recovery in productivity (also excluding contributions from the pharmaceutical industry and mining), which should be seen in the context that the weak productivity

growth in large parts of the economy in recent years is considered to have been largely cyclical, *cf. chapter 3*.

The geopolitical situation and trade tensions contribute to uncertainty

The forecast is associated with considerable uncertainty, especially in relation to developments abroad, where risks are primarily assessed to be on the downside. This is not least related to a potential escalation of geopolitical and trade tensions between the largest economies, which could have a major impact on world trade.

In recent years, there has been a trend towards greater protectionism and geo-economic fragmentation. If the use of trade restrictions escalates, it could lead to a global trade war with potentially major consequences for the world economy, which would also affect the Danish economy, especially exporting companies, *cf. box 1.1*. Exports linked to production outside the country's borders are presumably less exposed, as they are not immediately subject to tariffs. In addition to the trade consequences, there may also be spill over effects in the form of higher consumer prices either due to tariffs or increased production costs.

Box 1.1 Higher tariffs could stifle growth

Many scenarios for economic development could be in play. Here we illustrate the potential effects in a risk scenario where higher tariffs mean lower growth in Danish export markets and higher import prices for goods. The calculation is made using MAKRO and is based on a scenario from the IMF's latest World Economic Outlook, October 2024.

The IMF scenario is based on 10 per cent tariffs on goods traded between the US, China and the Eurozone, corresponding to about a quarter of world trade in goods. In the IMF scenario, the world economy shrinks by between 0.1 per cent (in 2025) and 0.4 per cent (in 2028) before permanently shrinking by 0.3 per cent compared to the baseline scenario. This means that GDP in the US is 0.4 per cent and 0.6 per cent lower in 2025 and 0.6 per cent lower in 2026. For China and the Eurozone, the decrease in GDP in 2026 is 0.3 per cent. At the same time, import prices for goods increase by 0.6 per cent (in 2025) and 1.2 per cent permanently thereafter.

Denmark's goods imports from the US and China, which together account for approximately 12 per cent of Denmark's goods imports, are assumed in the MAKRO model calculation to become 10 per cent more expensive, while it is simplistically assumed that there is no price effect on imports from other countries. In addition, it is assumed that there will be increased risk premiums for both households and businesses due to increased uncertainty. The increased tariffs and risk premiums are assumed to be permanent.

The impact on the Danish economy is a reduction in GDP growth of around 0.4 percentage points in 2025, and subsequently the GDP level is around 0.3 per cent lower than in the forecast. Inflation is increased by 0.1 percentage points in 2025 and consumer prices remain around 0.1 per cent higher. Stock prices fall by around 9 per cent.

The scenario only illustrates the immediate effects of increased tariffs. For instance, it does not take into account possible changes in interest rates, exchange rates and trade patterns. The effects of a possible trade war with retaliation could be somewhat larger. Other institutions have conducted similar analyses, such as Danmarks Nationalbank, which has published an analysis with different, more severe scenarios where activity in Denmark falls significantly more in the short term. The effects are smaller in the long term, and price increases are generally more limited.¹⁾ An analysis from DI shows scenarios of various trade conflicts costing Danish GDP between DKK 2 and 85 billion (in real terms) at the level in the coming years.²⁾

1) Danmarks Nationalbank: Fragmentation of global trade could challenge the Danish economy, October 2024.

2) Danish Industry: Trade wars can weaken the Danish economy by DKK 85 billion, September 2024.

Source: Statistics Denmark, Danmarks Nationalbank, Danish Industry and own calculations.

Increased tariffs are not only linked to protectionist concerns, but can also be justified by other considerations. This applies, for example, to the green transition, where measures must help ensure that the transition takes place in an appropriate manner. This applies, for example, to the EU's climate food tariff (CBAM), which aims to avoid carbon leakage to third countries. The scheme places tariffs on carbon-intensive products such as steel, cement and electricity imported into the EU and will be implemented from 2026. The green transition may also affect the Danish economy and exports in other ways. For example, the wind turbine industry is already under pressure from foreign and especially Chinese competitors, and there is uncertainty about the future expansion of wind energy in the US.

The uncertainty from abroad also relates to how quickly a recovery will materialise in key export markets such as Germany and Sweden. If the expected recovery in Germany and Sweden fails to materialise, this could affect developments in other countries and in Denmark. Furthermore, a simultaneous reversal in the labour market in a number of European countries could lead to a self-reinforcing effect, with lower demand across countries reinforcing each other.

The main scenario for the Danish economy in the forecast is favourable, with a gradual adjustment towards the structural levels for GDP and employment. The expected course should be seen in the context of the fact that there are no significant imbalances that require correction. The Danish economy is thus well positioned to avoid a major downturn, even if a number of the risks mentioned above were to materialise.

However, a number of factors can give rise to a more abrupt course of events. There are signs of a slowdown in the labour market. If a major turnaround occurs due to a dip in companies' expectations for the future and/or a desire to strengthen wage competitiveness, this could lead to a self-reinforcing effect where households and companies become increasingly cautious. Conversely, it is also possible that households in particular will become significantly more willing to spend, e.g. if prices are perceived as high to a lesser extent. This would favour increased demand at a time when there is already some pressure on capacity. A greater influx of international labour also represents an opportunity for greater growth in production and demand than in the main scenario.

A potential vulnerability for the Danish economy is linked to the fact that GDP and export growth in recent years has largely been driven by a few large companies and their activities abroad related to merchanting and processing. This is expected to continue to play a significant role in the coming years as well. However, with the expansion of domestic production facilities, e.g. in Kalundborg, Novo Nordisk also plays a growing role in the domestic economy, including construction activities and the labour market. This means that the overall development of the Danish economy is influenced to a greater extent than before by a few large companies. However, the rest of the business sector is still very important for the overall development of the Danish economy.

Box 1.2 Changed assumptions compared to the Economic Survey, August 2024

The forecast is based on the national accounts up to and including the third quarter of 2024 (first, preliminary estimate) and a number of other indicators, which for the most high-frequency ones extend into November.

Since the August survey, Statistics Denmark has published a new, experimental series on the pharmaceutical industry's quarterly value added. It, on its own, points to higher growth in the first to third quarters of 2024 compared to the assumption in the August survey. This is also reflected in the latest national accounts figures, where GDP growth has also been higher than expected.

The current forecast assumes that residence permits granted under the Special Act will be extended until March 2026, whereas the Economic Survey, August 2024, assumed that the Special Act expired in March 2025. All other things being equal, this has an upward effect on employment and unemployment estimates in 2025 relative to the August forecast.

Source: Statistics Denmark and own calculations.

Box 1.3 A new modelling framework for forecasting

The forecast in the Economic Survey, December 2024 was prepared using the MAKRO model. Since March 2023, the Ministry of Finance has used MAKRO to calculate financial effects, among other things, and the model has also been used in the Economic Survey for scenario calculations, but this is the first time that the entire forecast is made in MAKRO. This reflects a transition from the previously used model, ADAM, which was developed in the 1970s and has been in use in central government since then.

MACRO differs from ADAM as a macroeconomic model in a number of ways. A key difference is that the agents (companies and households) in MACRO are forward-looking. This allows the model to react to changes in expectations, such as tax policy or interest rates. MAKRO also has age distributions of e.g. consumption and incomes. A more detailed description of MAKRO can be found on the DREAM group's website.

Source: Statistics Denmark and DREAM.

1.1 Annex table

Table 1.1 Key figures from the December 2024 survey and comparison with the August 2024 survey

	2024		2025		2026
	Aug.	Dec.	Aug.	Dec.	Dec.
Real growth, percent					
Private consumption	1.7	0.3	1.8	2.2	1.8
Total public demand	3.6	2.9	2.9	3.9	0.5
- of which public consumption	3.3	2.6	2.5	3.0	0.5
- of which public investments	5.9	5.4	6.1	10.1	0.8
Housing investment	-5.7	0.0	1.8	2.8	3.1
Business investment	-2.8	-2.8	0.5	1.5	1.6
Inventory changes (growth contribution)	0.3	-0.8	0.0	0.0	0.0
Total domestic demand	1.5	-0.1	1.9	2.6	1.5
Exports	2.5	6.0	4.1	4.7	3.5
- of which manufacturing exports	4.1	9.2	5.0	5.4	4.1
Total demand	1.9	2.5	2.9	3.5	2.3
Imports	1.9	1.6	4.0	4.6	3.4
- of which imports of goods	1.0	1.2	3.7	4.4	3.1
GDP	1.9	3.0	2.2	2.9	1.7
Gross value added	2.0	3.6	2.2	3.1	1.7
- of which in non-farm private sector ¹⁾	2.4	4.8	2.2	3.4	2.5
Change in 1,000 persons					
Labour force, total	37	30	-4	8	-5
Employment, total	35	26	-5	5	-5
- of which in the private sector	29	22	-10	2	-5
- of which in public administration and services	6	4	5	3	0
Gross unemployment	4	4	2	4	0
Business cycle gap, per cent					
Output gap	1.5	1.4	1.2	1.0	0.9
Employment gap	2.3	2.0	1.9	1.7	1.4
Gross unemployment gap	-0.8	-0.8	-0.6	-0.7	-0.5

Note: Public consumption is calculated using the input method.

1) Non-farm private sector as reported in ADAM (Aug.) and MAKRO (Dec.) are not directly comparable.

Source: Statistics Denmark and own calculations.

Table 1.2 (continued) Key figures from the December 2024 survey and comparison with the August 2024 survey

	2024		2025		2026
	Aug.	Dec.	Aug.	Dec.	Dec.
Change, per cent					
House prices (single-family houses)	2.7	3.8	3.0	3.3	3.0
Consumer price index	1.8	1.5	2.0	1.9	1.7
Hourly wage in the private sector	5.4	5.3	3.4	3.4	3.2
Real disposable income, households	2.2	2.5	2.4	2.7	2.2
Hourly productivity in private non-farm sector	1.1	4.1	2.8	3.3	2.8
Percent p.a.					
Interest rate, 1-year adjustable-rate mortgage	3.1	2.9	2.4	2.3	2.2
Interest rate, 10-year government bond	2.4	2.3	2.3	2.1	2.2
Interest rate, 30-year mortgage bond	4.3	4.3	4.1	4.0	4.0
Public finances					
Actual public balance, billion DKK	56	86	31	49	42
Actual public balance, per cent of GDP	1.9	2.9	1.0	1.6	1.3
Structural public balance, per cent of GDP	0.6	1.3	0.2	0.6	0.4
EMU debt, per cent of GDP ¹⁾	32.8	31.1	31.4	30.0	29.9
Labour market					
Labour force (including leave), 1,000 persons	3,322	3,315	3,319	3,323	3,318
Employment (including leave), 1,000 persons	3,237	3,228	3,232	3,233	3,229
Gross unemployment, 1,000 full-time persons	87	87	89	91	91
Gross unemployment, per cent of labour force	2.6	2.6	2.7	2.7	2.8
External assumptions					
Trade-weighted international GDP growth, per cent	1.3	1.6	1.8	2.0	2.1
Export market growth (industrial goods), per cent	0.9	1.5	3.0	2.9	2.8
Exchange rate, DKK per dollar	6.9	6.9	6.9	7.0	7.0
Oil price, dollars per barrel	82.4	80.4	80.5	73.3	75.0
Balance of payments					
Current account balance, billion DKK	307	380	310	365	349
Current account balance, per cent of GDP	10.5	12.9	10.2	11.8	10.9

1) Non-farm private sector as reported in ADAM (Aug.) and MAKRO (Dec.) are not directly comparable.
Source: Statistics Denmark, IMF, Macrobond, Confederation of Danish Employers and own calculations.



2. Public Finances and Fiscal Policy

The prolonged economic upswing and high employment levels are reflected in the public finances. Higher tax revenues from personal income taxation and corporate taxes contribute to an estimated surplus of DKK 85½ billion on the public balance in 2024, equivalent to 2.9 per cent of GDP. Continued public surpluses of 1.6 and 1.3 per cent of GDP are expected in 2025 and 2026, respectively.

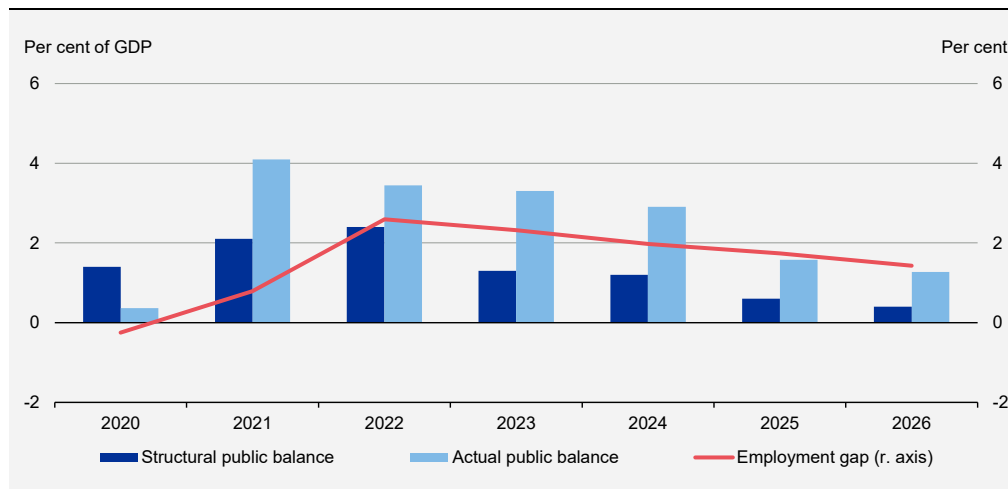
The increase in employment is partly due to a sustained influx of international labour, coupled with rising employment among the elderly. This is also reflected in the structural employment level, which has been revised upward compared to the assessment in August.

The public surpluses thus fundamentally reflect solid and healthy economic structures combined with prolonged favorable cyclical conditions.

In recent years, where the economy has faced high capacity pressures and periods of high inflation, fiscal policy has been tightened. This has helped reduce capacity pressures, thereby making the economic upswing more sustainable and longer-lasting.

The increase in employment has moderated somewhat in 2024, while structural employment continues to rise, partly due to more seniors being active in the labour market both before and after reaching the statutory retirement age, as well as more resident immigrants and descendants participating in the labor market. Additionally, foreign labour has continued to arrive in Denmark to work under attractive Danish conditions, further boosting the structural labour force and employment. In this vein, capacity pressures have eased since peaking in 2022.

Capacity pressures are expected to ease further in 2025 and 2026, as reflected notably in a gradual narrowing of the employment gap, pointing to a continued soft landing for the Danish economy. Similarly, the substantial public surpluses are expected to decrease, *cf. figure 2.1*.

Figure 2.1 Employment gap, actual public balance and structural public balance

Note: The structural public balance is calculated relative to structural GDP, while the actual public balance is calculated relative to actual GDP.

Source: Statistics Denmark and own calculations.

The planned fiscal policy supports a soft landing for the Danish economy. The high but diminishing capacity pressures suggests that the fiscal policy should be tight, corresponding to negative *multi-year* fiscal effects, but eased gradually, aligning with positive *one-year* fiscal effects.

The fiscal and structural policies since the year before the COVID-19 pandemic are collectively assessed to reduce the capacity pressure in the economy, albeit to a declining extent towards 2026. Accordingly, the fiscal policy for 2025, as outlined in the budget bill and the economic agreements with municipalities and regions, is planned to be less restrictive than in 2024, thereby supporting a soft landing. Additionally, *Agreement on the Implementation of a Green Denmark* (November 2024) and *Agreement on a Health Reform* (November 2024) were concluded in November 2024, cf. *Box 2.1*. Key priorities of the budget bill are further detailed in *Box 2.2* at the end of the chapter.

Box 2.1 The Agreement on Health Structure Reform and the Green Tripartite**Health Reform**

In November 2024, the Danish government, DD, SF, K, and RV entered into *Agreement on a Health Reform* aimed at strengthening the healthcare system and bringing it closer to citizens. The reform is partly based on the proposals and recommendations from the Health Structure Commission from June 2024, as well as inputs from stakeholders during the subsequent consultation process.

