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Overview

The global economic system is strongly affected by the trade conflict that has materialised in 2025 following the transition to the new American administration. The marked increase in tariffs on imported goods that the United States has either implemented or announced has contributed to great uncertainty and turbulence in the financial markets – not least after April 2, when the so-called "retaliatory tariffs" were announced, *cf. figure 1*. The tariff increases are assessed to have serious consequences for world trade and global value chains. Across countries – including Denmark – this has led to a decline in both business confidence and consumer confidence, and it is also expected to dampen growth in investments and consumption.

The Danish economy is well positioned to withstand tariff increases and other disruptions to the international economy. Economic growth in the final quarter of 2024 was strong, and GDP increased by 3.7 per cent for the year, of which just over half can be attributed to the pharmaceutical industry. Even outside the pharmaceutical industry, there was growing activity, and employment continued to increase. Thus, the Danish economy is assessed to be in a moderate boom-phase when the trade conflict started, and both households and companies have a robust economic position overall. At the same time, Danish companies' sales and production, which take place in the USA, could shield parts of exports from tariffs, including particularly of pharmaceutical products.

Figure 1 Extraordinary uncertainty regarding trade policy

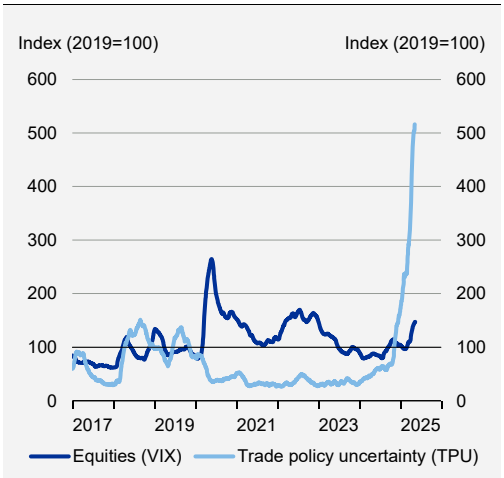


Figure 2 Continued GDP growth and high employment

Note: In figure 1, VIX is a measure of the volatility of US stocks (S&P 500), while TPU is an index of trade policy uncertainty in the US constructed by counting the frequency of common occurrences of trade policy and uncertainty concepts across major newspapers. The series are shown as 3-month moving averages. Real GDP and employment incl. persons on leave in figure 2.
Source: Macrobond, Statistics Denmark and own calculations.

Nevertheless, the tariff increases will have noticeable consequences on the Danish economy. This applies especially to companies that are deeply integrated in global value chains and not least those that export goods to the US that are produced either in Denmark or in other countries outside the US. The higher tariffs that were in effect as of May 1 2025 are estimated, under a number of assumptions, to dampen GDP growth by around 0.7 percentage points in 2025 and 0.2 percentage points in 2026.[1] However, it is highly uncertain what the tariffs will end up being and what impact the increases will have on the global economy as well as on our own. The agreement on 90 days with mutually lower tariffs between the USA and China from May 12, seen in isolation, points towards a smaller impact than promised by the calculations.

The changing statements from the US administration leave a very high degree of unpredictability about the further course of events – both with regard to the ongoing trade conflict and other economic policy in the USA – and thus also a large margin of error for economic development in the coming years. In Europe, measures to strengthen the security and robustness of the economies, including significant increases in defence spending, are considered to contribute significantly to keeping activity under control.

A high level of activity in Denmark at the start of 2025 means that relatively high GDP growth of 3.0 per cent is estimated in 2025, despite a negative impact from the trade conflict etc..[2] In 2026, GDP growth is estimated to be approximately halved to 1.4 per cent. The pharmaceutical industry is expected to contribute to GDP growth by 1.1 percentage points in 2025 and 0.6 percentage points in 2026, while the reopening of the Tyra field in the North Sea will add approximately 0.5 percentage points in 2025.

Based on expectations for production and demand, there is no indication of a major turnaround in employment. Employment has continued to increase in 2025, and even with a somewhat more subdued course throughout the rest of the year, an increase of 29,000 people is expected from 2024 to 2025. Several companies are expected to be cautious in relation to hiring because of the trade conflict, etc., but conversely, companies affected by tariff increases may also choose to retain their workforce as long as there is uncertainty about the impact on demand and production. Therefore, a decline in employment is not expected overall, although export companies could be hit by weaker sales. Employment is thus expected to remain at a high level both this year and next year, *cf. figure 2*. Compared to the latest assessments in the Economic Survey, a decline in employment is no longer expected during the forecast period.

The US tariff increases on imports will not directly affect consumer prices here, but there may be knock-on effects through a more subdued increase in activity and a greater supply of goods from other countries that are affected by US tariff increases. Inflation is expected to remain below 2 per cent during the forecast period.

Other key estimates in the forecast are shown in table 1.

[1] Specifically, this includes, among other things, a 10 per cent US tariff on imports from the EU, including Denmark, no response from the EU, no expiration of the 90-day pause on the US "retaliatory tariff", a 145 percent US tariff on imports from China and a 125 percent Chinese tariff on US goods.
[2] Even with unchanged GDP from Q4 2024 to Q4 2025, annual growth from 2024 to 2025 would be 2.3 percent due to the strong recovery at the end of 2024.

Table 1.1 Key numbers regarding the economic forecast and fiscal policy

	2024	2025	2026
GDP growth, per cent	3.7	3.0	1.4
Inflation, per cent	1.4	1.9	1.7
Hourly wage growth, private sector, per cent	4.8	3.5	3.2
House prices, percent change	3.5	3.6	3.0
Employment change, 1,000 persons	27	29	4
Gross unemployment, 1,000 persons	87	89	91
Balance of payments, per cent of GDP	13.0	11.9	11.4
Output gap, per cent[1)]	1.2	0.9	0.7
Employment gap, per cent[1)]	1.8	1.6	1.1
Structural public budget balance, per cent of structural GDP	2.1	1.0	0.7
Actual general government balance, per cent of GDP	4.5	1.6	1.5
Real growth in public consumption, per cent[2)]	1.5	4.8	0.3
Multi-year fiscal effect, level, percentage-points[3)]	-1.1	-0.3	-0.2
One-year fiscal effect, percentage-points[4)]	-0.2	0.8	0.1
Public debt, per cent of GDP	31.1	29.8	29.2
Public net wealth, per cent of GDP	23.6	24.0	25.7

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.

In recent years, the development of the Danish economy and public finances has stood out positively compared to many other countries. Growth in output and employment has been higher than in most advanced economies, Danish companies have significantly increased their earnings – partly through expanded production abroad – and Denmark has been one of the few countries to maintain consistent public budget surpluses. This has occurred despite headwinds from e.g. the COVID-19 pandemic, high inflation, war on the European continent, and a slowdown in global trade.

The strong performance of the Danish economy has been supported by a nearly 300,000-person increase in the labour force since early 2021. The employment boom put considerable pressure on the labour market in 2022, which has since eased while employment has continued to rise. This reflects a growing labour force, driven by factors such as more older people choosing to work, increased employment among resident immigrants, and an influx of international labour.

The remarkably positive employment trend, together with high corporate earnings, has contributed to a public surplus of DKK 133 billion in 2024 – equivalent to 4.5 per cent of GDP – according to preliminary figures from Statistics Denmark.

Based on this strong recent performance, the estimate for the underlying structural government balance (i.e., excluding new policies such as the Acceleration Fund) has been significantly revised upwards since the *Updated Medium-Term Projection, February 2025*. This revision reflects the incorporation of new data and an updated methodological basis.[3] The underlying improvement corresponds to an upward revision of 1.3 per cent of GDP in 2025 and 1.2 per cent of GDP in 2026. The revision is mainly due to three factors:

- Employment has continued to exceed expectations without signs of increasing inflationary pressure. This is consistent with a higher structural level of employment, driven by more international labour than previously anticipated, and increased labour market participation among seniors and non-Western immigrants. In the forecast, the increase in international labour and continued growth in structural participation rates lead to an upward adjustment of structural employment by 31,000 persons in 2025 and 43,000 in 2026. Slightly lower average working hours do, however, act as a counterweight in both years.
- The structural level of corporate tax revenue has been revised upwards due to a new estimation method that better accounts for structural shifts in the economy, such as the increase in corporate earnings from merchanting and processing abroad. Structural revenue from corporate tax (excluding North Sea revenues) has been adjusted upwards by nearly 0.4 per cent of GDP in both 2025 and 2026, *cf. Box 2.1 of Chapter 2*.
- Structural revenues from equity taxation (i.e., the sum of equity income tax from Danish households and dividend tax from foreign investors) have also been revised upwards based on recent years' experience and a methodological update. The new method better accounts for actual and projected developments in investors' portfolios and taxable equity income. Structural revenues have been revised upwards by 0.4–0.5 percentage points to 1.8 per cent of GDP in 2025 and 1.9 per cent in 2026, compared to actual revenues of 1.7 per cent of GDP in 2024.

The upward revision of the structural balance due to these factors is partly offset by the establishment of the DKK 25 billion Acceleration Fund (measured in 2025 prices) – equivalent to about 0.8 per cent of GDP – annually in 2025 and 2026, as part of *the Agreement on Strengthening the Armed Forces' Combat Capability* (February 2025). In total, the estimates for the structural balance have thus been revised upwards by 0.5 per cent of GDP in 2025 and 0.4 per cent in 2026 since the February 2025 medium-term projection, *cf. Figure 3*.

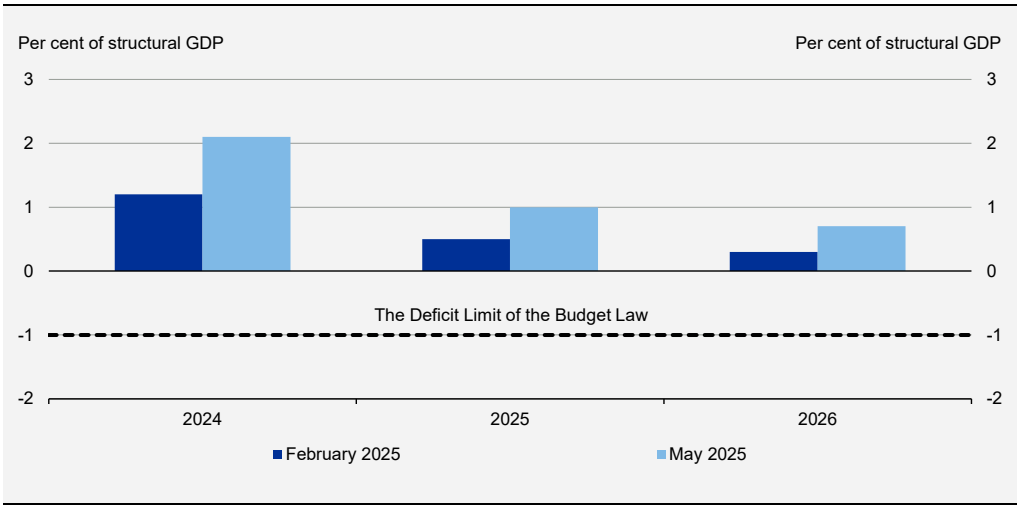
Increasing production capacity, including from higher structural employment, has contributed to easing capacity pressures in recent years. This trend is expected to continue over the forecast

[3] The methodological review has been initiated as part of the transition to the new economic model, MAKRO, in the medium-term projections. MAKRO provides a better foundation for projecting, among other things, revenues from corporate tax and tax on income from shares, and the information from the model is incorporated into the updated methods as part of the calculation of the structural level in the current years, *cf. Chapter 2*. A new medium-term projection based on MAKRO will be published in June.

horizon. The easing of capacity pressure, together with the positive public finance position, provides room to loosen fiscal policy to accommodate key societal priorities – such as the establishment of the Acceleration Fund – within a responsible fiscal framework and without creating adverse wage and price pressures.

The one-year fiscal effect is estimated at 0.8 per cent in 2025 and 0.1 per cent in 2026, assuming that expenditure ceilings are fully utilized, including defence expenditures. The activity impact of the Acceleration Fund and other initiatives will depend greatly on implementation, as large military equipment purchases tend to have a high import content. The multi-year fiscal effect since 2019 remains negative in the forecast years, at around -¼ per cent of GDP, and inflation is projected to stay below 2 per cent annually in both 2025 and 2026 under the planned fiscal policy.

Figure 3 Structural surpluses in 2024-2026



Source: Statistics Denmark and own calculations.

1. The economic outlook

The outlook for the global economy is heavily influenced by the trade conflict between the US and the rest of the world, which leaves a great deal of uncertainty and a significant range of outcomes for the economic development in the coming years. As a small, open economy, Denmark is highly dependent on the global economy, and the trade conflict is particularly important for Danish companies' export opportunities.

The trade conflict is a consequence of a series of announcements about US tariffs on imported goods. These include a 10 per cent base tariff (in effect), so-called "reciprocal tariffs" adapted to individual countries (paused for 90 days), and 25 per cent tariffs on aluminium, steel, cars and car parts (in effect, but with reduced tariffs on foreign car parts for the production of American cars). In addition, special tariffs on smartphones, computers and other electronic products as well as pharmaceutical products have been announced. Tariffs on imports from China were raised to 145 per cent for a period of time following Chinese responses in the form of both tariff increases and controls on exports of rare earth elements. China and the US subsequently agreed in mid-May to temporarily reduce the very high tariffs for a period of 90 days. Canada has also responded to the US tariff increases, while the EU has delayed a response. The US reportedly intends to reach partial agreements during the 90-day "reciprocal tariffs" pause period. The UK and the US signed a trade deal in early May.

The various tariff announcements from the US earlier this year caused great turmoil on the financial markets. In particular, stock prices plummeted after April 2, when the so-called "reciprocal tariffs" were announced. The tariff increases would bring the US effective tariff rate to its highest level since the 1930s, *c.f. chapter 6*. The US S&P 500 index fell by 13.8 per cent from April 2 to April 8, the day before the 90-day pause for "reciprocal tariffs" was announced. In the same period, the Eurostoxx 600 index fell by 10.3 per cent and the Danish OMX C25 index by 8.9 per cent, while the Shanghai Composite index fell by 6.5 per cent and the Nikkei 225 index by 8.2 per cent, *cf. figure 1.1*.

Subsequently, stock prices have recovered, with the S&P 500 index in mid-May being close to its level at the start of the year, while the Eurostoxx 600 and Shanghai Composite indices were higher. The reaction in the financial markets points to an expectation that tariff hikes will also hit the US economy to a large extent.

The fluctuations in stock prices come as a result of high uncertainty and in response to the expected impact of tariff increases. The day-to-day fluctuations throughout April may reflect the zigzag nature of the tariff announcements, but also that it can be difficult to assess the impact of the very significant tariff increases on the global economy. The extent and basis of the announced "reciprocal tariffs" in particular were not anticipated by the market. In such situations, the financial markets can react quite strongly and unpredictably.

Figure 1.1 Stock prices plunged amid high uncertainty and tariff hike announcements

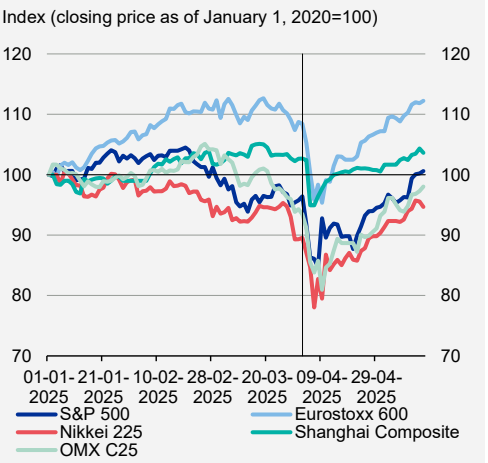
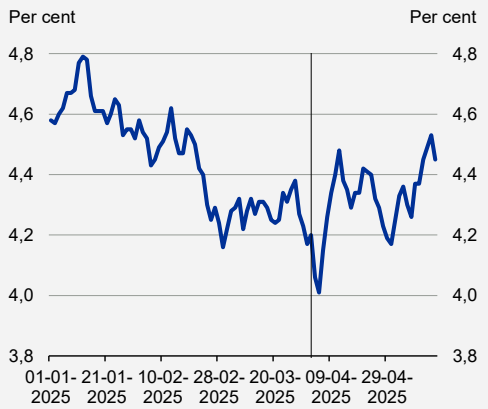


Figure 1.2 Yields on 10-year US Treasuries rose sharply in early April



Note: In both figures, the vertical line is placed at April 2, when the US announced "retaliatory tariffs".
Source: Macrobond and own calculations.

The fall in stock prices in early April should also be seen in the context of the longer-term consequences of the tariff increases, and the nature of global trade relations with the US going forward. Turbulence also arose in mid-April as a result of the US President's public dissatisfaction with the head of the Federal Reserve, which did not cut interest rates. The US Federal Reserve is independent and the market's reaction reflects that political interference in monetary policy decisions can undermine the credibility of the institution.

In times of turmoil, investors look towards safer assets and usually US Treasury bonds has been perceived as a safe haven by investors. Periods of financial turmoil have therefore usually led to lower yields on US government bonds. However, this has not been the case in April. Some investors sold off US Treasuries, which, for a period after April 2, led to a relatively large increase in US Treasury yields in a matter of days, *cf. figure 1.2*. Similarly, the US dollar depreciated. This may reflect a lack of confidence in the US economy.

The extraordinarily high uncertainty and unpredictability is reflected in more subdued business expectations. The disruption caused by uncertainty and trade conflicts comes at a time when there were signs of a gradual recovery in the global economy and in Europe after the period of high inflation. For example, at the beginning of the year, business confidence in the euro area had risen to a level indicating growth among companies, *cf. figure 1.3*. However, business confidence has recently fallen again - and in Germany even to a level indicating a decline. The German automotive industry has been facing challenges for several years, and the separate US tariff on cars that has come into force is worsening growth prospects. Business confidence in the US has also fallen quite sharply, albeit from a high level as a result of a favourable economic climate. The decline in US business confidence should be seen in the context of US companies' integration into global value chains.

Households have reacted even more negatively than companies, *cf. figure 1.4*. Consumer confidence in the US has fallen significantly in recent months, and expectations for the future economic situation in particular have fallen significantly and to a level that could point to a future recession in the US. In Europe, consumers have also reacted negatively after a period in which consumer confidence has been rising in line with increased purchasing power.

Figure 1.3 Business confidence has fallen, but mainly in the US

Figure 1.4 Consumers have become more negative, especially in the US

Note: Business confidence in figure 1.3 is measured by the PMI index. A value above 50 indicates an expectation of growth. The latest observation in both figures is April 2025. In figure 1.4, a value of 100 corresponds to the historical average.
Source: OECD, Macrobond and own calculations.

Increased uncertainty, financial market turmoil and declining confidence will normally make businesses and households more hesitant to invest both domestically and abroad as well as to consume. This is in addition to the direct impact on trade and value added - and thus corporate earnings and real household disposable incomes - of the tariff increases, which will initially hit exports and thus overall growth. Over time, it will potentially be possible to redirect some trade or enter into new trade agreements. Alternatively, employment will have to shift to industries where production is sold domestically. In this light, the impact of higher tariffs could be smaller in the long term than in the short term, but still have a negative impact on incomes and living standards, *cf. box 1.1*.

Box 1.1 Tariff hikes slow growth

Tariffs are essentially a tax on imports. Tariffs are levied at the border crossing into the country imposing the tariff and must initially be paid by the importer. Depending on market conditions, tariff increases may affect prices, demand and production both in the country imposing the tariff and in the countries subject to the tariff. Who ultimately bears the burden of tariffs, e.g. consumers in the country imposing the tariffs (in the form of higher consumer prices) or producers in the countries subject to the tariffs (via lower sales prices) or a combination of both, thus depends on market conditions.

A unilateral tariff increase may potentially result in countries subject to tariffs paying some of the tariffs. However, this would give these countries an incentive to retaliate by also imposing tariffs, and the result would be that all countries would be worse off ('a trade war has no winners'). The loss arises because less trade across countries reduces the gains normally associated with international trade. This includes increased competition, access to larger markets, a wider range of products and countries producing what they are best suited to produce, including through the division of production in global value chains, such as in the automotive industry. Furthermore, there may be less dissemination of technological knowledge.

In addition, there will be short-term losses as a result of parts of companies' capital assets losing value, e.g. factories that mainly produce goods exported to the United States. Lower investment as a result of tariffs on imports of capital goods may also have long-term negative consequences due to lower capital accumulation and thus weaker productivity growth. Overall, production costs across countries will rise as a result of reduced trade, which will also be reflected in lower consumer purchasing power and, in isolation, a decline in living standards.

In the longer term, there may be a certain degree of adjustment in both the global economy and between individual economies. Possible adjustment channels include exchange rate changes, lower demand for goods subject to tariffs, higher sales in markets with lower tariffs, and employees in industries affected by tariffs finding employment in other sectors. This will reduce the long-term consequences, which will nevertheless remain negative.

Analyses examining the domestic consequences of the increased US tariffs introduced in 2018 and 2019 find overall negative consequences for the US economy.[1] In Faigelbaum et al. (2020) it is estimated that the increased tariff barriers cost US consumers and businesses USD 51 billion, equivalent to 0.27 per cent of US GDP, in 2018 alone.[2] After taking into account government tariff revenues and the economic benefits for local producers (in the form of higher mark-ups, for example), this corresponds to an annual decline in aggregate US real income of USD 7.2 billion, or around 0.04 per cent of US GDP. Other similar studies have estimates of effects in the same order of magnitude.[3] It's important to note that these effects are based on significantly smaller tariff increases than the current announcements.

Another issue related to tariff is its impact on a country's balance of payments. Tariffs on goods may improve a country's trade balance through lower imports, but if more labour is tied up in the production of import substitutes, this may subsequently displace exports. At the same time, the balance of services may deteriorate as a result of an appreciation of the country's currency. More fundamentally, a country's balance of payments by definition reflects the difference between a country's savings and total investment in the country. For example, a public sector deficit will, in isolation, reduce the balance of payments. It is not clear how savings and investments are affected by tariff increases and whether the balance of payments will necessarily improve.

1) In 2018, the United States increased tariffs from 2.6 per cent to 16.6 per cent on 12.7 per cent of annual US imports of goods. A number of trade partners responded with retaliatory tariffs on US goods, causing the average tariff on 8.2 per cent of annual US exports to rise from 7.3 per cent to 20.4 per cent.
2) Faigelbaum et al. (2020): The Return to Protectionism, *The Quarterly Journal of Economics*.
3) See e.g. Amiti, Mary, Stephen J. Redding, and David E. Weinstein (2019): The Impact of the 2018 Tariffs on Prices and Welfare, *Journal of Economic Perspectives 33 (4)* and Cavallo, Alberto, Gita Gopinath, Brent Neiman, and Jenny Tang (2021): Tariff Pass-Through at the Border and at the Store: Evidence from US Trade Policy, *American Economic Review: Insights 3 (1)*.