The reform changes the structure, division of responsibilities, and funding of the healthcare system. This includes merging the Capital Region and Region Zealand into a single Region East Denmark, while retaining the remaining three regions. Additionally, 17 new health councils, comprising elected representatives from municipalities and regions, with own budgets and decision-making powers are established to improve local healthcare services and the cohesion of treatments in hospitals, general practices and municipalities.

The reform brings healthcare closer to citizens, ensuring that people across the country have access to a nearby doctor and high-quality treatment. A better distribution of doctors and healthcare resources nationwide is ensured, along with the development of chronic care packages for relevant groups, including a right to a personal treatment plan. The reform sets a goal of having at least 5,000 doctors in general medical practice by 2035.

A total of DKK 6.4 billion is allocated for the reform towards 2030. Of this, DKK 3.6 billion will come from new healthcare priorities, while DKK 2.7 billion will be redirected from funds set aside for expenses related to demographic changes. DKK 4.4 billion will be distributed through the health councils for local initiatives in municipalities and regions, and DKK 2.0 billion will fund specific measures, such as new chronic care packages, additional patient rights, and treatments closer to citizens. The 2030 funding level is financed with DKK 400 million from the 2025 budget bill, DKK 223 million through the cessation of tasks within regional development, and DKK 5.7 billion from the fiscal space, including a targeted use of demographic funds. Furthermore, DKK 27.5 billion is allocated over the next ten years for capital investments to improve the physical and technological infrastructure in the healthcare system.

Green Tripartite

With *Agreement on the Implementation of a Green Denmark* (November 2024), the Danish government, SF, LA, K, and RV agreed on a framework with the necessary conditions for implementing the measures in the *Agreement on a Green Denmark* (June 2024) between the Danish government and partners from industry, agricultural, and environmental organizations, trade unions and local authorities. The agreement provides concrete solutions to agriculture's climate, environmental, and nature protection challenges by:

- Establishment of a new Green Area Fund of approx. DKK 43 billion. The initiatives in the Area Fund will change approx. 10 per cent of Denmark's total land area to nature and forest by 2045, including afforestation of 250,000 hectares of new forest—of which 100,000 hectares will be untouched forest—and the rewetting of 140,000 hectares of drained peatlands in agricultural use, including buffer areas.
- A shift in the approach to nitrogen management, where change in land use will be the main driver for compliance with the EU Water Framework Directive. The nitrogen reduction target is currently set at 13,780 tons, based on Scenario 1 from "Second Opinion", excluding Bornholm. With the agreement, the majority of water catchment areas are expected to meet their required measures by 2027, while the remaining catchment areas must commence actions by 2027 with a clear path and binding process towards the targets.
- The world's first tax on greenhouse gas emissions from livestock from 2030 starting at DKK 300 pr. ton CO₂e, increasing to 750 DKK pr. ton CO₂e in 2035. A base deduction of 60 per cent will be added, which results in an efficient rate of DKK 120 pr. ton CO₂e in 2030, increasing to DKK 300 pr. ton CO₂e.
- A subsidy scheme of approx. DKK 10 billion until 2045 for the storage of biochar produced by pyrolysis.
- Estimated reductions of greenhouse gas emissions of 1.8 million tonnes of CO₂e in 2030, with a potential for reductions of up to 2.6 million tonnes of CO₂e in 2030. With the initiatives in the agreement, Denmark is expected to meet its obligations under the EU Effort Sharing Regulation and LULUCF Regulation.

Fiscal policy is eased in 2025 and 2026, while capacity pressures decrease

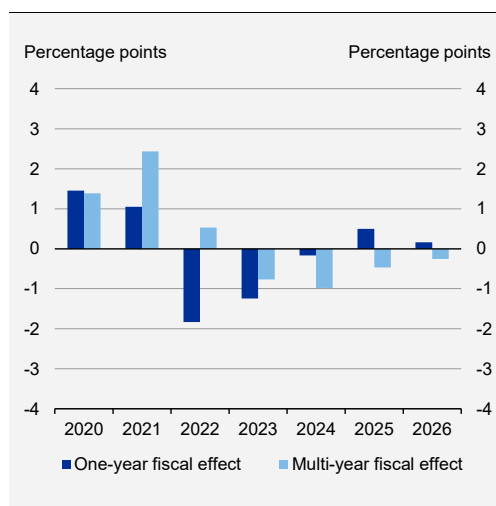
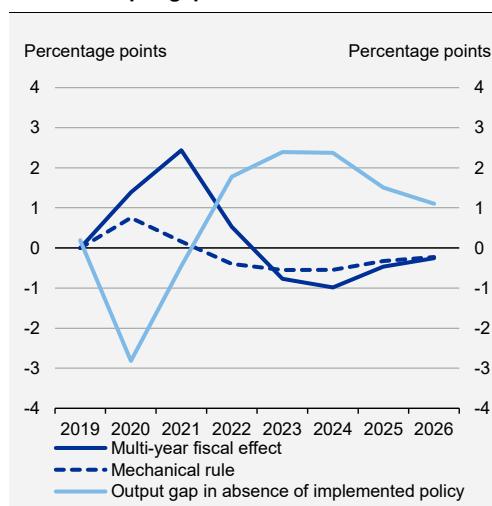
The capacity pressure in the Danish economy is expected to ease over the coming years, with inflation remaining below 2 per cent. This creates room to ease fiscal policy in 2025 and 2026, supporting a soft landing for the Danish economy. Simultaneously, it allows for prioritising expenditures on defence and security, healthcare, the green transition, and lower taxes related to the personal income tax reform and business initiatives, among others. The one-year fiscal effect is estimated at 0.5 percentage points in 2025, and 0.2 percentage points in 2026.

The gradual easing makes the fiscal and structural policy less restrictive, although it will still contribute to alleviating capacity pressures in the Danish economy over a multi-year period. Measured against 2019, the year before the COVID-19 pandemic, the multi-year fiscal effect is estimated at -0.5 percentage points in 2025 and -0.3 percentage points in 2026, *cf. figure 2.2*.

Overall, fiscal policy has contributed to dampening economic fluctuations since 2019, *cf. figure 2.3*. During the COVID-19 pandemic, fiscal policy was significantly eased to support businesses, households, and the Danish economy. The expansive fiscal policy, including the temporary support packages, helped maintain the economy's productive capacity, reduced uncertainty, and allowed the Danish economy to recover quickly after reopening.

As capacity pressure rose and inflation was driven up, partly due to energy price increases following Russia's invasion of Ukraine, fiscal policy was tightened to reduce the risk of overheating and ease inflationary pressures. As capacity pressures began to ease after the peak in 2022, and inflation subsided, fiscal policy was gradually loosened again to support a soft landing for the Danish economy.

While many factors are considered in the design of fiscal policy, it can be informative to compare the fiscal effects with a benchmark in the form of the mechanical rule, which has previously been used in the *Economic Survey, May 2023, Erfaringer med budgetloven 2014-2020, April 2020* and *Finansredøgørelse 2014, January 2014*, and which was originally inspired by the Danish Economic Councils' *Dansk Økonomi, forår 2007*. While fiscal policy is not determined according to a mechanical rule, the comparison shows that the planned fiscal policy for 2025 is broadly in line with this benchmark when looking at the multi-year effects of fiscal and structural policy since 2019. Estimates for the fiscal effects are further elaborated in *Appendix A: The Public Finances and Fiscal Policy* (available in Danish only).

Figure 2.2 One-year and multi-year fiscal effects**Figure 2.3** Multi-year fiscal effects compared with the output gap and a mechanical rule

Note: The mechanical rule in figure 2.3 states that discretionary fiscal policy can aim to close approximately $\frac{1}{4}$ of the output gap that would exist in the absence of discretionary measures. The rule is inspired by *Economic Survey, Maj 2023* and *DØRS: Dansk Økonomi, forår 2007*.

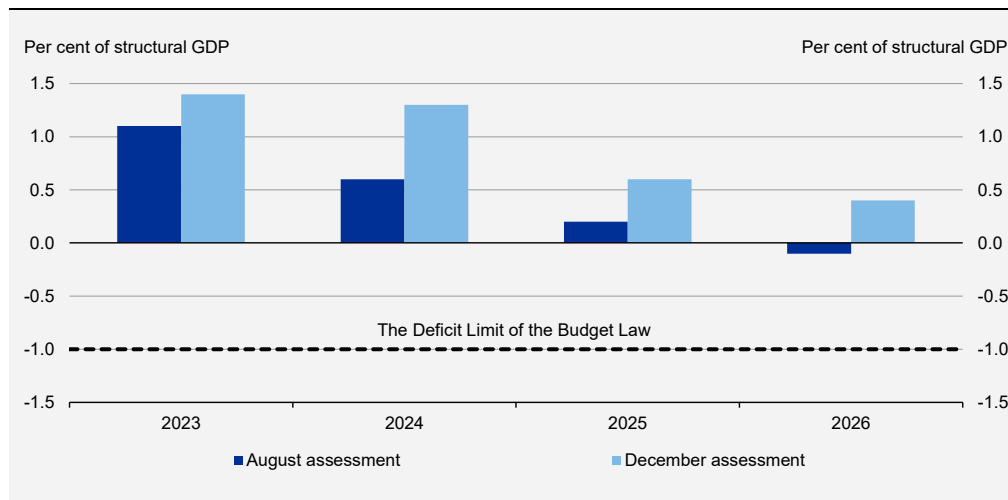
Source: Own calculations based on MAKRO.

It should be noted that the calculated fiscal effects are expected to constitute an upper estimate, since the import share of military equipment is typically higher than what is assumed in the calculation of the fiscal effects, and the domestic activity impact will therefore typically be lower. The activity impact will depend on the concrete spending decisions.

Structural surpluses towards 2026

The outlook points to surpluses on the structural balance in the coming years. Over the forecast years, fiscal policy is planned with declining structural surpluses, from 1.4 per cent of GDP in 2023 to 0.4 per cent of GDP in 2026, *cf. figure 2.4*. The declining structural surpluses contribute to a soft landing for the Danish economy and should be viewed in the context of fiscal policy being planned with a gradual adjustment towards the medium-term target for the structural balance of -0.5 per cent of GDP in 2030. The reduction in the structural surplus helps create room for a number of key priorities, including the green transition, defense, and public service provision.

Compared to the August forecast, the estimate for the structural balance has been revised upwards for the entire forecast period. This primarily reflects higher estimated structural revenues from corporate taxes and higher structural employment. In addition, there has been a downward revision of the estimated public consumption in 2024, along with several other factors. The updated estimates for the structural balance are further elaborated in *Appendix A: The Public Finances and Fiscal Policy* (available in Danish only).

Figure 2.4 Structural surpluses in 2023-2026

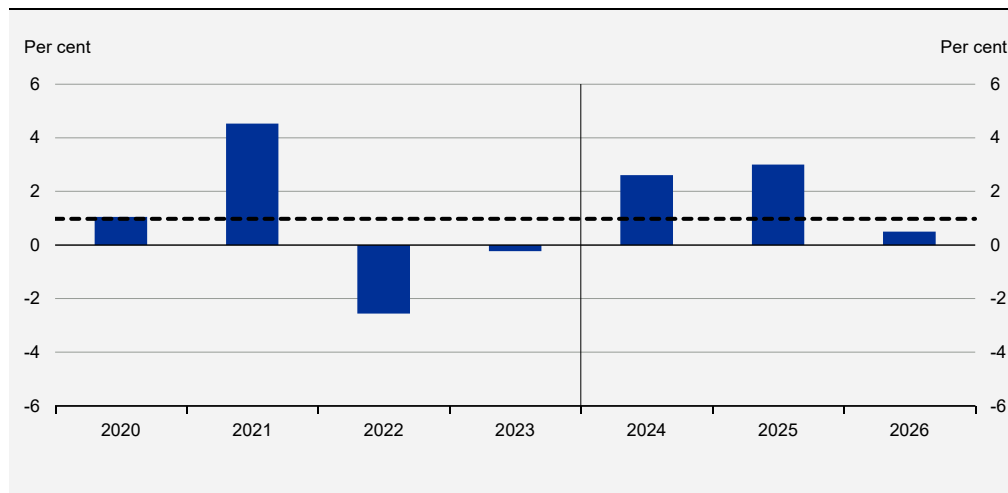
Source: Statistics Denmark and own calculations.

The planned fiscal policy leads to high public consumption growth

With the budget bill for 2025 – which also includes decided priorities in other political agreements – real growth in public consumption is estimated to be 3.0 per cent in 2025.

The estimated real growth in public consumption in 2025 follows an estimated consumption growth of 2.6 per cent in 2024. For both 2024 and 2025, this represents relatively high estimated public consumption growth in a historical context, which should be seen in connection with priorities to enhance public service provision in municipalities and regions, as well as the agreed defense increase and Danish support in relation to the Ukraine Fund, etc., *cf. figure 2.5*.

The estimated real growth in public consumption in 2026 is technically calculated to be 0.5 per cent and is based on the assumed expenditure growth in the latest medium-term projection, *Opdateret 2030-forløb: Grundlag for udgiftslofter 2028, august 2024*. The technical estimate for consumption growth in 2026 is lower than the average growth since 2000, following the relatively high estimated growth rates in 2024 and 2025.

Figure 2.5 Real growth in public consumption

Note: Public consumption is measured using the input method and includes depreciation. The dashed line represents the average annual real growth from 2000 to 2023. In 2020-2023, growth in public consumption has been significantly influenced by extraordinary expenditures, including efforts related to the COVID-19 pandemic.

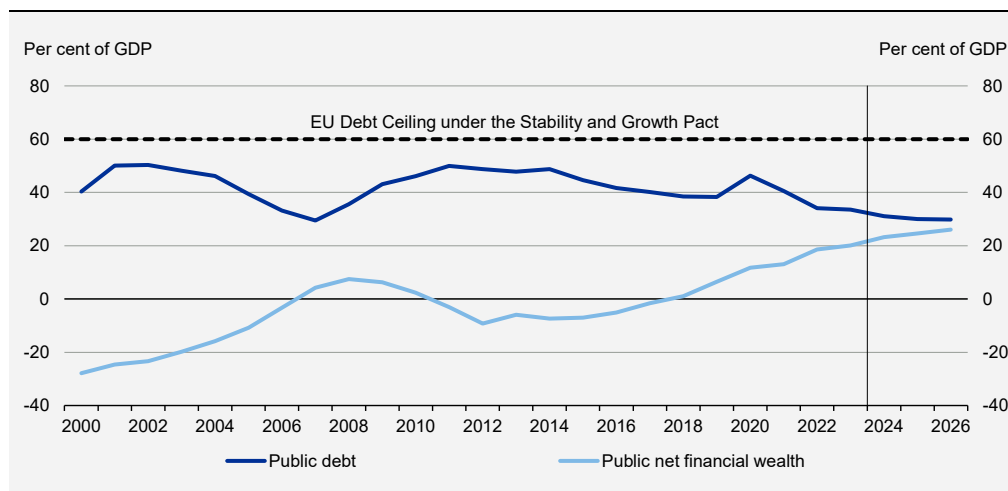
Source: Statistics Denmark and own calculations.

Decreasing public debt and increasing public financial net wealth

The persistent public surpluses have contributed to Denmark's EMU debt being among the lowest in the EU, and significantly below the 60 per cent of GDP threshold set by the Stability and Growth Pact. Denmark's EMU debt is expected to decrease from around 31 per cent of GDP in 2024 to below 30 per cent of GDP in 2026, which will be the lowest level since 2007, *cf. figure 2.6*.

The strong public finances have also contributed to Denmark having a positive public net financial wealth since 2018. In 2026, the public net financial wealth is estimated to be more than 25 per cent of GDP, corresponding to an increase of more than 5 percentage points compared to 2023.

Table 2.1 shows other key figures for the public finances for the period 2023-2026. The assessment of the public finances is elaborated upon in *Appendix A: The Public Finances and Fiscal Policy* (available in Danish only).

Figure 2.6 Public debt and net wealth

Source: Statistics Denmark and own calculations.