For decades, free trade has been a source of prosperity across countries, but in recent years, reducing dependence on other countries, e.g. in relation to critical materials and technology, has increasingly become another consideration in trade relations. Fair market conditions have also been a consideration that has been given greater weight in the last decade. The rules of the World Trade Organisation (WTO) thus allow the use of countervailing duties if another country subsidises its exports. This applies, for example, to the EU's tariff on Chinese cars.

The short-term growth outlook has been revised downwards by international organisations, *cf. figure 1.5*. In its latest assessment from April (the "reference forecast" in its World Economic Outlook), the IMF has revised its estimate for GDP growth in the US in 2025 downwards by 0.9 percentage points from 2.7 per cent to 1.8 per cent relative to its assessment in January. For the EU, the downward adjustment is smaller, partly because increased defence spending and Germany's easing of its debt brake will help to counteract the dampening effect of increased tariffs, c.f. also chapter 6. The IMF's estimates are based on tariff announcements up to April 4, 2025, and do not take into account a possible response from the EU in the event that the high tariffs on US imports from the EU are maintained.

Figure 1.5 More subdued growth prospects across countries

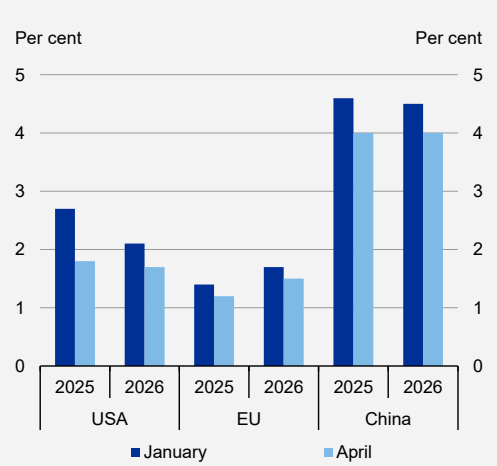
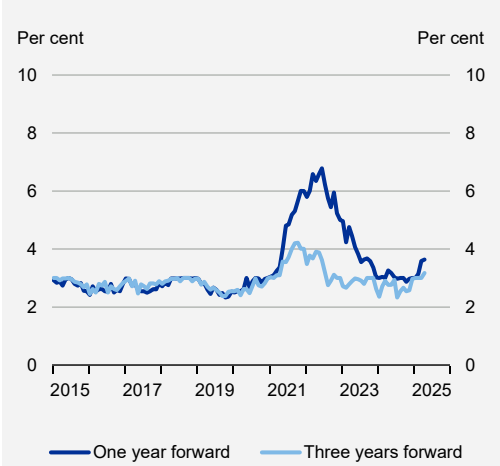


Figure 1.6 Short-term inflation expectations have risen significantly in the United States



Note: In figure 1.5 IMF's GDP growth estimates from the latest assessments in January and April this year are shown. The April estimates are from the reference scenario, which includes tariff announcements up to April 4, 2025. The inflation expectations in figure 1.6 are from the Federal Reserve Bank's April survey.
Source: IMF, Federal Reserve Bank of New York and own calculations.

The IMF has also revised its inflation estimate for the United States upwards to 3.0 per cent in 2025, which is 1.1 percentage points higher than the estimate in autumn 2024. The higher estimate is supported by the fact that short-term inflation expectations have risen significantly in the US – currently to 3.6 per cent, *cf. figure 1.6*. The higher inflation expectations do not necessarily reflect persistently higher inflation. Tariffs are immediate one-off increases that raise the price level but do not in themselves make inflation permanently higher unless they trigger a price-wage spiral. Thus, inflation expectations for the next three years have not risen correspondingly in the US. Inflation remains slightly elevated relative to the US Federal Reserve's

inflation target. Partly on this basis, the chair of the US Federal Reserve has indicated that the central bank can be patient and wait to see how tariffs and other economic policies from the US administration unfold and affect the US economy before making any changes to interest rates.[1]

In Europe, it is not certain that inflation will be affected to the same extent as in the United States. Possible responses to US tariff increases will probably be more targeted, allowing consumers to switch to alternative products. A larger supply of goods from other countries affected by tariff increases may also help to keep price pressure down in Europe. Finally, a slowdown in growth and thus in demand will, in isolation, dampen inflation. Inflation has already come down from the very high levels seen in 2022-2023 and is under control. In April, the European Central Bank cut interest rates for the seventh time in a row, and market expectations point to further interest rate cuts this year.

The Danish economy has a strong foundation

As a small, open economy where imports and exports play a major role, Denmark is inherently more vulnerable to trade conflicts and the associated disruptions to global value chains. The contribution of international trade to economic growth may decline in the coming years. Danish companies' sales and processing activities in the United States will protect parts of exports from the tariff increases. The pharmaceutical industry in particular has production facilities in the United States, which account for a significant share of Danish exports. At the same time, Danish companies with activities in the US have been preparing for some time to make strategic adjustments in response to changing trade conditions, including a focus on opportunities in new markets.[2]

In general, the Danish economy has a solid foundation and is well equipped to handle the current situation with greater uncertainty about global trade and sensitive financial markets. Danish businesses and households have shown remarkable adaptability during the COVID-19 pandemic and the period of high inflation. Furthermore, in recent years, the Danish economy has experienced remarkable growth in GDP and employment and is currently in a moderate economic boom. This provides a good basis for withstanding the consequences of tariff increases.

Employment has, since 2013—when the labour market turned—risen by over 450,000 persons, around half of which has occurred since 2019, *cf. figure 1.7*. This significant increase has been made possible by a notable rise in structural employment, which primarily reflects a larger labour force due to later retirement among seniors supported by reforms and increased international labour. At the same time, this has strengthened public finances structurally and provided greater room for maneuver in economic policy. Several initiatives in recent years have helped support the increase in structural employment. These include, among other things, the removal of the deduction in the state pension for personal and spousal income from work, and a strengthening of international recruitment through the supplementary pay limit scheme. In addition, the personal tax reform from 2023 will contribute to increasing labour supply.

[1] Cf. Jerome Powell's speech at Economic Club of Chicago, April 16, 2025.
[2] According to a survey from Danish Industry, four out of ten companies with sales or production in the US are planning strategic changes in response to the increased uncertainty. Almost 10 per cent are considering exploring new markets, of which 3% have already done so, cf. Danish Industry: Usikkerhed omkring USA får hver fjerde virksomhed til at nedjustere deres vækstudsigter, February 2025.

Employment is currently above the structural level, but the pressure is expected to ease. Since 2022, the gap between actual and structural employment (the employment gap) has narrowed, which is reflected in, among other things, fewer job vacancies and fewer unsuccessful recruitments. The unemployment rate has remained unchanged at 2.9 per cent of the labour force since December 2023.

The growth in employment has been supported by significant inflow of international labour and by more seniors choosing to remain in the workforce for longer. In addition, the strong labour market upswing has helped enabled many individuals with previously low attachment to the labour market to find employment. All in all, these factors have contributed to a significant upward revision of the estimates for structural employment and the labor force.

Figure 1.7 Substantial increase in employment since 2013

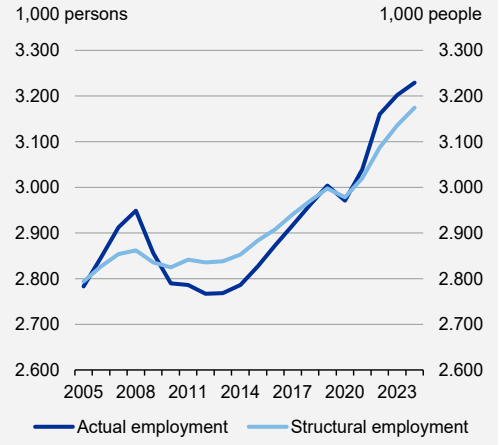
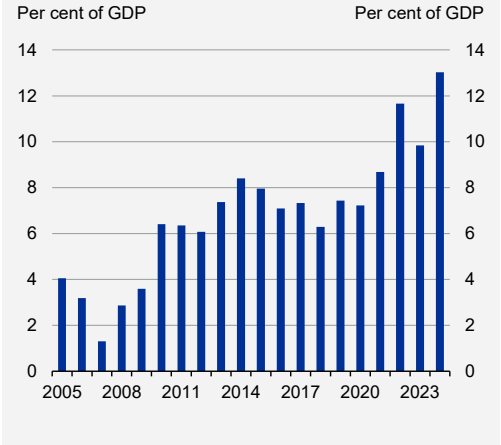


Figure 1.8 Current account surplus for many consecutive years



Note: Employment including leave, in figure 1.7.
Source: Statistics Denmark and own calculations.

There are likewise no indications of significant imbalances that would necessitate corrective measures or potentially complicate an economic adjustment. For instance, there is no broader signs of unsustainable borrowing or speculative behavior on the housing market. A notable aspect in this regard is that Denmark has accumulated a substantial net foreign asset position through many years of current account surpluses, *cf. figure 1.8*. The surplus in national savings reflects consolidation across households, businesses, and the public sector.

A potential vulnerability stems from the weak productivity growth observed in parts of the economy since 2021. In isolation, this suggests that some firms may need to adjust their workforce in response to the strong labor market expansion of recent years. However, the need for such an adjustment is mitigated by an improvement in productivity during 2024, but the current productivity level remains below what could be expected based on historical trends.

The robustness of the Danish economy and healthy public finances means that Denmark is one of the few countries in the world with the highest possible credit rating from the major international credit rating agencies. The high credit rating means that the government is able to borrow at a lower interest rate than countries with a lower credit rating.

The solid foundation of the Danish economy and the absence of significant imbalances provide resilience, but not outright resistance to external factors, including increased tariffs and financial turmoil that may affect the outlook for the coming years.

Increased tariffs will dampen the growth outlook

The Danish economy will be affected by the ongoing trade conflict, both directly through US tariffs on Danish exports and indirectly through the impact on trading partners. Due to the numerous and shifting announcements regarding tariffs, it is difficult to make an accurate assessment of the consequences. Given a set of specific assumptions, the increased tariffs imposed by the United States on imports as of May 1, 2025, are estimated to dampen Danish GDP growth by just under 1 percentage point over a one-year horizon, *cf. box 1.2*. Since the tariff increases took effect in April, it is assumed that approximately three-quarters of the impact on GDP growth will be felt in 2025, with the remaining quarter materializing in 2026. On this basis, GDP growth is estimated to be approximately 0.7 percentage points lower in 2025 compared to a scenario without tariff increases. However, this is a highly uncertain estimate, as the final level of tariffs and their impact to both the global economy as well as the Danish economy remain unclear. The estimated effect has been included in the baseline scenario for the Danish economy in this forecast. Should tariffs rise above current levels, or if, for example, declining confidence causes businesses and households to become even more cautious in their investment and consumption decisions, the Danish economy could be more severely affected. Alternative scenarios are illustrated in the risk section.