Table 2.1 Key estimates regarding the fiscal policy

	2023	2024	2025	2026
Structural budget balance, per cent of GDP	1.4	1.3	0.6	0.4
Budget balance, per cent of GDP	3.3	2.9	1.6	1.3
Real growth in public consumption, per cent. ¹⁾	-0.2	2.6	3.0	0.5
Multi-year fiscal effect, level, percentage points ²⁾	-0.8	-1.0	-0.5	-0.3
One-year fiscal effect, percentage points ³⁾	-1.2	-0.2	0.5	0.2
Output gap, per cent. ⁴⁾	1.6	1.4	1.0	0.9
Employment gap, per cent. ⁴⁾	2.3	2.0	1.7	1.4
Public debt, per cent of GDP	33.6	31.1	30.0	29.9
Public net wealth, per cent of GDP	20.1	23.2	24.7	26.0

- 1) The estimated public consumption growth is assumed the same for input and output approaches. For 2023, the growth in public consumption is shown using the input method.
- 2) The multi-year fiscal effect measures how changes in fiscal and structural policies impact the output gap (level effect relative to 2019).
- 3) The one-year fiscal effect measures how much the planned fiscal and structural policies contribute to changes in the output gap in a given year.
- 4) Estimate of how much production and employment deviate from structural levels. When gaps are positive, it indicates that there are scarce resources in the economy relative to a normal economic situation.

Source: Statistics Denmark and own calculations.

Box 2.2 Selected priorities in the agreement on the budget bill for 2025

A-subject subsidy for upper secondary schools (DKK 144.3 mn. annually in 2025-2028): Funds are allocated for an A-subject subsidy for physics, chemistry, biotechnology, biology, geoscience, and music at upper secondary schools (STX and HTX). The subsidy per passed student will amount to DKK 10,990 (2025 prices).

Reduction of the breakpoint percentage (DKK 35.0 mn. in 2025, DKK 35.2 mn. in 2026, DKK 35.1 mn. in 2027, and DKK 34.9 mn. in 2028): Funds are allocated for an adjustment of the taximeter and subsidy system reducing the breakpoint percentage for upper secondary full-time education programs from 10 per cent in the 2025 budget proposal to 7.5 per cent.

Expansion of the compensatory special subsidy (DKK 3.8 mn. annually in 2025-2028): Funds are allocated to expand the compensatory special subsidy in the adjustments of the taximeter and subsidy system, so that vocational schools located in provincial municipalities, which previously received the special subsidy for small vocational schools, will also be eligible for the compensatory special subsidy.

Continuation of the study program subsidy (DKK 6.7 mn. annually in 2025-2028): Funds are allocated for the continuation of the study program subsidy for Greek-Latin and Music courses in the adjustments of the taximeter and subsidy system.

National pilot program for school meals (DKK 104.0 mn. in 2025 and DKK 250.0 mn. annually in 2026-2028): Funds are allocated for a national pilot program for school meals in primary schools. The specific allocation of funds will be done in agreement with the agreement parties based on a concrete proposal from the government.

Enhanced access to psychological treatment (DKK 30.0 mn. annually in 2025 and onwards): DKK 30 million is allocated to abolish the co-payment for psychological assistance for victims of violence, rape, and robbery. In 2025, funds will also be prioritized to strengthen access to psychological help by reducing waiting times in the program.

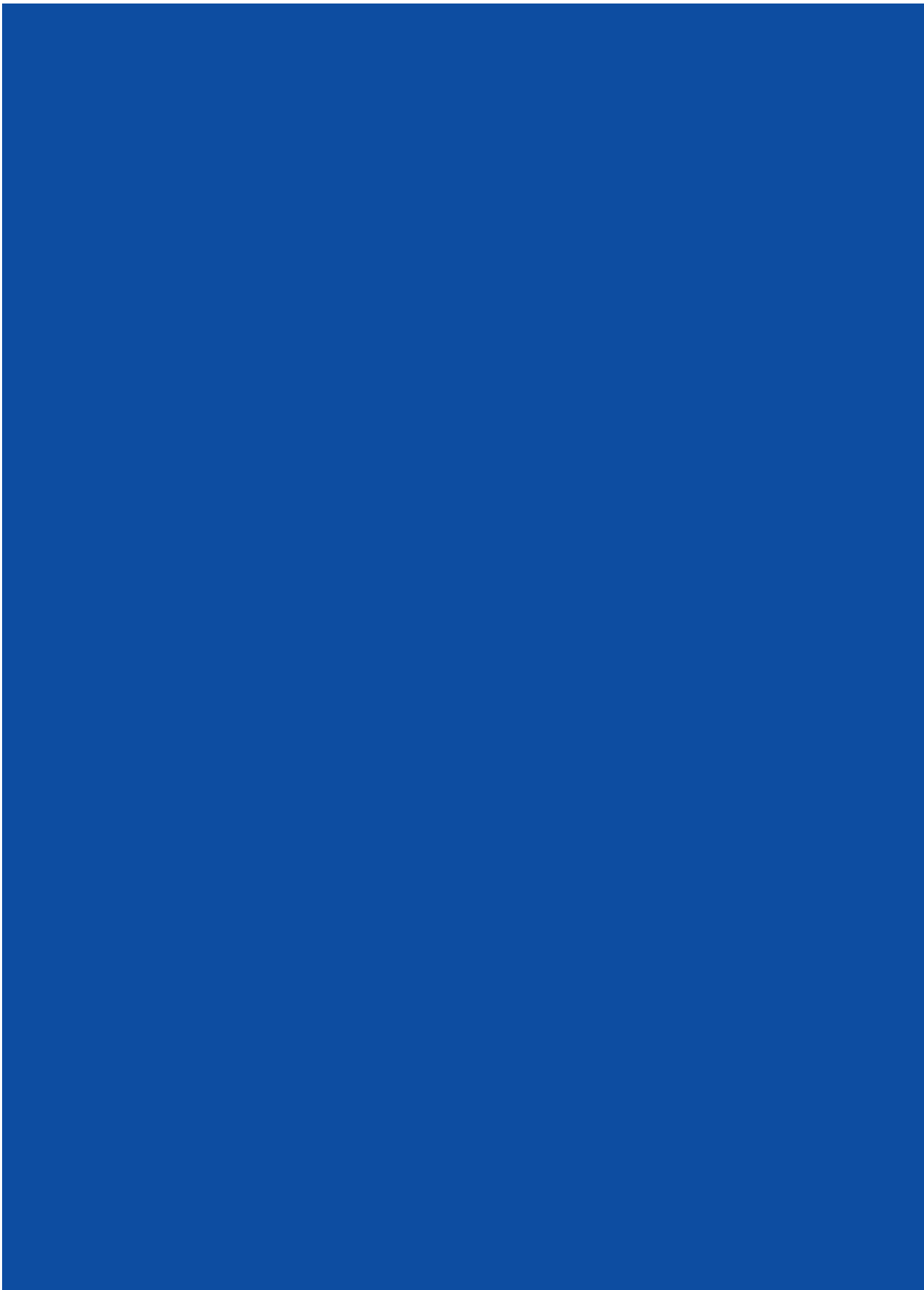
Better parental leave conditions for parents of newborns in hospital (DKK 5.0 mn. in 2025 and DKK 20.9 mn. annually from 2026 onwards): Funds are allocated to support parents of hospitalized newborns so they have better opportunities for a good start in the life with their children through an easing of the parental leave rules.

Extended right to bereavement leave (DKK 0.9 mn. in 2025 and DKK 1.6 mn. annually from 2026 onwards): Funds are allocated to extend the right to sick pay during bereavement leave when parents lose a child.

Green craftsman tax deduction and expansion of the service tax deduction (DKK 400 mn. annually from 2025 onwards): Funds are allocated to introduce a new green craftsman tax deduction with a limit of DKK 8,600, as well as an expansion of the existing service tax deduction with new services and an increase in the limit to DKK 17,500.

Strengthened dementia initiative (DKK 15.0 million in 2025 and DKK 20.0 million in 2026): Funds are allocated to strengthen the regional dementia diagnosis program, which can help reduce waiting times for dementia diagnosis.

Source: Agreement on the budget bill for 2025.



3. Does Denmark have a productivity challenge?

Denmark has seen very weak productivity development in recent years, and productivity has actually fallen in large parts of the economy since 2021. This development gives rise to several considerations. In the short term, weak productivity development may be a sign of an imbalance that, for example, requires adjustment in employment.

In a slightly longer perspective, productivity is an expression of how society's production resources are utilised and developed overall. Productivity development depends, among other things, on whether there is an efficient redistribution of production resources between industries and businesses, and on investments, education, innovation and adaptation of new technology. Factors such as leadership, well-being and the ability to adapt to change also play a role in productivity development.

In a long-term perspective, productivity development is crucial to the development of prosperity. Today, Denmark is one of the world's most prosperous countries. This is primarily because the level of productivity – the value created per hour worked – is among the highest in the world. However, if productivity growth remains weak, it could be a sign of inefficient resource utilisation or insufficient innovation, which could dampen the potential development of prosperity in the future.

There are many reasons why productivity development in parts of the economy has stalled. Recent years have been special in that major disruptions have hit the economy in the form of the corona pandemic and a period of high inflation, which has led to large fluctuations in demand and production. The Danish economy quickly returned to an economic boom after the pandemic, with businesses experiencing recruitment challenges, many new people finding jobs, and there may have been some hoarding of labour. Challenges in recruiting labour with the skills in demand may have made businesses more reluctant to adjust employment as demand and production slowed during the period of high inflation and rising interest rates.

Specific Danish conditions may play a role, but weak productivity development is currently a common phenomenon among European countries. It also raises questions as to whether there are more structural factors that affect competitiveness against the US and the rest of the world at a time when digitalisation and green transition are leading to major societal changes.¹

This theme chapter looks at Danish productivity development from different perspectives, with a particular focus on indications of whether the weak productivity development is a temporary or more persistent phenomenon. The chapter does not cover all aspects of productivity development. The analyses in this theme chapter point to, among other things:

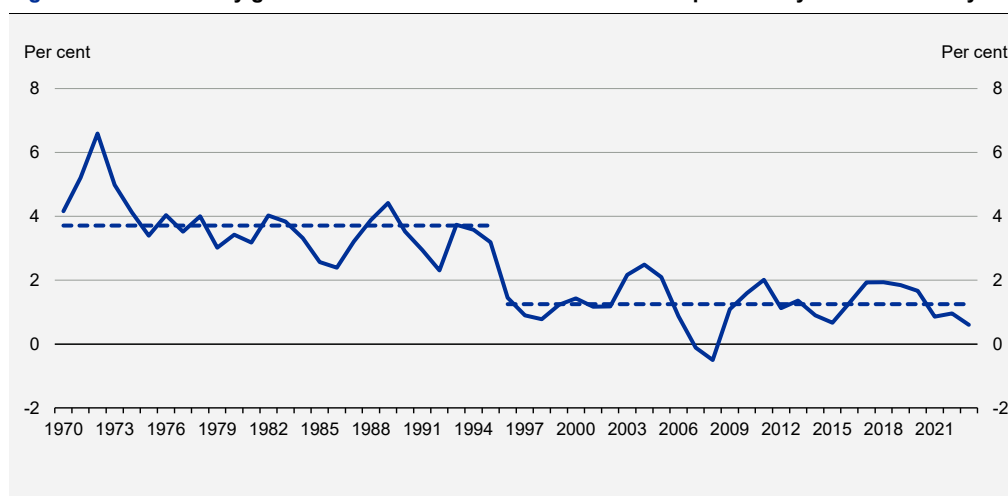
¹ This issue is raised in the EU report: The future of European Competitiveness – A Competitiveness Strategy for Europe (the so-called Draghi report).

- *Weak productivity growth in recent years is partly due to the economic boom.* Productivity growth has fallen since the mid-1990s, but has been particularly weak in recent years. Excluding Danish businesses' processing and sales of goods abroad (M&P activities), productivity has actually fallen since 2021. Productivity growth typically fluctuates a lot with the business cycle, and productivity growth typically falls late in an economic boom. The weak productivity development can therefore be partly explained by the fact that the Danish economy has been in a boom in recent years.
- *Strong labour market recovery in recent years affects productivity.* The boom has led to many new entrants to the labour market with lower productivity than the average employed person. In isolation, this is estimated to explain around a third of the weakening in productivity compared to the trend development from 2015 to 2019. On the other hand, it provides an opportunity to increase productivity growth in line with increasing learning and job experience.
- *Business dynamics contribute to higher productivity.* Over time, the reallocation of resources to more productive businesses and the entry of new businesses have contributed to increased productivity. There are no clear signs that business dynamics have weakened in recent years. This could have been a risk after the corona pandemic, where various aid packages helped support businesses during and after the lockdowns.
- *Strong productivity growth in the very largest companies.* In the Danish manufacturing sector, businesses with more than 2,000 employees (so-called mega-corporations) have more than twice the productivity level of other businesses, and especially in recent years these businesses have increased their value added per hour worked. The increase is partly due to merchandising and processing activities. Almost 90 per cent of intangible assets (such as patents, IT software and trademarks) that can be used to develop new products or improve existing ones are concentrated in large or mega-sized businesses.
- *Possible investment challenge in the service sector.* Productivity levels vary greatly between businesses, especially in the service sector, which is characterised by the production of many different services. The lower productivity in parts of the service sector is partly due to the fact that productivity cannot be increased by investments in capital equipment etc. in the same way as in the manufacturing sector. However, there are signs that investments have been weak in some service industries.
- *How can productivity be increased?* A substantial part of the weak productivity growth in recent years is largely considered to reflect temporary conditions. Therefore, productivity growth is expected to recover in the coming years in the forecast for the Danish economy.
- Underlying, long-term trends, including demographic developments and the green transition, may increasingly put downward pressure on per capita wealth in the future, highlighting the need for a productivity-enhancing organisation of the economy, including a focus on efficient resource allocation and technological development in production processes.

3.1 Weak productivity growth in recent years is partly due to the economic boom

Up until 1995, productivity growth in the Danish economy was relatively strong. Productivity growth then slowed somewhat, and in the private sector, productivity has grown by around 1.3 per cent annually since 1995, *cf. figure 3.1*.

Figure 3.1 Productivity growth has slowed over time and has been particularly weak in recent years



Note: Figure 3.1 shows hourly productivity in the private sector as a three-year moving average. The dashed lines are the average productivity growth in the periods shown.

Source: Statistics Denmark and own calculations.

A similar decline in productivity growth has also occurred in other advanced economies, due in part to a shift in production and demand towards the service sector, which has lower overall productivity growth and lower productivity level than the manufacturing sector, *cf. section 3.5*.

Since 2019, productivity growth has been particularly low, slowing down in the post-covid pandemic period when the economy quickly returned to a boom with particularly job-intensive growth, and in the period of subdued demand due to high inflation and higher interest rates, when the labour market has not made a corresponding adjustment.