Box 1.2 Consequences of increases in tariffs for the Danish economy

The baseline scenario in this forecast is based on the applicable tariff rates as of May 1, 2025. This includes, among other things, a 10 percent U.S. tariff on goods imported from the EU, including Denmark, with no retaliatory measures from the EU; a 145 percent U.S. tariff on goods imported from China; and a 125 percent Chinese tariff on U.S. goods. It is therefore assumed that the current 90-day postponement of the U.S. tariff increases becomes permanent, and no potential countermeasures from the EU are included. The most recent deescalation in the trade conflict between the U.S. and China on May 12 occurred after the data for the forecast was finalized and is thus not reflected in the calculations. In isolation, this development would reduce the estimated impact of the trade conflict on the Danish economy.The specific effects of the tariff increases depend on a wide range of factors, including the price sensitivity of demand for the goods affected by tariffs and the speed at which global trade adjusts. The calculations are further complicated by the fact that many sectors and countries are affected simultaneously. Moreover, the extensive fragmentation of production into global value chains means that a given product or intermediate good may potentially cross the border into the U.S. or China multiple times, making it even more difficult to quantify the effects. Finally, assumptions regarding uncertainty, non-tariff barriers, capital accumulation, and other factors play an important role in model-based assessments of tariff shocks.

Under considerable uncertainty, a model-based calculation using the MAKRO-model estimates that the tariff increases effective May 1 will result in a reduction in GDP growth of 0.9 percentage points and a decline in employment growth of approximately 11,000 persons in the first year following implementation, compared to a no-tariff scenario, *cf. table a*. The effects of increased tariffs are therefore considered to be significant.

The calculation is based on a set of specific assumptions used in the MAKRO-model for the Danish economy:

- **Export Market Growth:** Higher tariff rates and lower global GDP dampen foreign demand for Danish exports. In the MAKRO-model, a shock to foreign demand is incorporated, leading to a decline in Danish exports (excluding re-exports) of approximately 1.5 per cent in the first year relative to the baseline scenario, and about 1 per cent in the long run. However, there is considerable uncertainty regarding the effects on Danish exports under a scenario corresponding to the situation as of May 1, 2025, in part because the situation represents largely uncharted territory in recent times. The available empirical evidence points to a relatively substantial negative impact on exports, though the estimated effects vary widely.
- **Risk premiums:** Increased uncertainty regarding the conditions for global trade due to changes in tariff rates may lead to greater caution among businesses and households with respect to investments, hiring decisions, and consumption. This effect is incorporated into the MAKRO-model through higher risk premiums on equities, corporate investment decisions, and residential investment. The effect via risk premiums is based on empirical studies examining the relationship between trade policy uncertainty and the real economy. In the model simulation, an uncertainty shock is included, corresponding to a 1.4 per cent decline in investment in the first year through this channel. The uncertainty gradually declines in the following years.
- **Productivity:** Reduced trade as a result of higher tariffs is expected to lower labor productivity both domestically and abroad. This effect is incorporated into the MAKRO-model through a shock to labour efficiency. The effect is assumed to be greatest in the short run, which can be attributed to the difficulty businesses may face in adjusting their production processes and business models in the near term. In the long run, it will be possible to adapt production, thereby mitigating the loss in efficiency.
- An unchanged fiscal and monetary policy is assumed, meaning the shock is a “no-policy-response” scenario.

Table a Model-estimated effects of the tariff scenario (deviations from a no-tariff baseline)

	GDP, per cent	Employment, 1.000 persons	Export[2], per cent
Year 1	-0,9	-10,7	-1,5
Long run	-0,2	0,0	-1,0

1) Caldara et al. (2019), The Economic Effects of Trade Policy Uncertainty, *Journal of Monetary Economics*.
2) Export excluding re-export.
Source: Statistics Denmark and own calculations using MAKRO.

The growth in the Danish economy in recent years is particularly related to the pharmaceutical industry and the export of weight loss products. Novo Nordisk has invested significantly in expanding production capacity in the United States. This supports the potential for continued growth in exports of goods that do not physically cross the border, which are also goods that are less likely to be affected or restricted by tariffs, *cf. figure 1.9*. On this basis, the pharmaceutical industry is still expected to contribute significantly to exports and overall growth in the Danish economy.

Figure 1.9 Pharmaceutical exports to the U.S.

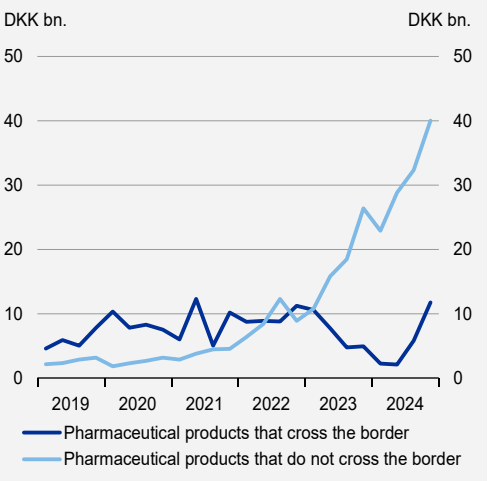
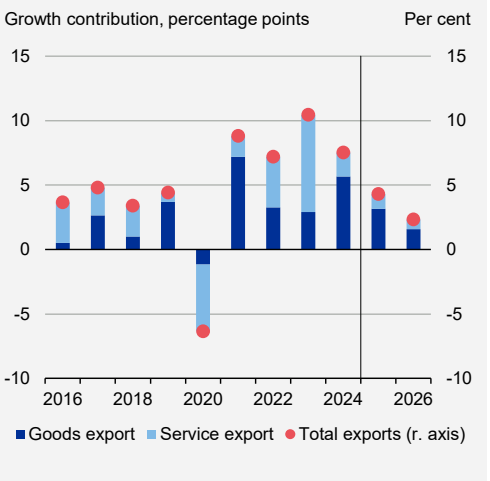


Figure 1.10 Export growth is slowing



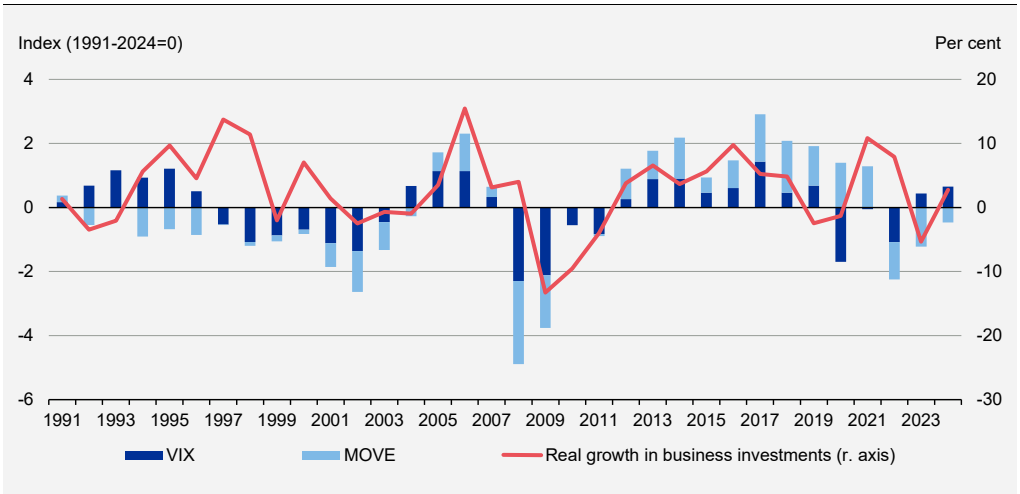
Note: Current prices in figure 1.9. Real values in figure 1.10.
Source: Statistics Denmark and own calculations.

Other companies and sectors have in recent years reported a lack of demand both domestically and on export markets, where the slowdown in growth on export markets as a result of increases in tariffs will have a greater impact. Maritime transport is also closely linked to world trade and could be affected by the ongoing trade conflict. Maritime transport accounts for a relatively large share of Denmark's service exports and approximately 20 per cent of total Danish exports, however, the employment content of maritime transport is relatively low. A slower growth in the European economy will also affect land transport, which accounts for a sizeable share of Danish service exports. Overall, service exports is expected to grow modestly in the coming years. Exports of both goods and services are expected to grow by 4.4 per cent in 2025 and 2.3 per cent in 2026, *cf. figure 1.10*.

Business investments are affected by a wide range of factors, including the need to expand production capacity and interest rates. The significant fall in stock prices that has occurred in response to the increases in tariffs points to less confidence in future earnings, and general uncertainty has increased significantly. This makes companies more reluctant to invest. In previous periods with high uncertainty on financial markets, there has typically been a decline in business investments, *cf. figure 1.11*. As a result, overall business investments is expected to fall slightly in both 2025 and 2026. However, continued capacity pressures, ongoing investments in

larger production facilities and the need for e.g. green transition are expected to support business investments in both years.

Figure 1.11 Periods of high uncertainty on financial markets have historically been followed by declines in business investments



Note: In the figure, the VIX and MOVE indices represent the level of uncertainty in the U.S. equity and bond markets, respectively. The indices are normalized relative to their historical values for the period 1991–2024. The indices used are the CBOE S&P 500 Volatility Index (VIX) and the Merrill Lynch Option Volatility Estimate (MOVE), respectively.
Source: Macrobond, Statistics Denmark and own calculations.

While businesses as a whole have been relatively optimistic in recent years, households have been more hesitant despite real wage growth and a favorable employment situation. Consumer confidence has even been on a downward trend since spring 2023 and has fallen to a level that does not directly reflect current developments in economic factors such as inflation and unemployment, *cf. figure 1.12*.

In particular, consumer expectations for the Danish economy in a year's time have fallen significantly and have since February 2025 been at a lower level than during both the corona pandemic and the period of high inflation, *cf. figure 1.13*. Consumers' assessment of their own current financial situation and their expectations for their financial situation one year ahead have not declined to the same extent. The decline in consumer confidence therefore appears to reflect concerns about global developments that may have adverse spillover effects on the Danish economy, rather than worries about personal financial circumstances. Recently, the uncertainty that has emerged in connection with increases in tariffs has likely pulled consumer confidence down even further.

Figure 1.12 Consumer confidence has declined to a level that does not reflect current trends in inflation and unemployment

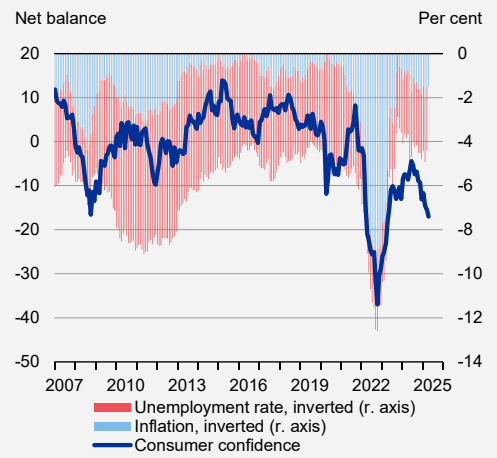
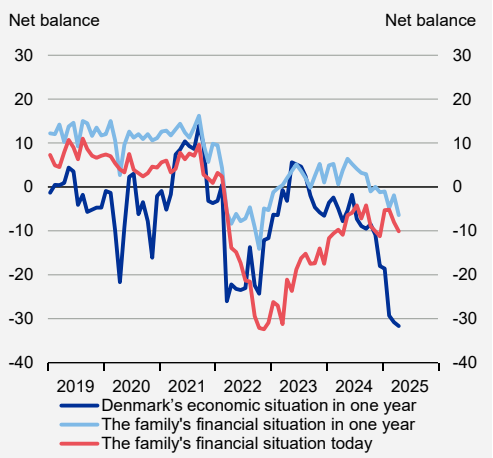


Figure 1.13 The low consumer confidence is largely due to weak expectations regarding Denmark's economic situation one year from now



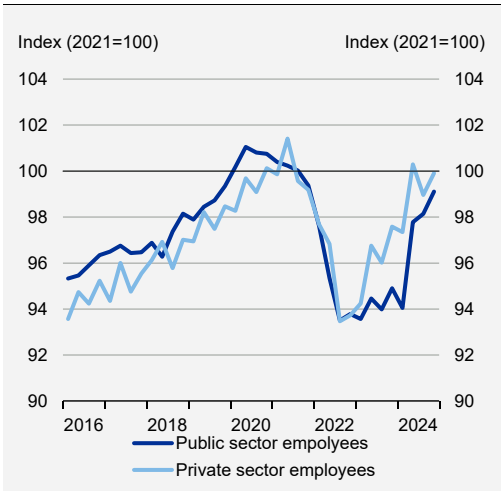
Source: Statistics Denmark and own calculations.