The weak productivity growth becomes particularly evident when you consider that overall productivity growth is sustained by a significant contribution to gross value added (GVA) from M&P activities abroad. M&P activities abroad create added value domestically without a corresponding number of labour hours being directly linked to it. This pushes up overall productivity growth. Excluding the estimated contribution from M&P activities, there has been a decline in private sector hourly productivity since 2019, *cf. figure 3.2*. The weak productivity development thus applies to large parts of the Danish economy

The decline in productivity in the private sector excluding M&P took place especially during 2022 and into early 2023, *cf. figure 3.3*. During the same period, productivity fell almost equally for the private sector excluding manufacturing. Thus, it is clear that much of the growth

in the M&P activities is related to manufacturing - especially the pharmaceutical industry, which has grown significantly in recent years.²

Figure 3.2 Decline in private sector productivity sector without M&P contribution since 2019

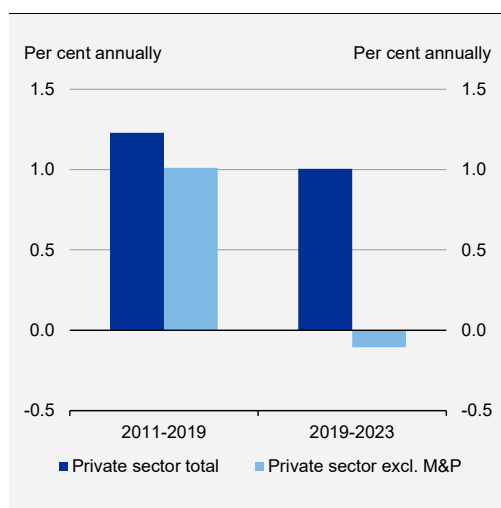
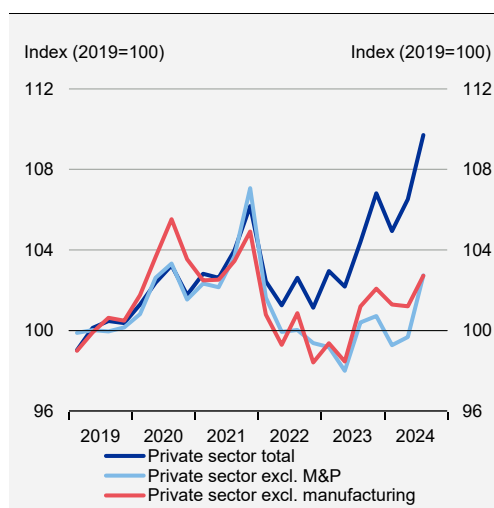


Figure 3.3 Lower productivity in parts of the private sector since 2021 has continued into 2024



Note: Own estimate for GVA related to M&P. It is assumed that there are no labour hours associated with the value added from M&P.

Source: Statistics Denmark and own calculations.

The decline in productivity also coincides with the fact that the Danish economy has been in a boom in recent years. Similarly, productivity growth also fell significantly during the boom in 2006-2008. This suggests that the economic cycle is at least part of the explanation for the weak productivity development.³

Productivity growth typically fluctuates a lot with the business cycle. For example, productivity growth in the private sector tends to be lower than GVA growth during boom periods (the output gap is positive), *cf. figure 3.4*.

The correlation with different phases of the business cycle can be illustrated by dividing boom periods into expansion (positive and widening output gap) and slowdown (positive but narrowing output gap), while periods of downturn can be divided into contraction (negative and widening output gap) and recovery (negative but narrowing output gap). Productivity growth tends to be highest in quarters of recovery and lowest in periods of slowdown, *cf. figure 3.5*.

Since 2018, the Danish economy has been in a boom, excluding the downturn during the covid pandemic. Since 2022, there has been some narrowing of the positive output gap, and historically, the lowest productivity growth has occurred during such periods of slowdown.

² In the national accounts, hours worked for the pharmaceutical industry are not published by quarter, so it is not possible to show the productivity development in the private sector excluding the pharmaceutical industry.

³ Another factor that should be emphasised is a large decline in real GVA in the financial and insurance activities industry, which is considered to be more due to deflating (price correction) than actual activity development. See e.g. The Danish Economic Councils (2024): Baggrundsnotat: Produktivitetsudviklingen, Danish Economy, Autumn 2024 and box 4.3 in Economic Survey, May 2024.

Figure 3.4 The difference in the private sector between hourly productivity growth and GVA growth fluctuates with the business cycle

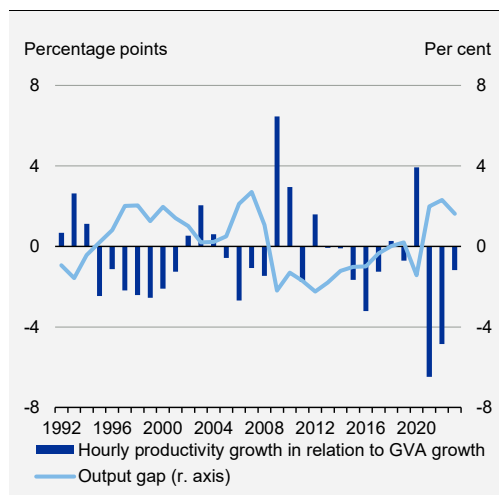
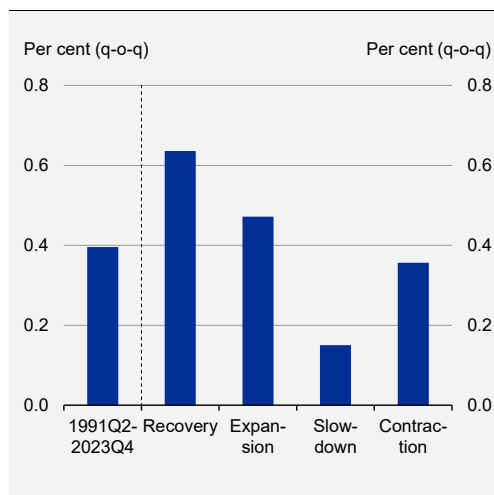


Figure 3.5 Hourly productivity in the private sector has typically grown the least during periods of slowdown



Note: Hourly productivity is real GVA per hour worked in the private sector. Output gap in figure 3.4 is per cent of structural GVA excl. mining and quarrying. In figure 3.5, *recovery* is defined as quarters with a negative but closing output gap; *expansion* is quarters with a positive and widening output gap; *slowdown* is quarters with a positive but narrowing output gap; *contraction* is quarters with a negative and widening output gap. The figure shows the simple average of the quarterly growth rates in the periods. However, the development in quarterly real hourly productivity should be interpreted with some caution.

Source: Statistics Denmark and own calculations.

3.2 Strong labour market expansion in recent years affects productivity

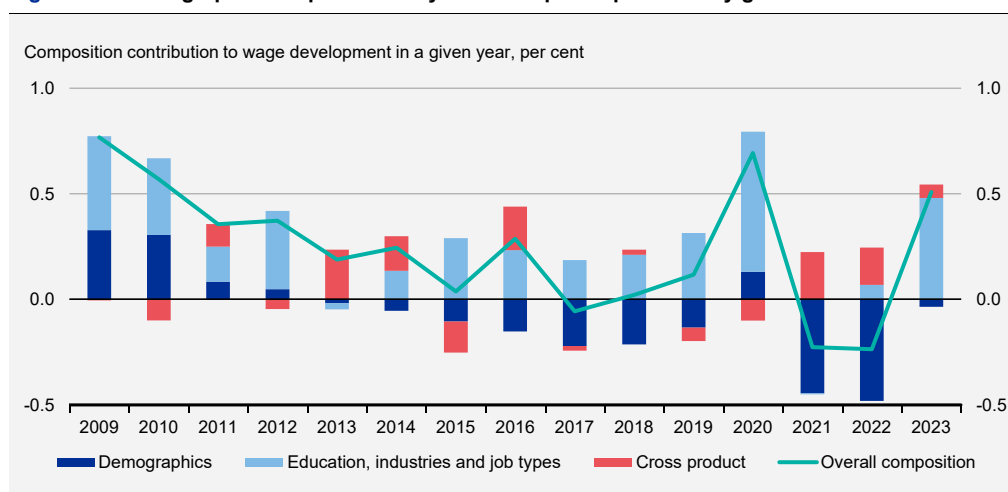
The relationship between productivity and business cycle developments should partly be seen in the context of labour market dynamics. Fluctuations in productivity growth may, among other things, be caused the demand for labour lagging behind changes in production. In addition, productivity is also affected by the composition of who is employed, as well as the recruitment and dismissal behaviour of companies. Temporary cyclical factors are estimated to have contributed to part of the weakened productivity growth since 2021. On the other hand, more structural compositional factors have contributed positively to productivity growth, including the general education and skill level of the labour force.

Labour force composition has suppressed overall wage and productivity growth since 2020

During the significant labour market expansion from 2021 till this year, there have been considerable changes in the composition of the workforce and employment. Many younger and elderly persons and persons with weaker ties to the labour market have entered employment, while at the same time there has been a significant influx of international labour, cf. *Economic Survey, August 2024*. The large expansion of the labour force has helped to meet a high demand for labour during this period and thus supported economic activity, but it is also assessed that the changing composition may have dampened average productivity.

Hourly wages and productivity often move in tandem.⁴ Using hourly wages as a proxy for productivity, demographic factors such as age, gender, and origin have contributed to dampened productivity growth in 2021 and 2022, *cf. figure 3.6*.⁵

Figure 3.6 Demographic composition may have dampened productivity growth in 2021 and 2022



Note: The figure shows the percentage difference between actual wage growth and the hypothetical wage growth in a given year if the composition had remained unchanged from the previous year. *Demographics* reflects the contributions from changes in age, gender, and origin, while *education, industries, and job types* show the contributions from changes in educational levels, job types (DISCO, broad grouping), and industries (nine-group classification). *Cross product* shows the difference between individual contributions and the total compositional effect and thus contains the effects of changes in the intersection between fundamental and demographic factors. The wage measure is the average hourly wage for all employees measured by the broad wage concept reported by Statistics Denmark.

Source: Statistics Denmark and own calculations.

According to the calculation, annual changes in the demographic composition contributed nearly -0.5 per cent in both 2021 and 2022. This is partly due to the increased participation of individuals with less experience and lower wage levels, who are assumed to have lower productivity—at least temporarily, until they gain more experience and skills. This includes younger people, immigrants and descendants, among others. In comparison, hourly productivity in the private sector in 2023 was around 3 per cent below the trend from 2015–2019. If this trend is used as a counterfactual scenario, changes in demographic composition accounted for nearly one-third of the productivity slowdown in 2023.⁶

⁴ See e.g. Ministry of Economic and Business Affairs (2009), Den danske produktivtetsudvikling, Economic Theme No. 8, November 2009. The strong positive correlation between real hourly productivity and real hourly wages also holds on average at the firm level as measured in microdata. More productive firms generally have higher wage levels. Theoretically, hourly wages should also correspond to the marginal product of labour. This is why hourly wages are often used as a proxy for productivity in microdata analyses.

⁵ For calculation purposes, the same price development is assumed in the actual and counterfactual scenarios, which means that the compositional contribution is the same in nominal and real terms.

⁶ In this calculation, hourly productivity in the private sector in 2023 is compared to a linearly projected trend for the period 2015–2019. The demographic contribution is based on the accumulated compositional effect of demographic changes from figure 3.6 for the period 2019–2023. This contribution corresponds to -0.8 per cent compared to a scenario where the demographic composition remained as it was in 2019. The calculation does not account for demographic effects on the preceding productivity trend.

Looking at more structural factors, developments in education levels and the composition of job types and industries have, in isolation, contributed positively to the average hourly wages (and likely productivity) since 2019. This indicates that structural factors such as the general educational and skill levels of the labour force have not contributed to weaker productivity growth.

Some groups with weaker ties to the labour market may have relatively lower productivity. In recent years, many of these persons with weaker labour market attachments have gained a foothold in the labour market. This is evident from the significant decline in long-term unemployment in 2022 and 2023, *cf. figure 3.7*.

Figure 3.7 Significantly fewer long-term unemployed in 2022 and 2023

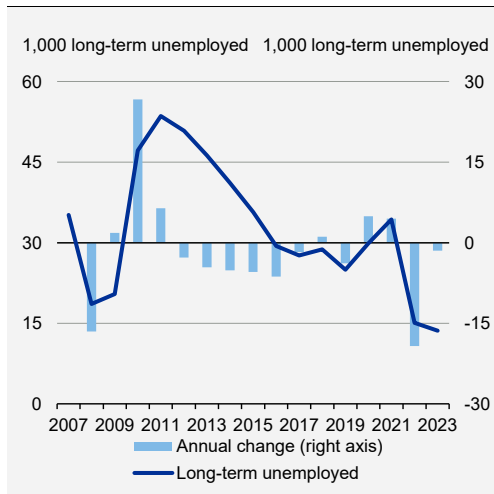
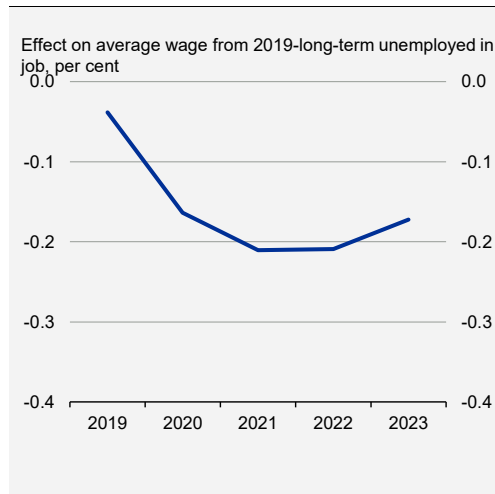


Figure 3.8 More long-term unemployed entering employment has slightly reduced average wages



Note: Long-term unemployed in 2019 are defined as persons who have been unemployed for at least 80 per cent of the previous 12 months, in line with the definition of *jobindsats*. Own calculation in figure 3.8.

Source: Statistics Denmark, *jobindsats.dk* and own calculations.

On average, these individuals tend to have slightly lower wages, and their employment has modestly dampened the average (unweighted) wage growth, *cf. figure 3.8*. In 2021 and 2022, this effect corresponded to approximately -0.2 per cent of average hourly wages compared to a scenario where they had not been employed. This indicates that the influx of these people may have dampened productivity growth during the period, but in the broader perspective it is of a relatively modest magnitude. In addition, the increase in 2023 may indicate that the dampening contribution may diminish over time as the individuals gain a stronger connection to the labour market.

Weaker job matching, less experience and labour hoarding are part of the explanation

Widespread recruitment challenges and higher costs associated with hiring workers in 2022 and 2023 may have led some companies to retain or hire additional labour despite relatively low demand for production in parts of the economy. The combination of high working hours and relatively low demand for goods and services may have further contributed to dragging

down productivity during this period. There have been signs of this in 2022 and 2023, with an increased number of companies hoarding labour, *cf. figure 3.9*.⁷

Figure 3.9 An increased share of companies have hoarded labour...

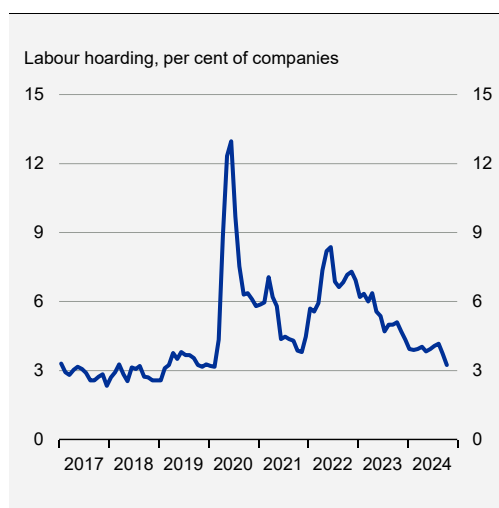
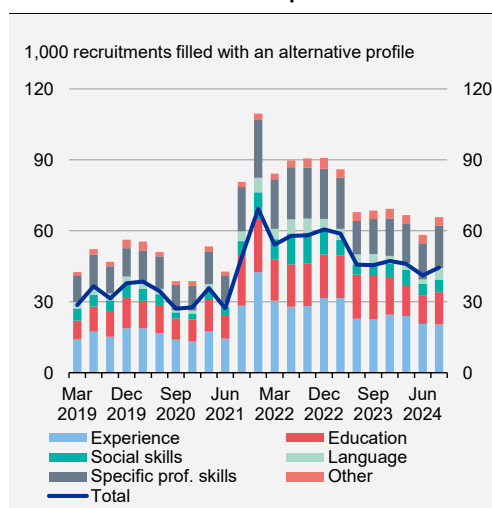


Figure 3.10 ... and more have compromised on the skills of new hires for a period of time



Note: Labour hoarding in figure 3.9 is defined as companies expecting constant or increasing employment levels while also anticipating declining activity. Shown as a three-month moving average. In figure 3.10, recruitments filled with an alternative profile (substituted) are defined as cases where the hired candidate did not meet the desired qualifications, as reported in STAR's recruitment survey. Stacked bars do not sum to the total, as companies may report multiple reasons for substituted recruitments.

Source: Statistics Denmark, European Commission, jobindsats.dk and own calculations.