The fact that low consumer confidence is more likely a reflection of an unfavorable assessment of the overall economy rather than concerns about personal finances suggests a more limited impact on private consumption. However, factors beyond concerns about the global economy also help explain why households remain reluctant to spend. Although inflation has been low and stable over the past year and a half, the period of high inflation may still be affecting consumer confidence - both because some prices, such as food, remain relatively high, and because consumers may still perceive inflation to be elevated. Accordingly, consumers' perception of prices remains higher than what would be expected based on the historically close link with actual inflation, *cf. figure 1.14.*

Low consumer confidence may lead households to be more hesitant to spend, despite many households experiencing an increase in purchasing power. For many employees, real wages have returned to the level prior to the period of high inflation, *cf. figure 1.15.* In the spring of 2025, new central collective agreements (OK25) were concluded for the DA/FH area, taking effect from 1 March 2025 and lasting for three years. The centrally agreed wage increases are smaller than in the OK23 period, likely reflecting the rapid decline in inflation, the recovery of real wages, and a slight easing of labor market pressures. However, the agreed wage increases remain relatively high, slightly exceeding the historical average. Given the tariff increases and current uncertainty in connection with the ongoing trade conflict, it is expected that wage increases will be slightly lower than the centrally negotiated levels, but close to it, due to lower demand for labour. Based on this, wages are expected to increase by 3.5 per cent this year and 3.2 per cent in 2026.

Figure 1.14 The previously strong correlation between actual inflation and consumers' assessment of prices has weakened

Figure 1.15 For many, real wages have returned to 2021 levels



Note: In figure 1.14 the household assessment of the change in consumer prices over the past 12 months is depicted alongside the actual change in consumer prices over the same period (inflation). Figure 1.15 depicts real wages as measured by the standard wage index from Statistics Denmark deflated by the consumer price index.
Source: Statistics Denmark and own calculations.

The US tariff increases on imports will not directly affect consumer prices here, but there may be derivative effects through a more subdued increase in activity and a greater supply of goods from other countries that are affected by US tariff increases. Inflation is expected to remain below 2 percent during the forecast period. Overall, there is a prospect of continued real wage growth, which provides an opportunity for private consumption to increase. Against this background, private consumption is estimated to grow by 1.2 percent in both 2025 and 2026, which is less than the development in wage incomes.

In the housing market, purchasing power has been high into 2025 and immediately unaffected by increased economic uncertainty, including the turmoil in the financial markets. Sales of owner-occupied homes are back at a relatively high level, and prices for both owner-occupied apartments and single-family houses have continued to rise from 2024 at the beginning of this year. Based on the prospect of real wage growth, lower interest rates and a continued high level of employment, house prices are estimated to increase by 3.6 percent in 2025 and 3.0 percent in 2026. The improvement in the housing market and in incomes as well as the stabilization of construction costs provide the conditions for moderate growth in housing investments.

Overall, demand linked to exports from the pharmaceutical industry in particular and household consumption is expected to contribute to continued growth in the coming years, while some companies and industries will feel the tariff increases on their sales to a greater extent. In 2025, high GDP growth of 3.0 percent is estimated, *cf. figure 1.16*. This should be seen in light of the strong progress during 2024, including the high growth in Q4 2024 of 1.6 percent, which will carry over into the annual growth in 2025. In addition, the reopened Tyra field in the North Sea, which through increased gas production will also contribute to the progress this year. Without these contributions, there is a prospect of more subdued GDP growth through 2025.

The moderate progress is expected to continue in 2026, where GDP is estimated to grow by 1.4 percent.

The forecast reflects both that the growth in exports in recent years is expected to continue, but at a lower pace, and that domestic demand is increasing, *cf. figure 1.17*. The pharmaceutical industry alone is expected to contribute to GDP growth by 1.1 percentage points in 2025 and 0.6 percentage points in 2026, while the reopening of Tyra will add approximately 0.5 percentage points in 2025.

Figure 1.16 Even excluding North Sea production and pharmaceutical products GDP growth is expected to continue, albeit at a slowing pace

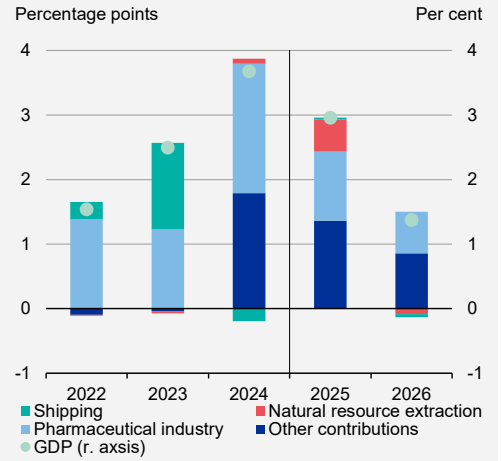
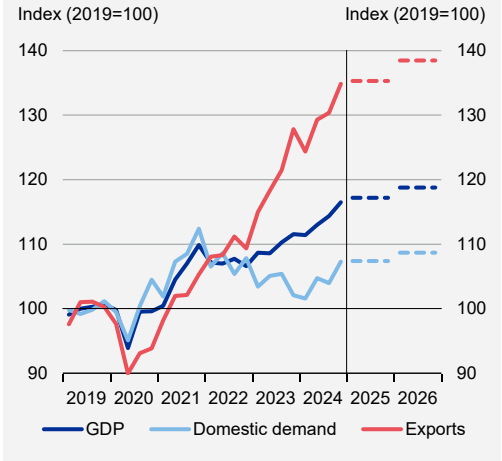


Figure 1.17 Domestic demand and exports are projected to grow



Note: The growth contributions from the pharmaceutical industry, natural resource extraction, and shipping in Figure 1.16 are based on GVA. Real and seasonally adjusted figures are shown in Figure 1.17, where the dashed lines indicate annual averages.
Source: Statistics Denmark and own calculations.

Employment is set to remain at a high level

With the expected increase in demand, there is no indication of a major turnaround in employment. Employment has continued to increase into 2025, and even with an expected more subdued increase in the remaining part of 2025, there will be a good annual growth, cf. Figure 1.18. The trade conflict and increased uncertainty have dampened companies' employment expectations, which is expected to be reflected in weaker developments in the labor market. At the same time, a more subdued development in the labor force is expected, partly as a result of demographic developments. However, employment is expected to continue to grow and thereby remain at a high level.

The current uncertainty in the global economy is contributing to more companies being more cautious in relation to further expansions in the number of employees. Conversely, companies that are directly affected by their order books may also choose to hold on to their workforce. This wait-and-see approach arises, among other things, from the fact that it is associated with

costs to hire and fire employees. As a starting point, therefore, a decline in employment overall is not expected, even though export companies in particular are affected by the trade conflict.

Figure 1.18 Employment is expected to remain at a high level

Figure 1.19 Slightly increasing unemployment and decreasing average working hours

Note: Dashed lines indicate annual averages.
Source: Statistics Denmark and own calculations.

In line with a more subdued demand for labor, it is also expected that average working hours will decrease slightly, *cf. figure 1.19*. This should be seen both in the light of fewer overtime hours, but also that more new employees, including older people and persons on the fringes of the labor market, work slightly fewer hours on average. Unemployment is also expected to increase slightly and remain below pre-corona pandemic levels despite a significant expansion of the labor force since then.

Uncertainty about tariffs dominates the risks to the outlook

The forecast is associated with extraordinarily high uncertainty, as it is unclear how the tariff conflict between the United States and the rest of the world will develop. A noticeable effect is already included in the main scenario in the forecast. If the trade conflict between the United States and the rest of the world escalates, the world economy could be hit by a more serious setback, which would also affect the Danish economy.

If there is no solution to the trade conflict with the United States, the EU has announced that it will launch a countermeasure. This applies both to tariffs on steel, aluminum and cars and to the "retaliatory tariffs". For example, on May 8, the EU Commission announced a list of possible American goods worth a total of 95 billion euros that could be subject to additional tariffs.[3]

[3] European Commission (2025): Commission consults on possible countermeasures and readies WTO litigation in response to US tariffs, May 8, 2025.

Box 1.3 Different tariff-scenarios

To illustrate the range of different scenarios, this box shows GDP growth in two alternative scenarios. One scenario is without a trade conflict. The other scenario corresponds to the outlook on 2 April, when the US had announced increased tariffs and trade uncertainty was exceptionally high. This scenario also assumes roughly proportional responses from the US's trading partners, including the EU. The scenario can thus be interpreted as a scenario in which the US introduces the currently postponed additional tariffs ("retaliatory tariffs"), and in which tariffs between the US and China return to a lower level. On 12 May, China and the US agreed to temporarily reduce the very high tariffs for a period of 90 days.

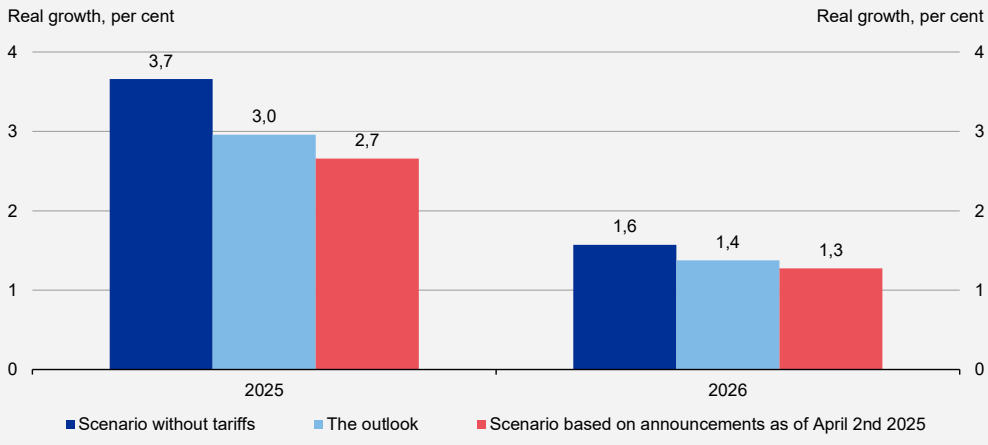
The scenarios are based on the same methodological approach as described in Box 1.2. The scenario without a trade conflict thus corresponds to a scenario in which the estimated effects of the tariff increases are not taken into account. In the second scenario, alternative assumptions are used regarding export market growth, risk premiums and efficiency, while the Danish share of the proceeds from the European tariff on imports from the US is transferred to the private sector for calculation purposes. In this scenario, a greater direct impact on EU and Danish exports is assumed, while the risk premiums are higher and the efficiency loss is greater. This means that there will be a more negative impact on the Danish economy.