During the same period, there have also been companies reporting labour shortages. As a consequence, some companies have had to compromise on candidate qualifications during recruitment. The number of so-called substituted recruitments, where a candidate who does not fulfil all the company's immediate wishes is hired anyway, has been extraordinarily high from the end of 2021 until the beginning of 2023, *cf. figure 3.10*. The high number was mainly driven by recruitments where the candidate did not have the required experience or education. Job matching during this period may therefore have been weaker than previously, potentially dampening productivity growth. However, as employees gain the necessary experience and skills, their productivity is expected to increase over time. Additionally, the recruitment of more international labour may have alleviated demand for candidates with specific experience or qualifications. This may have mitigated further deterioration in job matching and thus partially offset the slowdown in productivity growth during the period.

At the same time, a relatively high number of employees have changed jobs and potentially had less experience with new tasks, which may have had a negative impact on productivity development in the short term. However, the negative impact on productivity is expected to diminish in the longer term as employees gain more experience in their new positions. In the long term, job

⁷ Hoarding is defined here as companies that expect employment to remain constant or increase while expecting declining activity, *cf. The Joint Harmonised EU Programme of Business and Consumer Surveys, European Commission, January 2024*.

changes may also lead to a better allocation of labour, positively influencing productivity positively.

3.3 Business dynamics contribute to higher productivity

A key factor for increasing productivity is innovation and the use of new technology at the company level. Well-functioning markets and a sufficiently dynamic economy help ensure that production resources can be allocated to companies that are more productive and that less productive companies do not necessarily survive.

The allocation of production resources across industries and companies is not only a matter of where productivity is highest but also where demand is. It is therefore to a large extent, the market that determines how resources are distributed.

There is significant variation in how productive companies are within individual industries, cf. figure 3.11.⁸

Figure 3.11 Significant differences in productivity levels across the main sectors

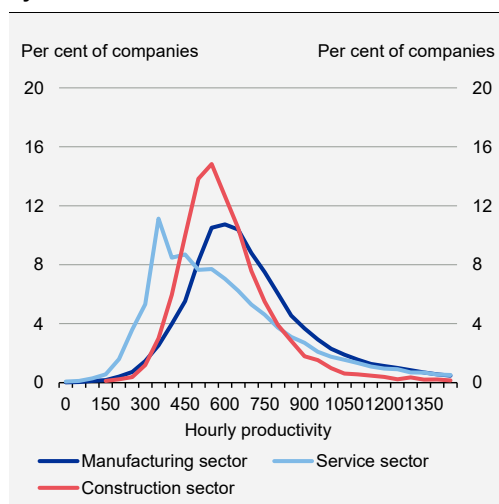
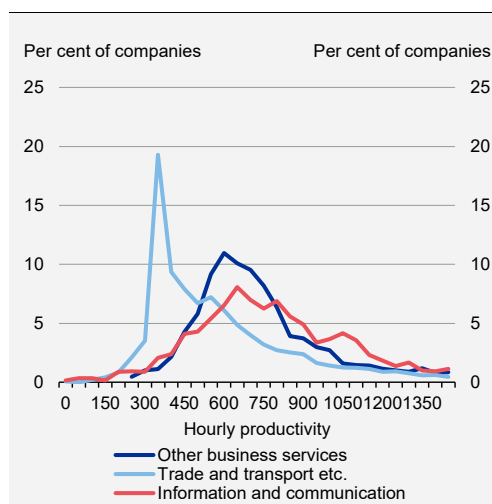


Figure 3.12 Also wide variation of productivity levels within the service sector



Note: Figure 3.11 illustrates the distribution of productivity levels across sectors in 2021–2022 for companies with more than five full-time employees. Productivity levels are measured as 1,000 DKK of value added per full-time employee in 2020 prices. Companies with productivity levels exceeding 1.5 million DKK per full-time employee are excluded, representing 4.3 per cent of manufacturing companies, 5.0 per cent of service companies, and 2.1 per cent of construction companies. Certain cross-sections between industries and productivity levels are subject to discretion. Differences in productivity levels may reflect various factors, including the use of capital in production, fluctuations in companies' hourly productivity from year to year (mean reversion), and measurement errors.

Source: Statistics Denmark and own calculations.

⁸ Productivity levels across industries should be compared with caution. This is partly due to the fact that the quality of price indices used to calculate real value creation varies considerably across industries. Manufacturing generally has good price indices, while the quality is generally poorer for construction and a number of service industries. See e.g. Statistics Denmark (2019): *Arbejdsproduktiviteten – En kvalitetsvurdering af timeproduktiviteten på brancheniveau*.

When comparing the distribution of productivity levels across the three main sectors— manufacturing, services, and construction—there is significant variation within manufacturing and especially within the service sector. The wide variation within the service sector and the relatively large number of businesses with low productivity levels may reflect a significant diversity in the types of services offered and their use of capital in production, but also that the service sector is not exposed to the same level of competition as the manufacturing sector.⁹ Looking at the most productive part of the service sector, it is much more comparable to the manufacturing sector in terms of productivity, *cf. figure 3.12*. This likely reflects the fact that these industries are also more internationally oriented.¹⁰ The productivity level is more uniform in the construction sector. In particular, there are fewer highly productive or low productive businesses within the construction sector.

To analyze the dynamics within industries in greater detail, it is possible to divide productivity growth into three contributions: internal growth, reallocation, and net entry, *cf. box 3.1*. Internal growth refers to the development of productivity within individual companies. The contribution from reallocation occurs when the share of hours worked— and thus the weight in the overall calculation—shifts among existing companies. Net entry reflects the contribution to productivity from newly established companies (or that for some other reason enters the dataset) while other companies are closed down (or that for some other reason exits the dataset).

Both reallocation and net entry are indicators of business dynamics. If these contributions are positive, productivity increases not only because individual companies become more productive but also because the allocation of resources (labour and capital) becomes more efficient.

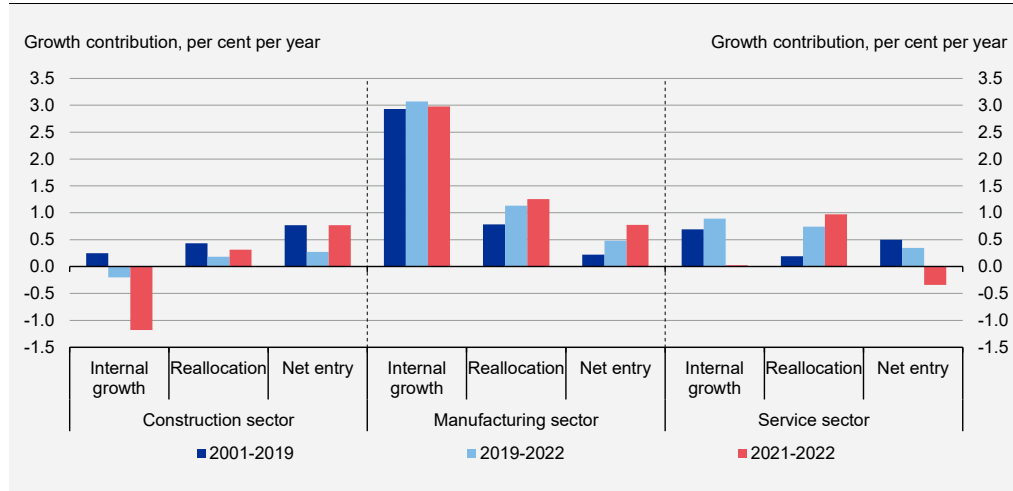
This analysis covers only a subset of all companies (including within the main sectors), but it can still provide an indication of the development in business dynamics. Both reallocation and net entry have contributed positively to productivity growth for companies within manufacturing, construction, and services during the period 2001-2019. Internal growth within individual companies has had the greatest impact on productivity for the included companies within the manufacturing and service sectors, while net entry had the most significant impact for construction companies, *cf. figure 3.13*.

For the companies examined, there have been no systematic signs of lower or higher contributions from business dynamics (i.e., reallocation and net entry) in recent years, based on the periods 2019-2022 and 2021-2022, compared to the previous 20 years. For manufacturing companies, the contribution from business dynamics has been slightly higher in recent years, while the opposite has been the case for construction and service companies—though the latter shows significant differences between 2019-2022 and 2021-2022. This analysis, therefore, does not immediately suggest that business dynamics have weakened after the Corona pandemic, during which various support packages helped ensure the survival of companies during and after the lockdowns.

⁹ See e.g. Danish Ministry of Finance (2016): *Økonomisk Analyse: Produktivitet og konkurrenceevne*.

¹⁰ See e.g. Danish Ministry of Economic Affairs and the Interior (2019): *Status på Danmarks produktivitetsudfordring*.

Figure 3.13 Business dynamics contribute positively to productivity growth across sectors and periods.



Note: Internal growth is positive when productivity increases within individual companies. Reallocation is positive when the most productive companies gain market share (in terms of hours worked) or when the least productive companies lose market share. Net entry is positive if new companies have higher productivity compared to existing ones, or if exiting companies have lower productivity compared to those that remain.

Source: Statistics Denmark and own calculations.

Box 3.1 Decomposition of hourly productivity based on company data

The growth in hourly productivity based on company data can be decomposed into three contributions, which sum up to the total productivity growth. The following method has been applied separately for each of the three main sectors in figure 3.13, as well as for the entire dataset.

The first contribution comes from internal growth within companies, which is the part of hourly productivity that results from growth in hourly productivity within each individual company. This contribution is calculated as:

$$\text{Internal growth} = \sum_{i \in C} \bar{w}_{i,s,t} * \Delta A_{i,s,t}$$

Where C indicates that the company is included in the dataset in both year t and $t-1$. The weight $\bar{w}_{i,s,t} \equiv \frac{\omega_{i,s,t} + \omega_{i,s,t-1}}{2}$ is calculated in two steps. In the first step, the company's share of the total hours worked within the company's industry (19 grouping) is determined. In the second step, the industry's (19 grouping) share of the total hours worked across all industries in the dataset is calculated based on the national accounts. The final weight is the product of the weights from steps 1 and 2. The weighting is, therefore, less sensitive to the industry composition within the dataset. $\Delta A_{i,s,t}$ denotes the change in hourly productivity in levels.

The second contribution is reallocation, which reflects changes in companies' shares of the total hours worked:

$$\text{Reallocation} = \sum_{i \in C} (A_{i,s,t} - \bar{A}_t) \Delta w_{i,s,t}$$

\bar{A} denotes the average aggregated hourly productivity (the average of year t and $t-1$). Aggregated hourly productivity is calculated as a weighted average of all hourly productivities, with w as the weight for each observation. It is worth noting that the aggregated hourly productivity for year t is calculated including new companies, meaning the population size is larger than C , which is used for the calculations of internal growth and reallocation.

The third contribution is net entry, which can be further divided into entry and exit. Entry is the contribution of new companies to hourly productivity. Exit accounts for the contribution from companies that were in the dataset the previous year but are not present in the current year. The formula for the contribution from net entry is given as:

$$\text{Net entry} = \sum_{i \in N} w_{i,s,t} * (A_{i,s,t} - \bar{A}_t) - \sum_{i \in X} w_{i,s,t-1} * (A_{i,s,t-1} - \bar{A}_t)$$

Where N represents companies that did not appear in the dataset the previous year. X denotes companies that are no longer present in year t , but were part of the dataset in $t-1$. Thus, net entry also captures general effects of data cleansing, such as those related to outliers, cf. appendix 3.1.

Note: See Danish Economic Councils: *Produktivitet 2022*.
Source: Statistics Denmark and own calculations.

3.4 Significant productivity growth in the largest companies

Differences in productivity among companies can be attributed to a number of factors, including the specific industries in which the companies operate, as some industries naturally have higher levels of productivity compared to others due to their specific production methods. This can be due to, among other things, differences in technology, market conditions, and the size of companies' capital equipment, such as machinery, buildings, and tools used in production, but also the type of production method, e.g. M&P-activities.

The sizes of companies also plays a crucial role for productivity, at least in certain industries. The so-called mega-corporations (with over 2,000 full-time employees) have, overall, experienced significantly higher productivity growth over the past 20 years and have a significantly higher productivity level than other companies, *cf. figure 3.14*. This is partly due to economies of scale, but another explanation could be related to better opportunities to invest in advanced technology and research.

Figure 3.14 The largest companies are the most productive

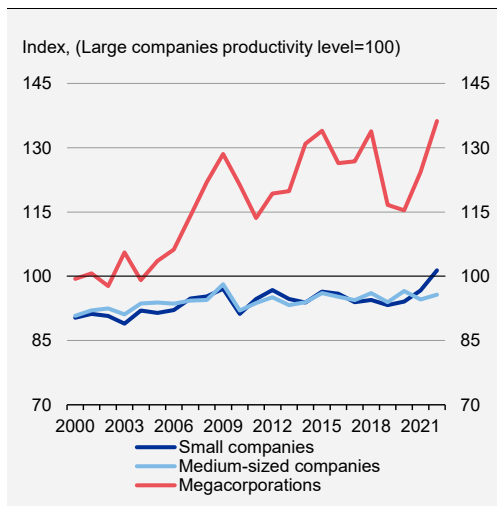
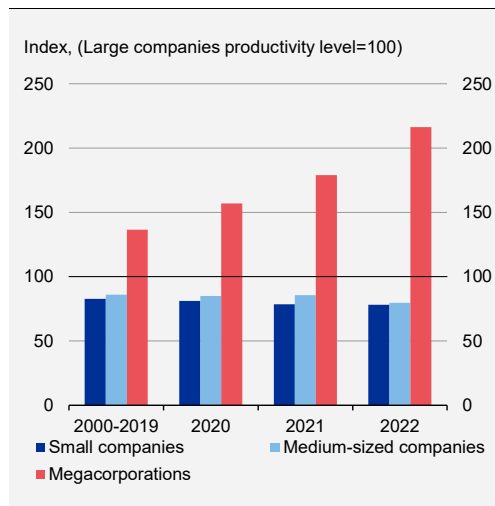


Figure 3.15 Especially within the manufacturing sector have mega-corporations outpaced other companies



Note: The figures display an index based on the average deviation from the median productivity in the companies' industry. Productivity is calculated as hourly productivity and value added is deflated at the 69-industry level, *cf. appendix 3.1*. Small companies: 10-49 full-time employees, medium-sized companies: 50-249 full-time employees, large companies: 250-1,999 full-time employees, mega-corporations: 2,000+ full-time employees

Source: Statistics Denmark and own calculations.

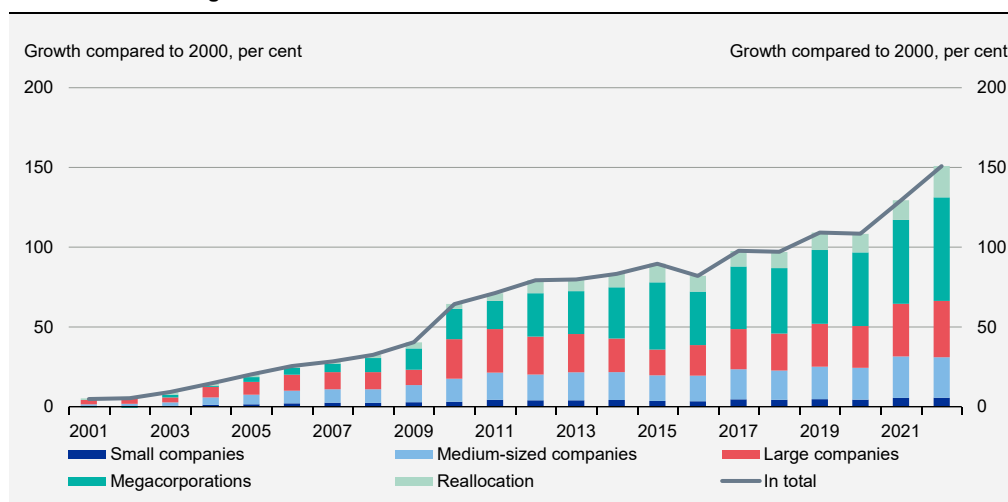
Mega-corporations have particularly stood out in the manufacturing sector, where they have shown significantly better performance than other companies in terms of productivity and growth. It is especially in the manufacturing sector that the largest companies have been able to benefit from technological advancements, economies of scale, and capital-intensive production methods, resulting in noticeably higher productivity compared to smaller companies. These companies are also characterized by a higher degree of automation and investment in production facilities than other companies. It is primarily the mega-corporations that have the re-

sources to leverage these investments, which, all else being equal, will increase hourly productivity. In 2022, the mega-corporations in the manufacturing sector were more than twice as productive as large companies, when adjusted for industry composition, *cf. figure 3.15*.

In the service sector, the relationship between company size and productivity is more complex. The service sector encompasses a wide range of activities, and productivity varies significantly among service companies, *cf. section 3.3*. This makes it more difficult to make generalized conclusions about the differences between large and small companies within the sector.

Mega-corporations have accounted for approximately 40 per cent of the productivity growth in the manufacturing sector since 2001, while small and medium-sized enterprises (SMEs) have accounted for about 20 per cent of the productivity growth, *cf. figure 3.16*. A shift in the labor force between companies of different sizes has, additionally, contributed 13 per cent of the total productivity growth.

Figure 3.16 The largest companies have driven a significant portion of the total productivity growth in the manufacturing sector



Note: The decomposition of hourly productivity is weighted by the company sizes' share of total hours worked. Micro-companies (less than 10 full-time employees) are excluded. Value added is deflated by the national accounts GVA-deflator for the manufacturing sector excluding oil refineries. See Appendix 3.1 for a description of the treatment of company data.

Source: Statistics Denmark and own calculations.

Intangible fixed assets plays a growing role in the Danish economy, particularly in industries such as the pharmaceutical industry, where innovation and knowledge are primary drivers of growth. Intangible fixed assets include assets such as patents, IT software, and trademarks. Large manufacturing companies are generally more capital-intensive than SMEs, which means that a substantial portion of capital investments are concentrated in large companies and mega-corporations. However, intangible fixed assets, in particular, are heavily concentrated in the largest companies, where nearly 90% of intangible fixed assets were concentrated in large companies or mega-corporations in 2022, *cf. figure 3.17*.

Intangible fixed investments can be used to develop new products or improve existing technologies. This can create a competitive advantage that is difficult for smaller companies to match, as

they often do not have the same resources to undertake such long-term investments. Intangible fixed assets can therefore contribute to productivity differences between companies and increased markups which the largest companies can impose on their products.

Figure 3.17 Intangible fixed assets are particularly concentrated in the largest companies

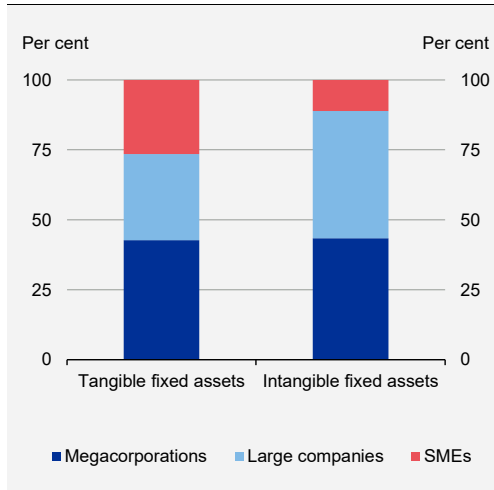
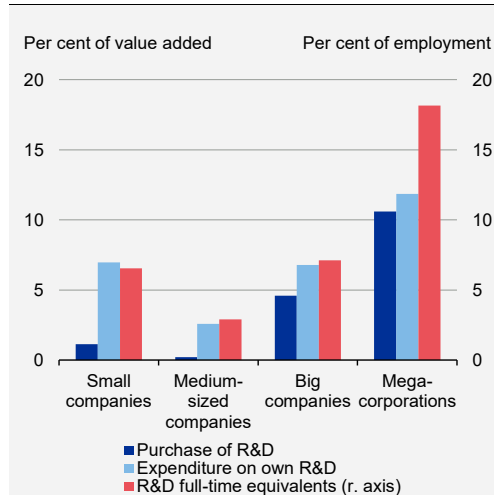


Figure 3.18 Research and development constitute a larger share of value added in the largest companies



Note: See appendix 3.1 for the description of the cleansing of company data. The calculated distribution of fixed assets may be affected by the data collection, as a larger share of SMEs are excluded due to insufficient available accounting data.
Source: Statistics Denmark and own calculations.

Mega-corporations also allocate the largest share of their value added to investments in research and development (R&D), with nearly one-fifth of employment in mega-corporations classified as R&D full-time equivalents, *cf. figure 3.18*.

The substantial investments in intangible fixed assets partly explain why mega-corporations in the manufacturing sector account for the vast majority of the manufacturing sector's M&P-activities abroad. Nearly three-quarters of the value added from M&P is generated by just seven mega-corporations in the manufacturing sector that engages in M&P activities. These international operations constitute a significant portion of the mega-corporations' overall business, with M&P constituting more than half of their total value added.

One explanation for the significant value added from M&P in mega-corporations is that it reflects a return on investments in intangible fixed assets such as research and patents. From this perspective, the substantial profits of Danish mega-corporations in the manufacturing sector can be compared to the return on a tangible fixed asset, such as a machines, which might take years to pay for itself through the use in production.

The export of M&P have grown significantly in recent years. Since overseas activities of mega-corporations are tied less to the use of labour in Denmark compared to traditional manufacturing, part of the growth in hourly productivity from M&P companies can be attributed to technical factors. This is due to the fact that increases in companies' value added does not result in a corresponding rise in domestic employment to the same degree compared to regular production of goods in Denmark. However, it can be challenging to precisely determine how much of a

company's employment is linked to domestic or international production, which makes it difficult to derive a domestic and international hourly productivity. Nonetheless, while M&P activities to some degree contribute to increasing companies' hourly productivity, the ability to produce and sell goods on the global market at a high profit margin also highlights that these companies already have highly competitive products and some degree of market power.¹¹

3.5 Possible investment challenge in the service industries

Productivity per hour depends among others on how much capital in form of buildings, machines, software etc. that is available to the individual employee. In recent years, for example, automation and the widespread use of robotic technology have meant that production can be carried out with fewer hands. This has freed up labor for other purposes. The capital stock is built up through investments, such as those in intangible assets described in the previous section.

Capital intensity, that measures the amount of capital relative to labour, has over time grown in pace with technological development. Since the mid-1990s, however, there has been a deviation in the trend growth of capital intensity in private urban industries as a whole, *cf. figure 3.19*.

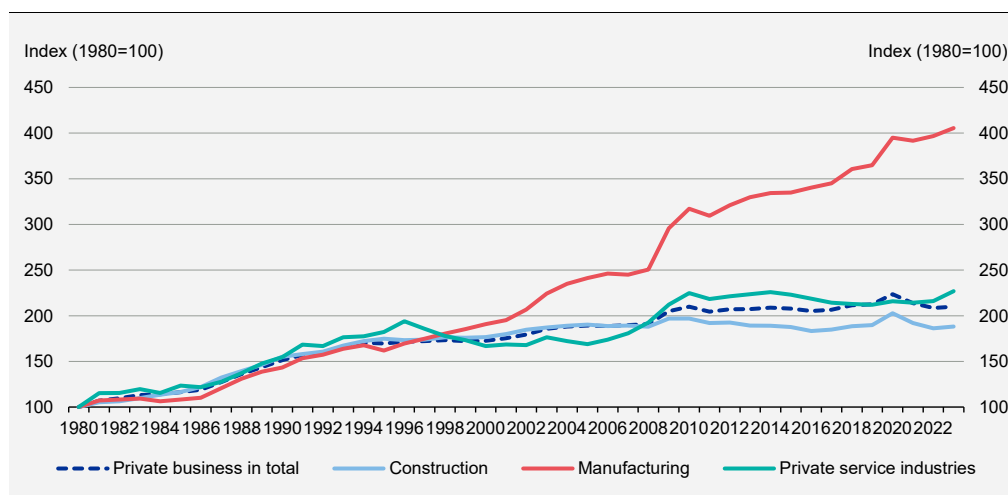
Furthermore, there have been fluctuations in the business cycle. Leading up to the financial crisis, there was significant capital accumulation, and the subsequent downturn resulted in idle production capacity and a reduced need for investment. During the COVID-19 pandemic, capital intensity temporarily increased due to the decline in employment, but it has since fallen below pre-pandemic levels, in line with strong growth in employment. This is also reflected in a more restrained investment appetite during the period of high inflation.

The smaller contribution from growth in capital intensity to productivity per hour in recent years may, to some extent, be caused by the business cycle.

At the same time, a continued upward trend in the number of working hours in service industries has contributed to keeping the overall level of capital per hour worked down, as many services do not require significant capital stock. Therefore, it cannot be expected that there will be a return to the historical trend growth in capital intensity, suggesting that part of the decline in labor productivity growth since 1995 is due to changes in the composition of the economy, making it more persistent.

There are significant differences in the development of capital intensity across industries. For example, in manufacturing, there are no clear signs of a deviation from the trend, as capital intensity has grown over time, including after the financial crisis and into 2023. In contrast, the development of capital intensity has been more flat for both construction and many private service industries since 1995, particularly after 2010. This could help explain the lower productivity growth (as measured by real GVA per hour worked) within these sectors.

¹¹ See Danish Economic Councils: *Produktiviteten 2024*, chapter III for an estimate of hourly productivity excl. M&P-activities

Figure 3.19 Moderate development in capital intensity within the construction and service industries

Note: Net capital stock (price-adjusted) per working hour. Manufacturing is industry excluding food manufacturing and oil refineries, etc. Private service industries exclude shipping, finance and insurance, as well as housing.

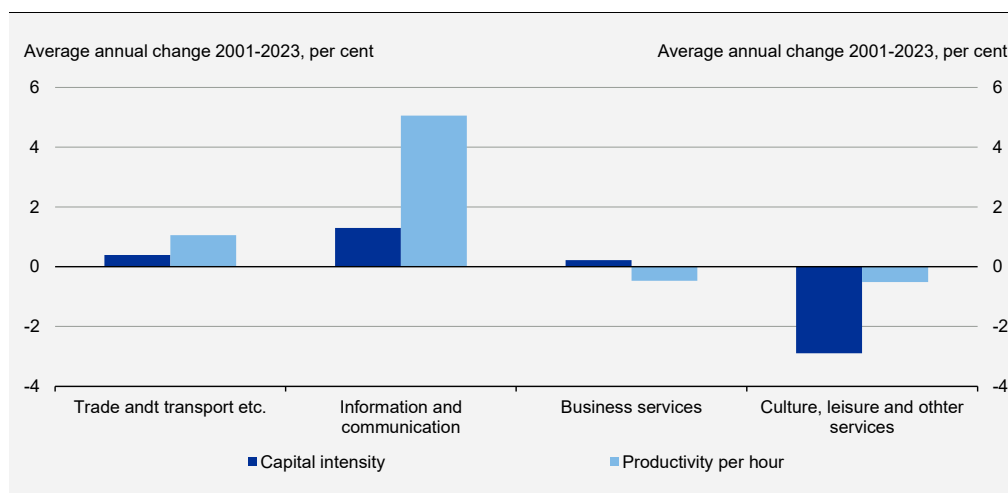
Source: Statistics Denmark and own calculations.

Within the private service industries, however, there are also differences in the development of capital intensity since 2010. For instance, the information and communication sector has generally increased its capital intensity over this period. On the other hand, capital intensity has remained unchanged in sectors such as trade, transport etc., and business services, while it has decreased in culture, leisure, and other services, *cf. figure 3.20*. This indicates that there is potential for improvement in productivity development if more of these service industries become more capital-intensive. However, this is not straightforward, as activities in these sectors are largely based on personal interaction.

The differences may also be related to the degree of competition with foreign markets. It has previously been shown that domestically oriented service industries generally have lower productivity growth than service industries exposed to international competition.¹² The domestically oriented industries include, among others, retail sale, consulting, hotels and restaurants etc., while the internationally competitive industries include, among others, wholesale trade, as well as shipping and aviation.

¹² See, for example, the Financial Report 2014 and the Productivity Commission 2013. Service industries exposed to international competition are typically defined as sectors where at least 25 per cent of the value added comes from exports, or where at least 25 per cent of the companies are foreign owned.

Figure 3.20 Large differences in the development of capital intensity and productivity across the service industries



Note: The capital stock is calculated net, at the end of the period, and in real terms. Productivity per hour is real GVA per hour worked.

Source: Statistics Denmark and own calculations.

3.6 How can productivity be increased?

Prosperity is fundamentally connected with productivity. The high level of prosperity per capita in Denmark and the high wage level in general thus reflects a high level of productivity, i.e. high value added relative to work effort. The weak development in productivity over the last few years in part of the economy is to a large extent considered to reflect temporary circumstances. If the weak development in productivity turns out to be more permanent, it can be a sign of inefficient resource allocation or inadequate innovation.

In the end productivity is a question of how production resources in an economy is used and developed. Developments in productivity thus depends on an effective redistribution of resources between sectors and business among other things, and of investments, education, innovation and adaption of new technology.

This is among others achieved through good regulatory framework conditions. Strengthening of competition is one option, while strengthening of investment incentives, elimination of unnecessary bureaucracy and reducing burdens imposed on business are other options. Lower tax on capital to support investments, and other initiatives that improves the investment climate and e.g. makes it more attractive for foreign companies to invest in Denmark could be other instruments. Furthermore are initiatives to promote innovation and business renewal and obtain a healthy level of competition. This also could be measures that strengthens the relevance of education for the private labour market, or raises the quality of education.

Denmark already has good regulatory framework conditions and a high productivity level compared to many other countries. However, measures targeted at strengthening productivity have continuously been implemented. This includes, among other things, a number of initiatives that

align with the recommendations of the Productivity Commission from 2014. For example, competition legislation was tightened in 2015, in 2016 a liberalization of the planning act was carried out to ensure freer conditions for retail sale, and in 2017 a political agreement to improve conditions for businesses and entrepreneurial activity was reached where e.g. tax credit on business expenditures on research and development was increased.

In recent years, several additional initiatives aimed at increasing productivity have been implemented, *cf. box 3.2*. For example, the political agreement on the entrepreneurial support strategy from June 2024 includes tax reductions and initiatives targeted at reducing administrative burdens on business. The business support package from June 2024 includes, among other things, a permanent increase in the R&D tax credit to 120 per cent in order to increase companies' incentives to invest in research and development.

Box 3.2 Selected government strategies with an impact on productivity

Entrepreneurial support strategy "Iværksætterstrategi" (June 2024):

The strategy includes, among other things, tax cuts, initiatives aimed at reducing the burdens on businesses, and initiatives focused on innovation. These measures are intended, among other things, to support the productivity of Danish companies.

Business support package "Erhvervspakke" (June 2024):

The package includes, among other things, an increase in the R&D tax credit to 120 per cent. In the announcement of the government's proposal for the business package, it was also stated that the government continues to have a goal of increasing the labor supply by 45,000 and will continue working to realize all the potentials outlined in the government's platform. Furthermore, the government will also focus on initiatives aimed at strengthening productivity.

The Digitalization Strategy "Digitaliseringsstrategien" (November 2023):

The strategy includes 25 concrete initiatives that set the direction for the digital development in the coming years, including areas such as artificial intelligence, green transition, and digital literacy among children and young people. A so-called regulatory sandbox for artificial intelligence will also be established, where businesses and authorities can receive legal guidance on the use of artificial intelligence in their projects.

Important sources of productivity improvements also include international trade, openness to cross-border investments, including companies' participation in global value chains, and a mobile labor force across borders. Productivity gains arise in this context, among other things, through opportunities for specialization and the spread of technology and knowledge.