Since MAKRO is an annual model, approximately ¾ of the first-year effect of the tariff is assumed to affect GDP growth in 2025, while the last ¼ will be reflected in 2026. Against this background, the scenario without tariffs implies GDP growth of 3.7 percent in 2025 and 1.6 percent in 2026.

On the contrary, the scenario with tariffs corresponding to the announcements on 2 April including countermeasures gives a more negative trajectory for GDP. In this scenario, GDP growth this year is approximately 0.3 percentage points lower compared to the forecast, while growth in 2026 is 0.1 percentage points lower.

The illustrated scenarios cannot be considered as a possible upper and lower range for the effect on the Danish economy of the trade conflict, but only as an estimated effect of scenarios that can be thought of in relation to the tariff announcements that have already been made. Historical experience shows that growth, especially in periods of large shocks, can be affected very strongly. This usually occurs in the form of a combination of negative shocks to supply and/or demand and declining confidence among companies, households and financial markets.

Figur a GDP-growth in the outlook and two alternative tariff scenarios



Note: Since the scenario based on announcements as of April 2nd includes a retaliation to the US tariffs, there will be an additional public revenue from this. The revenue from the assumed European tariffs on imports from the US is, for calculation purposes, assumed to be redistributed to households and businesses.
Source: Statistics Denmark and own calculations.

It is also possible that the conflict will be de-escalated and that tariffs will end up at a lower level than the current rates. But even if the trade conflict is de-escalated, it must be expected that both companies and consumers, as well as financial markets worldwide, will be affected for a period by increased uncertainty in relation to the trade policy framework. In addition, there are the effects of the disruptions in global value chains, which are already taking place and are continuously materialising, and which, seen in isolation, may reduce productivity – especially in the short term.

Under alternative scenarios with no increase in tariffs and reciprocal tariff increases, respectively, it is estimated that GDP growth could be in the range of 2½-3¾ per cent this year and 1¼-1¾ next year, *cf. box 1.3*. Worse scenarios are conceivable if a situation arises in which, for example, there is great distrust in central banks and their ability to ensure sufficient liquidity for the financial markets.

Box 1.4 Change in data and assumptions relative to Economic Survey, December 2024

The forecast is based on the national accounts up to and including the 4th quarter of 2024 (revised, but still preliminary estimates) as well as a number of other indicators, the most frequent of which are due in May.

Since the assessment in December, both GDP and Statistics Denmark's experimental series on the pharmaceutical industry's value creation in quarters have shown higher growth than expected, especially in the 4th quarter of 2024. This carries over into the annual growth of GDP in 2025, which in isolation points towards higher GDP growth in 2025.

The labor market has also proven stronger than expected. The level of employment has been adjusted upwards by almost 25,000 persons this year and almost 34,000 persons in 2026. However, the pressure on the labor market is assessed to be less, which is reflected in the fact that the level of structural employment has been adjusted upwards more than the actual one. Thus, structural employment has been adjusted upwards by 31,000 persons this year and 43,000 persons in 2026 compared to the forecast in December.

The changed assumptions about public consumption and public investments must be seen, among other things, in the context of the establishment of the Acceleration Fund, which is to strengthen the defense by building increased combat power.

Annex table

Table 1.1 Key figures from the May 2025 and comparison with the December 2024 survey

	2024	2025		2026	
		Dec.	May	Dec.	May
Real growth, percent					
Private consumption	0.9	2.2	1.2	1.8	1.2
Total public demand	1.7	3.9	7.7	0.6	0.8
- of which public consumption[1)]	1.4	3.0	4.8	0.5	0.3
- of which public investments[2)]	3.1	10.4	28.2	1.1	3.6
Housing investment	2.0	2.8	3.2	3.1	2.4
Business investment	2.8	1.5	-1.1	1.6	-0.3
Inventory changes (growth contribution)	-1.0	0.0	0.0	0.0	0.3
Total domestic demand	0.4	2.6	2.9	1.5	1.2
Exports	7.5	4.7	4.3	3.5	2.3
- of which manufacturing exports	9.6	5.4	5.1	4.1	2.9
Total demand	3.4	3.5	3.5	2.3	1.7
Imports	3.0	4.6	4.4	3.4	2.3
- of which imports of goods	1.9	4.4	4.9	3.1	1.6
GDP	3.7	2.9	3.0	1.7	1.4
Gross value added	4.0	3.1	3.3	1.7	1.5
- of which in non-farm private sector	5.8	3.4	3.7	2.5	2.1
Change in 1,000 persons					
Labour force, total	31	8	30	-5	6
Employment, total	27	5	29	-5	4
- of which in the private sector	21	2	24	-5	4
- of which in public administration and services	6	3	5	0	0
Gross unemployment	4	4	1	0	2
Business cycle gap, per cent					
Output gap	1.2	1.0	0.9	0.9	0.7
Employment gap	1.8	1.7	1.6	1.4	1.1
Gross unemployment gap	-0.7	-0.7	-0.7	-0.5	-0.5

1) Public consumption is calculated using the input method.
2) Public investment excludes public net purchases of buildings.
Source: Statistics Denmark and own calculations.

Table 1.1 (cont.) Key figures from the May 2025 and comparison with the December 2024 survey

	2024	2025		2026	
		Dec.	Maj	Dec.	Maj
Change, per cent					
House prices (single-family houses)	3.5	3.3	3.6	3.0	3.0
Consumer price index	1.4	1.9	1.9	1.7	1.7
Hourly wage in the private sector	4.8	3.4	3.5	3.2	3.2
Real disposable income. households	1.3	2.7	3.3	2.2	1.8
Hourly productivity in private non-farm sector	5.0	3.3	3.0	2.8	1.9
Percent p.a.					
Interest rate, 1-year adjustable-rate mortgage	3.0	2.3	1.8	2.2	1.7
Interest rate, 10-year government bond	2.2	2.1	2.3	2.2	2.4
Interest rate, 30-year mortgage bond	4.3	4.0	4.1	4.0	4.2
Public finances					
Actual public balance, billion DKK	133	49	49	41	47
Actual public balance, per cent of GDP	4.5	1.6	1.6	1.3	1.5
Structural public balance, per cent of GDP[1)]	2.1	0.5	1.0	0.3	0.7
EMU debt, per cent of GDP	31.8	30.0	29.8	29.9	29.2
Labour market					
Labour force (including leave), 1,000 persons	3.315	3.323	3.346	3.318	3.351
Employment (including leave), 1,000 persons	3.229	3.233	3.258	3.229	3.262
Gross unemployment, 1,000 full-time persons	87	91	89	91	91
Gross unemployment, per cent of labour force	2.6	2.7	2.6	2.8	2.7
External assumptions					
Trade-weighted international GDP growth, per cent	1.4	2.0	1.6	2.1	1.7
Export market growth (industrial goods), per cent	2.3	2.9	1.8	2.8	1.7
Exchange rate, DKK per dollar	6.9	7.0	6.9	7.0	6.6
Oil price, dollars per barrel	80.5	73.3	67.7	75.0	67.5
Balance of payments					
Current account balance, billion DKK	386	365	370	349	366
Current account balance, per cent of GDP	13.0	11.8	11.9	10.9	11.4

1) The structural balance in the Dec. column refers to *Opdateret mellemfristet forløb, februar 2025*.
Source: Statistics Denmark, IMF, Macrobond, Confederation of Danish Employers and own calculations.

2. Public Finances and Fiscal Policy

The starting point for the Danish economy is strong and resilient, with record-high employment, robust businesses, and solid public finances. According to preliminary figures from Statistics Denmark, the actual public balance showed a surplus of DKK 133 billion in 2024, equivalent to 4½ per cent of GDP. Continued surpluses are expected in both 2025 and 2026. Hence, the Danish economy is well-positioned at a time characterized by considerable uncertainties regarding both trade and security.

The public surpluses should be seen in the context of employment having increased by nearly 300,000 people since the beginning of 2021. This increase especially reflects a substantial inflow of international labor, coming to Denmark to work under attractive Danish conditions. At the same time, employment has risen among seniors and resident immigrants and their descendants, partly due to implemented reforms.

In recent years, Danish businesses as a whole have improved profitability despite facing high inflation, stagnant global trade, and geopolitical tensions. This is mainly due to an almost 20 percent increase in total exports since 2022, driven in particular by the pharmaceutical industry. The export growth has especially occurred through manufacturing and processing (M&P) activities abroad, where physical production takes place outside Denmark, while a significant part of the value creation remains in Denmark. These M&P activities contribute to increased Danish value creation without placing a corresponding strain on domestic labor and physical capital resources, thus avoiding an unsustainable rise in capacity pressure.

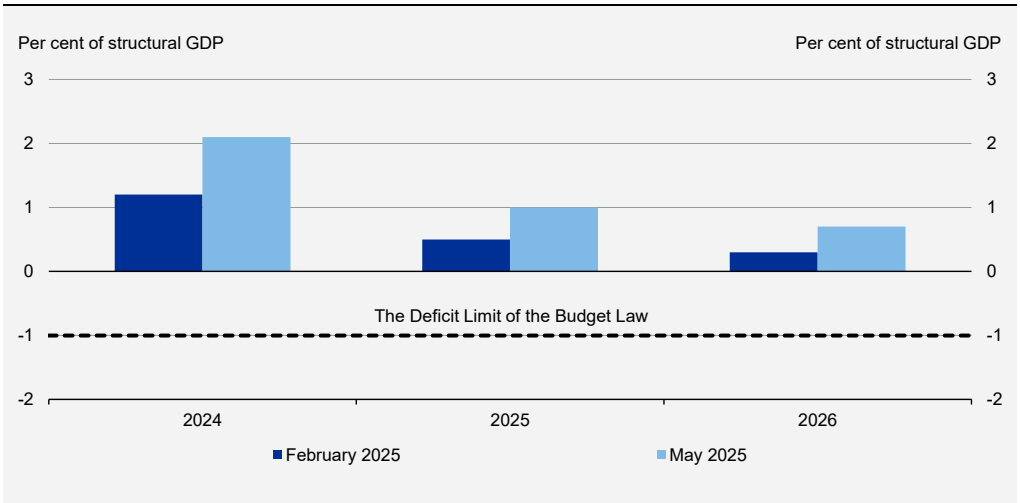
The public surpluses are therefore considered to be not only the result of favorable cyclical conditions, but also, to a large extent, the outcome of sound economic structures that support a well-functioning labor market and a competitive business sector. This is reflected in the estimate of the structural balance, which also shows a surplus. The structural balance has been revised upwards compared to the medium-term projection from February 2025, mainly due to higher estimates for structural employment and structural revenues from corporate and capital gains taxes, *cf. below*.

Economic activity in Denmark has been relatively high in the years following the COVID-19 pandemic. As a result, fiscal policy was gradually tightened to support the sustainability and durability of the upswing. In recent years, the production capacity of the Danish economy has increased, and capacity pressures have therefore eased, with further easing expected in the coming years. Rising production capacity and declining pressure create room for fiscal policy to be eased without triggering significant wage or price pressures. This, along with sound public finances, has helped create space for key societal priorities, including the establishment of the Acceleration Fund and generally increased defense spending, alongside continued development of public welfare and a tax reform that lowers taxes for the vast majority of working Danes.