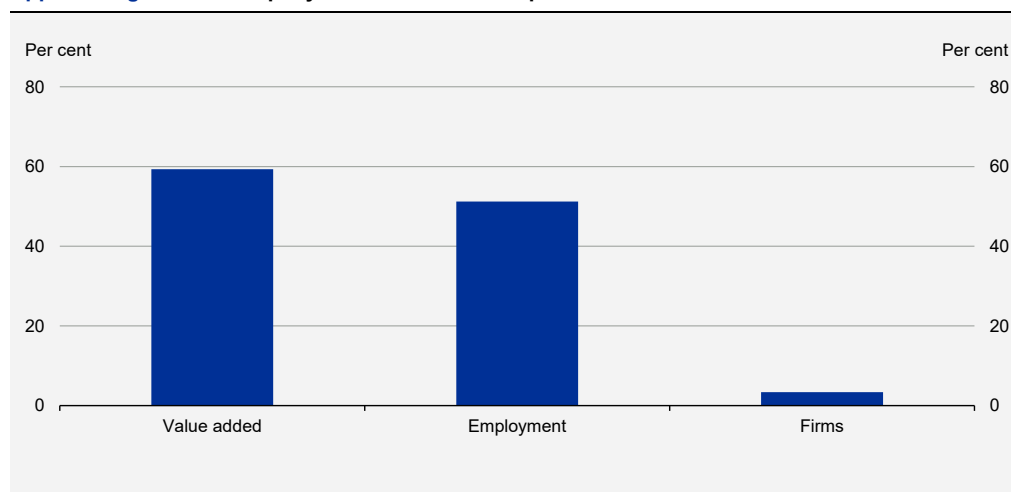
Appendix 3.1 Company data used in the chapter

The analysis in this chapter using company data is based on Statistics Denmark's accounting statistics for private non-agricultural industries (FIRE). The industries in utilities, finance and insurance, mining and quarrying, housing, shipping, oil refineries and the public sector are here excluded.

In line with similar analyses, are companies with fully or partially imputed accounting data in a given year excluded and so are companies with less than one employee (measured in full-time employment). Companies with a negative value added in either the current year, the previous year or the following year are likewise excluded from the dataset. Foundations and associations as well as companies that are characterized as an independent public company are also excluded, as the focus of the analysis is on private companies.

Next, companies that appear in the top and bottom 1 per cent of the distribution of productivity growth are excluded. These are companies that have either experienced a decrease in productivity of at least 60 per cent or an increase in productivity of at least 175 per cent. The intention is to remove extreme observations that are not considered comparable with the rest of the dataset.

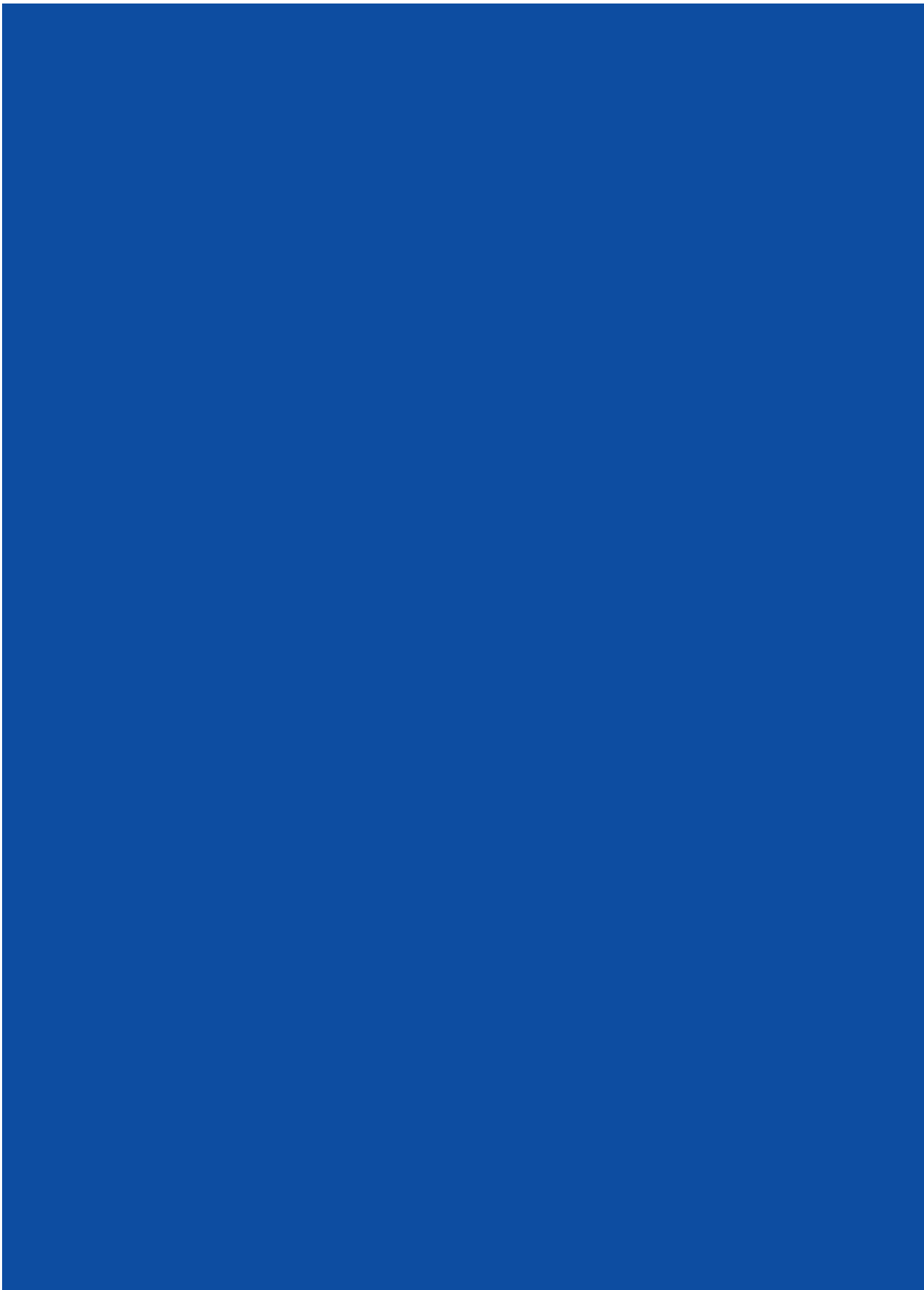
The analysis contains 162,000 observations in total, corresponding to 7,000 companies per year. Companies in the service sector account for just over 60 per cent of the companies in the dataset, while companies in the manufacturing and construction sector account for approximately 25 per cent and 15 per cent of companies respectively.

Appendix figure 3.1 Company data used in the chapter

Note: The included companies' share of total value added, employment (in full-time equivalents) and number of companies in 2022 for the specified industries.

Source: Statistics Denmark and own calculations.

The value added in each industry is deflated using the price development at the 69-industry level from the national accounts. This makes an implicit assumption that prices do not vary across companies within this given industry level.



Annex Tables

Table B.1 Demand, imports and production

	2024	2025	2026	2024	2025	2026	2024	2025	2026
	DKK bn.			Volume, per cent			Prices, per cent		
Private consumption	1,323	1,378	1,426	0.3	2.2	1.8	1.5	1.9	1.7
Public consumption ¹⁾	677	723	746	2.6	3.0	0.5	3.7	3.6	2.7
Public investments ²⁾	97	110	114	5.7	10.4	1.1	3.4	2.8	2.1
Residential investment	155	162	169	0.0	2.8	3.1	-0.5	1.5	1.0
Business fixed investment	376	391	403	-2.8	1.5	1.6	-0.4	2.2	1.5
Domestic demand excl. inventory investment	2,626	2,760	2,854	0.5	2.6	1.5	1.6	2.4	1.9
Inventory investment ³⁾	-7	-7	-7	-0.8	0.0	0.0			
Total domestic demand	2,623	2,757	2,851	-0.1	2.6	1.5	2.0	2.4	1.9
Exports of goods and services	2,005	2,114	2,206	6.0	4.7	3.5	-0.8	0.7	0.9
Total demand	4,628	4,870	5,057	2.5	3.5	2.3	0.7	1.7	1.5
Imports of goods and services	1,684	1,786	1,868	1.6	4.6	3.4	-1.2	1.4	1.1
Gross domestic product	2,944	3,084	3,189	3.0	2.9	1.7	1.9	1.8	1.6
Taxes on products, net	325	342	354						
Gross value added	2,619	2,742	2,835	3.6	3.1	1.7	1.6	1.6	1.6
- Non-farm private sector ⁴⁾	1,835	1,922	1,994	4.8	3.4	2.5	1.5	1.3	1.2
Gross national income	3,032	3,161	3,251						

Note: The division into volume and price components is made based on a fixed price calculation in the previous year's prices. The figures indicate the percentage increase compared to the previous year.

- 1) The change in volume for public consumption is calculated using the output method. For 2024-2026, 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		2022	2023	2024	2025	2026
USA	Federal Funds Target Rate	1.9	5.2	5.3	4.4	3.8
	3-month LIBOR	2.4	5.4	5.3	4.4	3.8
	10-year government bond	3.0	3.8	4.2	4.8	4.8
Euro area	Main Refinancing Operations Rate	0.6	3.8	4.1	2.7	2.4
	3-month EURIBOR	0.8	3.6	3.6	2.3	2.2
	10-year government bond (Germany)	1.1	2.4	2.4	2.4	2.5
Denmark	Certificates of deposit rate	0.0	2.9	3.3	2.2	1.9
	3-month CIBOR	0.6	3.5	3.5	2.2	2.1
	1-year adjustable mortgage rate	0.9	3.4	2.9	2.3	2.2
	10-year government bond	1.4	2.6	2.3	2.1	2.2
	30-year mortgage interest rate	3.7	4.8	4.3	4.0	4.0
	Average interest rate	1.4	2.8	3.2	2.5	2.5
Oil price						
	Dollar per barrel	100.8	82.5	80.4	73.3	75.0
	DKK per barrel	713.1	568.2	552.3	512.4	524.3
Exchange rate						
	DKK per 100 dollar	707.6	689.0	686.9	699.0	699.0
	DKK per 100 euro	744.0	745.1	745.9	745.8	745.8
	Effective Krone Rate Index (1980=100)	101.9	104.7	105.1	104.8	104.8
Real growth rate, per cent						
External assumptions						
	Export market growth ¹⁾ , per cent	8.0	0.9	1.5	2.9	2.8
	Trade weighted GDP-growth ²⁾ , per cent	2.7	1.1	1.6	2.0	2.1

Note: The projections are based on data through November 20, 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 2024, 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 November 2024 and own calculations.

Table B.3 Population and labour force

	2022	2023	2024	2025	2026
1,000 persons					
Total population	5,890	5,919	5,943	5,962	5,977
- Labour force	3,235	3,285	3,315	3,323	3,318
- Total employment	3,160	3,202	3,228	3,233	3,229
- Gross unemployment (incl. activation) ¹⁾	76	84	87	91	91
- Net unemployment	65	72	77	77	77
- Outside the labour force	2,655	2,634	2,628	2,638	2,659
- Early retirement pensioners outside the labour force	205	212	219	227	230
- Senior pensioners outside the labour force	17	22	25	28	28
- Voluntary early retirement	47	34	26	20	17
- Persons under 15 years	943	936	930	925	923
- Pensioners outside the labour force	963	966	990	1,004	1,018
- Others outside the labour force	479	462	439	434	443

Note: Recipients of education assistance benefit and other temporary benefits (kontanthjælp) are included as cash benefit recipients.

1) 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

	2022	2023	2024	2025	2026
1,000 persons					
Employment, total	3,160	3,202	3,228	3,233	3,229
- Service industries	1,695	1,724	1,736	1,734	1,728
- Construction	211	211	213	214	213
- Manufacturing	322	329	337	340	341
- Agriculture	66	65	65	66	66
- Public sector	866	873	877	880	880

Note: The sectoral breakdown in MAKRO is not entirely consistent with the classification used in the national accounts. The sectors of housing and maritime transport are included under service industries, while raw material extraction and energy supply are classified under manufacturing industries.

Source: Statistics Denmark and own calculations

Table B.5 Unemployment

	2022	2023	2024	2025	2026
1,000 persons					
Gross unemployment	76	84	87	91	91
- per cent of workforce	2.3	2.5	2.6	2.7	2.8
Net unemployment	65	72	77	77	77
LFS unemployment (per cent)	4.5	5.1	6.0	6.2	6.2

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.

	2022	2023	2024	2025	2026
1,000 helårspersoner					
Unemployment benefits (excl. activation)	55	63	67	66	69
Cash benefits (excl. activation)	64	61	62	55	55
Recipients of unemployment benefits and cash benefits in activation ¹⁾	21	20	20	25	25
Holiday benefit	2	2	2	2	2
Early retirement pensioners ²⁾	226	234	241	250	253
Senior pension	19	26	29	32	33
Resource assessment benefit	38	37	36	36	36
Voluntary early retirement	47	34	26	20	17
Early retirement	7	11	13	13	13
Flex job scheme benefit	3	2	1	1	1
Disablement rehabilitation benefit ³⁾	2	1	1	1	1
Sickness benefit ⁴⁾	86	79	79	78	78
Maternity leave	53	50	51	53	54
Benefit for unemployed	13	15	16	16	16
Self-support, home-travelling and transitional benefits ⁵⁾	14	14	12	19	18
Total	650	650	656	667	671
Student grant (SU) ⁶⁾	297	287	295	283	284
Total, including SU	947	937	951	950	955
Pensioners	1,102	1,008	1,133	1,149	1,165
Total, including SU and pensioners	2,049	1,945	2,084	2,099	2,120
Subsidised employment ⁷⁾	103	106	108	112	113
Total, including SU, pensioners and subsidised employment	2,152	2,051	2,192	2,211	2,233

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) The number of SU recipients are calculated as a simple average based on quarterly data and may differ from other figures due to adjustments made to avoid double counting.
- 7) 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

	2023 Level	2022	2023	2024	2025	2026
	DKK bn.	Real growth rate, per cent				
Gross fixed capital formation	633	2.8	-6.6	-0.3	3.1	1.9
<i>Divided into groups:</i>						
- Construction investments	323	-0.5	-4.5	1.2	3.6	2.1
- Tangible and intangible investments	310	6.1	-8.6	-1.9	2.5	1.7
<i>Divided into groups:</i>						
- Residential investments	156	-7.5	-12.4	0.0	2.8	3.1
- Public investments ¹⁾	88	1.8	-1.8	10.2	9.5	1.3
- Total business investments	389	7.9	-5.3	-2.8	1.5	1.6
- Construction investments	120	13.1	4.8	-4.0	0.5	0.5
- Tangible and intangible investments	269	6.0	-9.2	-2.3	2.0	2.0

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

	2022	2023	2024	2025	2026
DKK bn.					
Goods exports	1,056	1,106	1,219	1,303	1,370
Goods imports	1,005	921	939	990	1,032
Goods balance, total	51	185	280	313	338
Service exports	951	800	785	811	836
Service imports	730	756	745	796	837
Service balance, total	221	43	41	15	-1
Balance of goods and services	272	229	321	327	337
- Per cent of GDP	10	8	11	11	11
Investment income from abroad, net	106	97	107	95	81
Wage income from abroad, net	-17	-20	-21	-22	-23
Other current transfers from abroad, net ¹⁾	-28	-30	-26	-36	-47
Net transfers from abroad, total	60	47	60	37	12
Current account, total	332	276	380	365	349
- Per cent of GDP	11.7	9.8	12.9	11.8	10.9

1) Including EU payments, net.
Source: Statistics Denmark and own calculations.

Table B.9 Exports and imports

	2023	2022	2023	2024	2025	2026
	Mia. kr.	Real growth rate, per cent				
Exports						
Goods, total	1,106	5.6	5.5	9.1	5.8	3.8
- Electricity, fuels and gas	46	2.2	-0.3	5.7	15.2	-3.5
- Other goods	1,060	5.7	6.0	9.2	5.4	4.1
Services, total	800	9.5	15.9	1.8	3.0	3.0
- Maritime transport	349	-2.0	9.0	1.3	4.0	2.7
- Other services	380	15.8	30.2	2.0	2.0	3.2
Total	1,906	7.2	10.4	6.0	4.7	3.5
Imports						
Goods, total	921	-0.8	-4.2	1.2	4.4	3.1
- Electricity, fuels and gas	121	5.0	7.7	-1.5	-5.2	2.8
- Other goods	800	-1.6	-6.7	1.6	5.7	3.1
Services, total	756	12.5	14.7	2.1	4.7	3.9
- Maritime transport	242	-8.4	36.7	1.8	3.9	1.8
- Other services	515	24.4	1.1	2.2	5.1	4.7
Total	1,677	4.4	3.7	1.6	4.6	3.4
Change, per cent						
Export prices						
Goods, total	1,106	12.8	-0.7	1.0	1.0	1.3
Services, total	800	39.3	-27.4	-3.5	0.2	0.2
Total	1,906	23.9	-14.0	-0.8	0.7	0.9
Import prices						
Goods, total	921	23.0	-4.4	0.8	1.0	1.1
Services, total	756	23.2	-9.6	-3.5	2.1	1.2
Total	1,677	23.1	-6.8	-1.2	1.4	1.1

Source: Statistics Denmark and own calculations.

Table B.10 Private consumption

	2023	2022	2023	2024	2025	2026
	DKK bn.	Real growth rate, per cent				
Total consumption	1,299	-2.1	1.4	0.3	2.2	1.8
- Purchase of vehicles	64	-8.1	28.5	-10.8	5.0	3.0
- Housing	291	0.8	2.1	0.4	1.9	2.0
- Electricity, fuels and gas	91	-12.5	0.1	-1.0	0.4	0.4
- Other goods	415	-3.7	-4.0	0.1	2.4	1.8
- Other services	462	6.6	2.6	2.0	2.4	1.9
- Tourism expenditures	46	20.3	20.1	6.6	3.0	2.5
- Tourism revenues	70	89.6	7.9	3.2	4.0	3.0

Note: Total private consumption is the sum of the subcomponents, excluding tourism revenues..

Source: Statistics Denmark and own calculations.

Table B.11 Net lending by sector

	2022	2023	2024	2025	2026
DKK bn.					
Private sector, total	235	173	285	309	303
- Households	-22	-9	53	44	42
- Corporations	257	182	232	265	261
General government	98	93	86	49	41
Total	333	266	370	357	344

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	2022	2023	2024	2025	2026
	Share, per cent	Real growth rate, per cent				
Total GVA	100	2.4	3.0	3.6	3.1	1.7
Public sector	19	0.4	1.1	0.5	0.8	0.0
Private sector	81	2.9	3.4	4.3	3.6	2.1
Private sector excl. mining and quarrying	80	2.9	3.5	4.1	3.2	2.3
Non-farm private sector ¹⁾	69	2.6	2.0	4.8	3.4	2.5

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	2022	2023	2024	2025	2026
		Real growth rate, per cent				
Total	1.0	-1.3	2.0	3.1	3.0	2.0
Public sector	0.4	0.1	0.7	0.4	0.4	0.2
Private sector	1.2	-2.0	2.2	3.7	3.6	2.5
Private sector excl. mining and quarrying	1.5	-2.0	2.3	3.5	3.1	2.7
Non-farm private sector ¹⁾	1.4	-2.5	0.8	4.1	3.3	2.8

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 income¹⁾

	2022	2023	2024	2025	2026
Real growth rate, per cent					
Disposable income	1.8	2.2	2.5	2.7	2.2
Contribution, percentage points					
Compensation of employees ²⁾	-0.8	1.5	4.7	2.2	1.5
Social benefits	-2.3	0.1	1.0	1.0	1.4
Income taxes	6.0	-0.7	-2.8	-1.0	-1.2
Net interest income	1.7	-1.1	-1.7	-0.5	-0.2
Dividend etc. ³⁾	1.2	1.5	0.6	0.0	0.4
Pension contribution	-3.5	0.3	1.3	1.0	0.5
Payment from pension schemes ⁴⁾	-0.6	0.7	-0.5	-0.2	-0.2

1) The household sector in the Economic Survey includes Non-Profit Institutions Serving Households (NPISH).

2) Covering only employees residing in Denmark.

3) Incl. dividends from investment funds.

4) Occupational pensions etc. (but not individual pension schemes in banks, etc.).

5) Including the self-employed.

Source: Statistics Denmark and own calculations.

Table B.15 Households' net lending¹⁾

	2022	2023	2024	2025	2026
DKK bn.					
Disposable gross income	1,266	1,331	1,384	1,449	1,505
Private consumption	1,246	1,299	1,323	1,378	1,426
Gross investment ²⁾	163	153	136	143	150
Net capital transfers ³⁾	8	5	5	6	3
Direct net lending	-135	-116	-69	-66	-68
Adjustment for the change in pension entitlements ⁴⁾	113	108	122	109	110
Net lending⁵⁾	-22	-9	53	44	42
Per cent of disposable gross income					
Direct net lending	-10.7	-8.7	-5.0	-4.5	-4.5
Net lending	-1.7	-0.6	3.9	3.0	2.8

- 1) The household sector in the Economic Survey includes Non-Profit Institutions Serving Households (NPISH).
2) Households' gross investments include investments in owner-occupied housing and investments in buildings and materials by sole proprietors.
3) 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.
4) Net payments to and returns (excl. tax on pension yield) on household capital in life insurance companies and pension funds.
5) 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

	2022	2023	2024	2025	2026
Per cent					
Change in the price of traded single-family houses	1.9	-2.6	3.8	3.3	3.0
Housing gross investment (real growth)	-7.5	-12.4	0.0	2.8	3.1

Source: Statistics Denmark and own calculations

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

	2022	2023	2024	2025	2026
Labour wage ratio, per cent					
Private sector	52.1	55.7	56.0	55.3	55.1
The entire economy	58.2	61.3	61.6	61.1	60.9
Wage increase, per cent					
Private sector					
- Hourly earnings (excl. nuisance bonus)	4.0	4.2	5.3	3.4	3.2
Public sector					
- Hourly earnings (excl. nuisance bonus)	2.5	2.4	-	-	-
- Budgetary impact	1.9	2.4	5.0	4.1	3.4
Wage adjustment rate, per cent	1.2	2.7	3.2	3.6	5.5

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 2022-2023 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. The adjustment percentage for 2022-2025 follows the published rates in the relevant regulations. The adjustment percentage for 2026 is based on the estimated wage growth in the private sector two years prior, taking into account that the abolition of "store bededag" as a public holiday generally means an increase in the annual working time by one whole day for a full-time employee.

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

Table B.18 Price developments and explanatory factors

	2022	2023	2024	2025	2026
Year-to-year change, per cent					
Net price index	7.7	4.0	1.1	1.9	1.5
Tariffs and housing benefits, contribution	0.0	-0.7	0.4	0.0	0.2
Consumer price index	7.7	3.3	1.5	1.9	1.7

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

	2022	2023	2024	2025	2026
DKK bn., current prices					
Public consumption	624.5	636.4	677.0	722.7	746.1
Income transfers ¹⁾	387.9	399.8	418.8	441.4	469.7
Investments	87.1	89.1	97.3	110.4	113.9
Interest expenditures	20.3	18.6	19.1	22.0	23.0
Subsidies	39.9	36.0	42.0	43.9	44.4
Other expenditures ²⁾	91.1	106.0	102.1	106.3	104.1
Total expenditure³⁾	1,250.8	1,285.8	1,356.3	1,446.8	1,501.1
Personal income taxes, etc. ⁴⁾	570.3	593.5	627.7	641.1	662.2
Labour market contributions	117.1	120.7	129.8	135.2	139.6
Pension yield taxation	11.2	13.0	17.8	26.4	32.4
Corporate taxes	94.3	106.1	125.0	126.6	124.8
VAT	266.0	259.2	265.4	278.5	287.5
Other duties	143.1	132.4	129.5	134.5	138.2
Other taxes ⁵⁾	2.3	2.2	2.3	2.4	2.6
Interest revenues	29.9	42.2	38.7	44.4	43.8
Other revenues ⁶⁾	119.0	112.9	109.3	110.3	114.9
Tariffs etc. to the EU	-4.6	-3.6	-3.8	-4.0	-4.2
Total revenue⁷⁾	1,348.7	1,378.6	1,441.9	1,495.4	1,541.8
General government budget balance	97.9	92.7	85.6	48.6	40.6
Net interest expenditure	-9.6	-23.7	-19.6	-22.3	-20.9
General government primary balance ⁸⁾	88.3	69.1	66.0	26.3	19.7

- 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, development assistance 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.	2022	2023	2024	2025	2026
Indirect taxes	404.6	387.9	391.2	409.1	421.5
- VAT	266.0	259.2	265.4	278.5	287.5
- Registration tax	11.5	10.7	7.3	7.3	7.5
- Excise duties	68.4	57.5	63.9	66.8	67.9
- Energy (incl. PSO)	38.4	27.5	33.9	35.4	36.2
- Environmental	3.7	3.5	3.6	4.6	4.7
- Tobacco and spirits etc.	11.3	12.0	11.5	11.6	11.5
- Others	14.9	14.4	14.9	15.2	15.5
- Property taxes	33.1	33.5	27.5	27.7	28.7
- Motor vehicle tax paid by businesses	4.2	4.1	4.0	5.7	5.9
- Other indirect taxes	21.4	22.9	23.0	23.0	24.0
Direct taxes	785.5	826.6	894.1	924.0	953.6
- Withholding taxes ¹⁾	547.4	570.6	605.9	620.4	640.9
- State tax	188.6	197.7	211.1	222.2	229.2
- Bottom tax	164.0	172.8	183.9	192.6	200.7
- Middle tax	0.0	0.0	0.0	0.0	15.1
- Top tax	22.0	22.4	25.2	27.6	10.0
- Top-top tax	0.0	0.0	0.0	0.0	1.3
- Total municipal tax ²⁾	282.6	297.1	321.6	331.6	342.7
- Property value tax	14.4	14.4	14.4	13.8	14.1
- Other withholding taxes ³⁾	61.8	61.4	58.8	52.8	54.8
- Pension yield tax	11.2	13.0	17.8	26.4	32.4
- Corporate tax	94.3	106.1	125.0	126.6	124.8
- Other personal taxes	8.4	9.1	8.5	8.4	8.4
- Motor vehicle tax paid by households	7.1	7.1	7.1	7.0	7.5
- Labour market contributions	117.1	120.7	129.8	135.2	139.6
Social security contributions ⁴⁾	2.3	2.2	2.3	2.4	2.5
Capital taxes	7.4	6.7	6.2	5.3	5.4
Customs and import duties (collected by the EU)	4.6	3.6	3.8	4.0	4.2
Total taxes	1,204.4	1,227.1	1,297.5	1,344.7	1,387.0
GDP	2,844.2	2,804.7	2,943.8	3,084.0	3,188.9
Total taxes, share of GDP	42.3	43.8	44.1	43.6	43.5

1) For 2020-2023, the distribution of withholding taxes to the state and municipalities is from Statistics Denmark. For 2024-2025, an estimate is used based on the Ministry of Finance's tax base forecast.

2) Also includes individuals with limited tax liability.

3) Includes equity income tax, tax on estates of deceased persons and revenue from the Danish business scheme etc.

4) Includes mandatory pension payments for civil servants in public enterprise etc.

Source: Statistics Denmark.

Table B.21 Development in the tax base for municipalities

	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
	DKK bn.					Per cent				
Dec. 2020	1,087.2	-	-	-	-	1.5	-	-	-	-
May 2021	1,085.6	-	-	-	-	1.4	-	-	-	-
Aug. 2021	1,081.7	-	-	-	-	0.6	-	-	-	-
Dec. 2021	1,104.2	1,153.8	-	-	-	0.9	4.5	-	-	-
May 2022	1,105.9	1,148.2	-	-	-	0.3	3.8	-	-	-
Aug. 2022	1,122.8	1,148.8	-	-	-	-1.2	2.3	-	-	-
Mar. 2023	1,154.2	1,185.7	1,233.2	-	-	1.9	2.7	4.0	-	-
May 2023	1,160.9	1,193.6	1,230.1	-	-	2.5	2.8	3.1	-	-
Aug. 2023	1,140.0	1,195.7	1,249.2	-	-	0.6	4.9	4.5	-	-
Dec. 2023	1,140.0	1,203.3	1,265.4	1,310.3	-	0.6	5.5	5.2	3.6	-
May 2024	1,140.0	1,193.2	1,280.9	1,300.8	-	0.6	4.7	7.3	1.6	-
Aug. 2024	1,138.0	1,197.0	1,285.9	1,315.0	-	0.5	5.2	7.4	2.3	-
Dec. 2024	1,138.0	1,197.9	1,300.4	1,340.7	1,386.2	0.5	5.3	8.6	3.1	3.4

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

	2022	2023	2024	2025	2026
DKK bn.					
Unemployment benefits (excl. activation)	11.7	13.7	15.2	15.0	17.1
Cash benefits ¹⁾ (excl. activation)	27.8	29.4	31.4	33.4	35.0
Vacation allowance	0.5	0.5	0.4	0.5	0.5
Anticipatory pensions ²⁾	47.7	51.2	53.9	57.9	61.9
Resource rehabilitation allowance	6.6	6.5	6.4	6.6	7.2
Early retirement benefit	7.8	5.7	4.6	3.6	3.2
Rehabilitation benefit	0.4	0.3	0.3	0.3	0.2
Sickness benefit	16.5	14.8	15.4	15.7	16.6
Maternity pay	12.0	11.9	12.3	13.0	13.9
Rent benefit	15.6	16.0	16.8	18.2	19.1
Child and youth benefit	14.9	15.8	16.1	16.7	16.7
Other transfers ³⁾	24.6	23.3	21.7	24.2	25.7
Student grants (SU)	20.0	19.9	20.4	21.1	22.5
Public pension scheme ⁴⁾	145.2	151.7	163.3	172.6	184.9
Other pension schemes ⁵⁾	36.5	39.0	40.7	42.5	45.1
Total⁶⁾	387.9	399.8	418.8	441.4	469.7
Total, excl. public and other pensions	206.2	209.1	214.9	226.3	239.7
Total, excl. education grants, public pensions and other pensions	186.2	189.2	194.5	205.2	217.1

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 Estimates of key variables at different points in time

	May 2023	Aug. 2023	Dec. 2023	May 2024	Aug. 2024	Dec. 2024
2023						
GDP (real growth rate, per cent)	0.6	1.2	1.2	1.9	2.5	2.5
Gross unemployment (1,000 persons)	91	85	84	84	84	84
Consumer prices (change, per cent)	4.3	3.8	3.4	3.3	3.3	3.3
Balance of payments (DKK bn.) ¹⁾	232	266	300	304	276	276
Actual budget balance (DKK bn.)	51	56	77	87	93	93
2024						
GDP (real growth rate, per cent)	1.4	1.4	1.4	2.7	1.9	3.0
Gross unemployment (1,000 persons)	97	94	97	89	87	87
Consumer prices (change, per cent)	3.0	3.0	2.8	2.1	1.8	1.5
Balance of payments (DKK bn.) ¹⁾	243	287	347	325	307	380
Actual budget balance (DKK bn.)	16	29	44	48	56	86
2025						
GDP (real growth rate, per cent)	-	-	1.0	1.8	2.2	2.9
Gross unemployment (1,000 persons)	-	-	101	95	89	91
Consumer prices (change, per cent)	-	-	2.1	2.1	2.0	1.9
Balance of payments (DKK bn.) ¹⁾	-	-	339	332	310	365
Actual budget balance (DKK bn.)	-	-	23	21	31	49
2026						
GDP (real growth rate, per cent)	-	-	-	-	-	1.7
Gross unemployment (1,000 persons)	-	-	-	-	-	91
Consumer prices (change, per cent)	-	-	-	-	-	1.7
Balance of payments (DKK bn.) ¹⁾	-	-	-	-	-	349
Actual budget balance (DKK bn.)	-	-	-	-	-	41

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

The background image is a blurred photograph of an industrial factory floor. It shows various pieces of machinery, metal structures, and overhead lighting, creating a sense of a busy manufacturing environment. A large, semi-transparent blue rectangle is overlaid on the top left portion of the image.

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