Significant underlying upward revision of the structural balance

The Ministry of Finance's estimate of the structural balance has been revised upward on an underlying basis (i.e., excluding new policies such as the Acceleration Fund) by 1.3 per cent of GDP in 2025 and 1.2 per cent of GDP in 2026 compared to the medium-term projection from February 2025. This primarily reflects higher estimated structural revenues from corporate tax (excluding North Sea revenues) and tax on income from shares (share tax), as well as higher structural employment. The underlying upward revision of the structural balance is partly offset by the establishment of the Acceleration Fund of DKK 25 billion (in 2025 prices), corresponding to approximately 0.8 per cent of GDP annually in 2025 and 2026, under the *Agreement on Strengthening the Armed Forces' Combat Capability Forces* (February 2025), which is implemented without offsetting financing. Overall, the structural balance estimate has been revised upward by 0.5 per cent of GDP in 2025 and 0.4 per cent of GDP in 2026, *cf. Figure 2.1*.

Figure 2.1 Structural surpluses in 2024-2026



Source: Statistics Denmark and own calculations.

The estimates for structural corporate tax (excluding North Sea revenues) and share tax have been revised upward by a combined total of approximately 0.8 per cent of GDP in 2025 and 0.9 per cent of GDP in 2026. This revision should be viewed in the context of the Ministry of Finance's ongoing methodological review of the economic projections in connection with the preparation of the first medium-term projection based on the macroeconomic model, MAKRO, *cf. Box 2.1*. The new medium-term projection using MAKRO will be published in June 2025.

In addition, the improvement in the structural balance particularly reflects a significant upward revision of estimated structural employment. This should be seen in relation to the continued employment increases while economic indicators suggest that labor market pressures have eased. The higher structural employment is assessed to primarily reflect an increased inflow of international labor as well as rising employment among seniors and non-Western immigrants.

In 2024, the estimate for the structural balance has also improved due to lower public consumption than previously assumed. In 2025, lower expected material expenditures (excluding fighter jets) contribute to a further improvement in the structural balance.

Box 2.1 Updated method for calculating structural corporate tax and share tax

The Ministry of Finance's estimates for structural revenues from corporate tax (excluding North Sea revenues) and share tax have been significantly revised upward compared to the medium-term projection from February 2025. Structural revenues from these sources have been revised up by approximately 0.8 percent of structural GDP in 2025 and 0.9 percent in 2026, *cf. Figure A and Figure B*. The updated estimates should be seen in light of the Ministry's ongoing methodological review as part of the transition to using the macroeconomic model MAKRO for medium-term projections.

The MAKRO model provides a better foundation for projecting revenues from corporate tax and share tax. The projections are incorporated into the Ministry's updated methodology for calculating the structural level of these revenue components, including in the forecast years. Compared to earlier methods, the updated approach places greater emphasis on accounting for structural changes in the economy – such as increased corporate earnings from merchanting and processing abroad, and projected developments in shareholder portfolios and taxable income from shares.

The structural levels for these items are calculated using an HP filter with a relatively high degree of smoothing, whereby cyclical and other temporary fluctuations are filtered out, while allowing sluggish economic trends to affect the structural levels. Additionally, regulatory changes that directly affect the structural level are incorporated. A high degree of smoothing in the HP filter generally contributes to increased stability in the estimates across forecasts. Since the HP filter is applied to a long projection horizon, the calculation of structural levels avoids the endpoint problems that would otherwise arise if the filter relied only on data up to e.g. the most recent cyclical year.

In the Ministry's previous methodology, regulatory changes likewise directly affected the structural level in the year they took effect, but otherwise the focus was primarily on historical trends. As new data has become available, the structural level for these items has been repeatedly revised upward. This has been one of the sources behind the repeated upward revisions of the estimates of the structural government balance.

Figure a Corporate tax excl. North Sea revenues

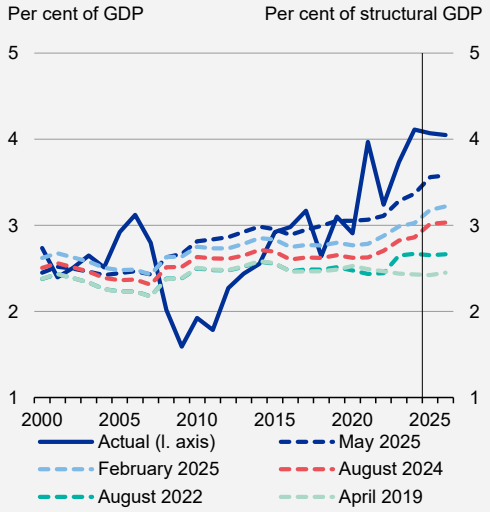
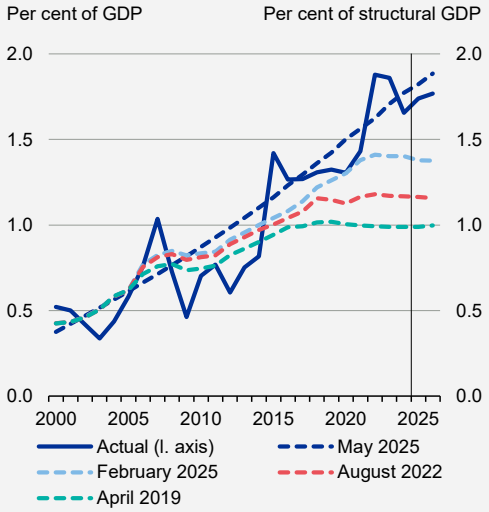


Figure b Share tax



Note: Dashed lines indicate estimates for the structural levels.
Source: Statistics Denmark and own calculations.

Fiscal easing in 2025 and decreasing capacity pressures

Fiscal policy was tightened significantly in 2022-2023 in response to high capacity pressures and inflation. Alongside monetary tightening, this contributed to the rapid normalization of inflation in Denmark, bringing it down to around 2 percent. Since then, capacity pressures in the Danish economy have eased but are still assessed to be above normal levels.

Capacity pressures are expected to ease further, and inflation is projected to remain below 2 percent throughout the forecast years. This creates room for fiscal policy to be eased in 2025 in order to support key societal priorities, including the establishment of the Acceleration Fund. The one-year fiscal impact is estimated at 0.8 percentage points in 2025 and 0.1 percentage points in 2026.

The estimated fiscal effects – especially for 2025 – are considered to be an overestimate, since major acquisitions of military equipment typically have a higher import content than assumed in the calculations of the fiscal effects, meaning the domestic activity effect is generally lower. In addition, technical factors affect the estimated fiscal effect in 2025. Public consumption in 2024 turned out lower than previously assumed. Given a constant expenditure level for public consumption in 2025, this results in higher consumption growth and thus a higher one-year fiscal effect in 2025. Conversely, it implies a correspondingly smaller fiscal impact in 2024.

Compared to 2019 – the year before the COVID-19 pandemic – the multi-year fiscal effects are estimated at -0.3 percentage points in 2025 and -0.2 percentage points in 2026. Accordingly, the combined fiscal and structural policies since 2019, including the easing in 2025, are still assessed to have a dampening effect on capacity pressures, *cf. Figure 2.3*. This implies that capacity pressures would have been slightly greater in the absence of the fiscal and structural policies implemented since 2019.

In sum, fiscal policy is being eased this year from a tight starting point, while capacity pressures continue to subside and the economy gradually moves toward a neutral cyclical position. Fiscal policy in Denmark is therefore evolving in line with monetary policy, where market participants expect further easing in 2025 as inflation in the euro area approaches the 2 percent target.

Figure 2.2 One-year and multi-year fiscal effects

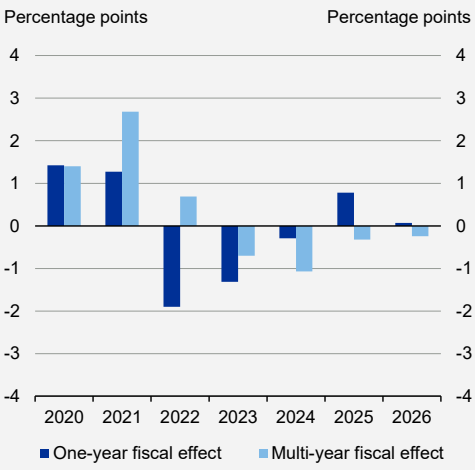
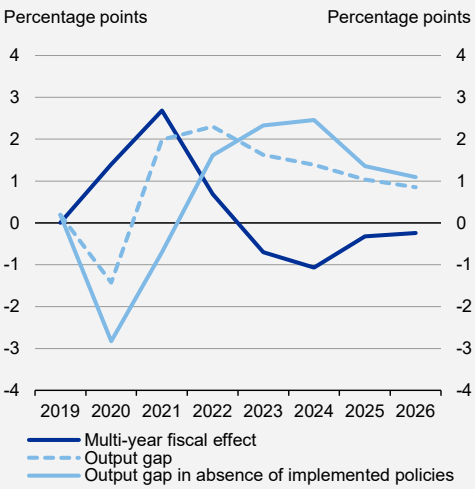


Figure 2.3 Multi-year fiscal effects compared to the output gap



Source: Own calculations based on MAKRO.

The planned fiscal policy leads to high public expenditure growth in 2025

Based on the 2025 Finance Act and the subsequent political agreement to establish an Acceleration Fund of DKK 25 billion in 2025 and 2026, real growth in public consumption is estimated at 4.8 percent in 2025, and real growth in public investment at 28.2 percent in 2025, *cf. Figure 2.4 and Figure 2.5*.

The estimated growth rates for 2025 have been revised upward compared to *Economic Survey, December 2024*. This reflects both the technically assumed expenditure impact of the establishment of the Acceleration Fund (*cf. Box 2.1*) and lower reported expenditures for public consumption and investment in the preliminary 2024 accounts compared to the December survey.

Box 2.2 Agreement on Strengthening the Armed Forces' Combat Capability Forces

As part of the *Agreement on Strengthening the Armed Forces' Combat Capability Forces* (February 2025), an Acceleration Fund of DKK 25 billion annually in 2025 and 2026 is established, along with a framework of DKK 10 billion annually from 2027 to 2033 to cover expenses arising from decisions initiated by the Acceleration Fund. As a result, defence expenditures are expected to amount to approximately 2¼ percent of GDP by 2030.

The Acceleration Fund aims to enable the acquisition of military capabilities, improved intelligence and surveillance, a stronger defence of the Kingdom of Denmark, and an enhanced capacity to contribute to NATO's strengthened deterrence and defence. Additionally, the funds may be used for military support to Ukraine.

For technical calculation purposes, it is assumed that the annual allocations from the Acceleration Fund in 2025 and 2026 will lead to additional expenditures of DKK 15 billion for public investment, DKK 5 billion for public consumption, and DKK 5 billion for transfers abroad.

In 2026, real growth in public consumption is technically estimated at 0.3 percent, while real growth in new public investment is technically estimated at 3.6 percent. The projected expenditure growth in 2026 is based on the assumed expenditure ceilings in the medium-term 2030 framework, among other factors. Expenditure and fiscal policy for 2026 will be determined in connection with the agreements on the economic framework for municipalities and regions, as well as the 2026 Finance Act.

Figure 2.4 **Real growth in public consumption**

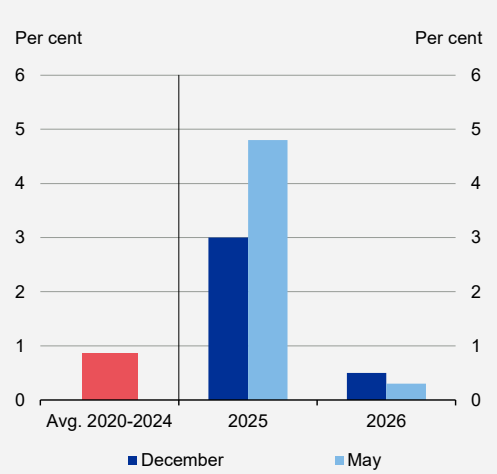
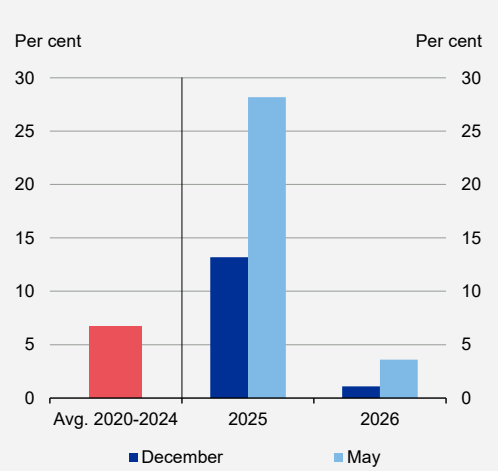


Figure 2.5 **Real growth in public investments**



Source: Statistics Denmark and own calculations.

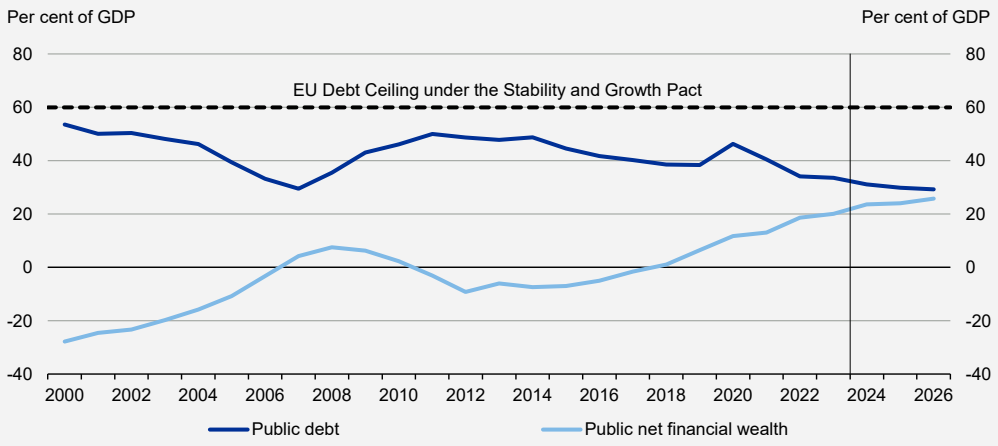
Decreasing EMU debt and growing public financial net wealth

The strong public finances have contributed to Denmark's EMU debt being among the lowest in the EU and well below the 60 percent of GDP threshold set by the Stability and Growth Pact. Denmark's EMU debt is thus projected to decline from approximately 31 percent of GDP in 2024 to just over 29¼ percent of GDP in 2026, *cf. Figure 2.6*.

In addition to supporting debt reduction, the public surpluses have also contributed to Denmark maintaining a positive net public financial wealth since 2018. In 2026, the net public financial wealth is projected to be around 25¾ percent of GDP, which is approximately 2¼ percentage points higher than in 2024.

Other key figures for public finances in the period 2024-2026 are presented in Table 2.1.

Figure 2.6 Public debt and net financial wealth



Source: Statistics Denmark and own calculations.

Table 2.1 Key estimates regarding the fiscal policy

	2024	2025	2026
Structural budget balance, per cent of structural GDP	2,1	1,0	0,7
Budget balance, per cent of GDP	4,5	1,6	1,5
Real growth in public consumption, per cent.[1)]	1,5	4,8	0,3
Multi-year fiscal effect, level, percentage points[2)]	-1,1	-0,3	-0,2
One-year fiscal effect, percentage points[3)]	-0,2	0,8	0,1
Output gap, per cent.[4)]	1,2	0,9	0,7
Employment gap, per cent.[4)]	1,8	1,6	1,1
Public debt, per cent of GDP	31,1	29,8	29,2
Public net wealth, per cent of GDP	23,6	24,0	25,7

1) 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.
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.

3. Big disparity in productivity challenges among EU countries

Since 2000, economic growth in the EU-countries has generally been slightly weaker than in the US. However, there are significant differences across EU countries, both in the level of living standards and the growth therein. Some EU countries, including Denmark and Sweden, have more closely kept pace with the US. Productivity growth is one of the main sources of rising living standards over time. Therefore, it is crucial to focus on economic policy measures that can increase productivity. This topic will thus be a significant priority in the work under the upcoming Danish EU presidency in the second half of 2025. Both the Danish government and the European Commission, for example, have set clear goals to reduce administrative burdens for businesses, and there will also be a particular focus on strengthening the EU's capital markets to increase investments in venture capital.

This thematic chapter points to several structural factors that may help explain differences in productivity development across countries:

- Investment in R&D and Digitalisation: EU countries that have better kept pace with the US, such as Denmark and Sweden, are characterized by a higher degree of investment in research and development and digitalisation. Large EU countries like Germany, France, and Italy lag in these areas.
- Business Dynamism: There is generally less dynamism in the business sector in the EU than in the US. Growth companies constitute a smaller part of the economy in EU countries, but with significant differences between countries.
- Regulation: Regulation can hinder investment and productivity. However, there are significant differences across EU countries regarding how much of a barrier regulation poses to investments. Companies in the Nordic EU countries to a lesser extent report that regulation constitutes a major barrier to investments, and the Nordic EU countries generally have less intrusive product market regulation than most EU countries.
- Labour Market Flexibility: Less flexible labour markets in many EU countries can make it harder to allocate labour to the most productive companies. Countries with better productivity development tend to have greater labour market flexibility. An analysis of Danish register data also shows a correlation between job changes and productivity.
- Capital Markets: Capital markets in EU countries are less developed than in the US, and there is notably less venture capital. This can hinder innovation and the growth of new businesses.

The good position of Denmark compared to many other EU countries can be attributed to greater investments in research and development and digitalisation, less extensive regulation, and not least a flexible labour market, which is often highlighted by international organisations.

The differences between EU countries suggest that there is significant potential to strengthen productivity through reforms and measures at the national level. This applies particularly to reducing administrative burdens for businesses in general, just as inflexible labour markets still impede economic dynamism in many EU countries. Therefore, it remains essential that EU countries focus on structural reforms that can benefit productivity and the resilience of their economies.

3.1 Does Europe have a common productivity challenge?

Since 2000, the development in the standard of living, measured by GNI per capita purchasing power adjusted (PPP) in constant prices, has generally been slightly weaker in the EU than in the US, *cf. figure 3.1*. This picture is moderated when the purchasing power adjustment is made in current prices, which to a slightly greater extent embodies the importance of changed terms of trade, i.e. the difference between the development in a country's export and import prices, *cf. figure 3.2*. Here, income growth in the EU countries has been slightly higher than in the US.

Figure 3.1 GNI per capita in constant prices – EU countries has seen weaker growth than the US, but Denmark has kept up

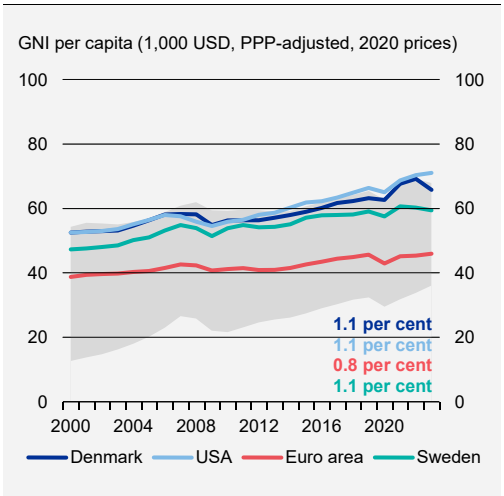
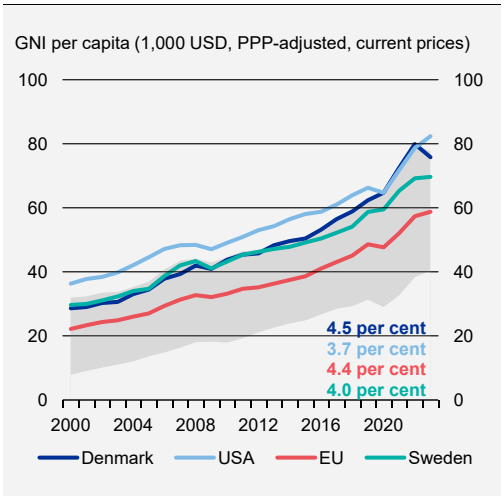


Figure 3.2 GNI per capita in current prices – EU countries have to a greater extent followed the US, but the level continues to be lower



Note: The coloured numbers in both figures indicate the average annual growth rate for the economy in question in the period 2000-2023. Purchasing power-adjusted figures measured in US dollars per capita, see also box 3.1. The grey-shaded area consists of the maximum and minimum among EU countries, except Luxembourg and Ireland, as well as Romania, Bulgaria, Cyprus and Malta. Luxembourg is a regional financial centre, among other things, for tax reasons. The development of GDP in Ireland is strongly influenced by the location of foreign companies' earnings in the country, which exceeds production in the country and thus income per capita.
Source: The World Bank, OECD and own calculations.

However, there are large differences between the EU countries, both in terms of level and growth in the standard of living, regardless of which method of purchasing power adjustment is used. Countries such as Denmark and Sweden have had approximately the same increase in GNI per capita as the US over the period, and Denmark is approximately on par with the US in 2023. The Netherlands, Ireland and Luxembourg are also at the top among EU countries. The opposite is true, especially for Italy and France, which previously had an income level almost as high as the US, but where income development has been weaker for many years.

The EU countries that have followed the US better are characterised by a higher level of investment in research and development and digitalisation, have more flexible labour markets and lower burdens in relation to establishing new companies. They are also countries that have largely benefited from globalisation, and where a relatively large share of value creation in the economy is linked to international trade.

GNI per capita is a frequently used measure for comparing prosperity across countries. It is an expression of the total value creation per capita in society (GNP), corrected for income payments to and from abroad. GNI per capita thus provides a measure of income per capita. To obtain a true picture of material prosperity – i.e. the purchasing power of income – country comparisons are corrected for differences in price levels and fluctuations in exchange rates, *cf. box 3.1*.

Box 3.1 International comparison of income – purchasing power correction

A purchasing power adjustment (PPP adjustment) seeks to correct for differences in price levels and fluctuations in exchange rates to achieve a more comparable level of living standards across countries. The purchasing power adjustments are based on international price indices from the OECD, the World Bank or Eurostat. The international price indices are based on the same survey, where the consumer price for a wide range of goods and services is compared across countries. Comparisons of GNI per capita and the development of hourly productivity can vary considerably depending on whether purchasing power adjustment is considered in current or constant prices. Measured in constant prices, the development of GNI per capita in Denmark and the EU has been weaker than in the US since 2000, while the opposite is the case when the development is assessed based on purchasing power adjusted figures measured in current prices, cf. Figure 3.1 and Figure 3.2. Since there are ongoing changes in consumption and production patterns and changes in the goods and services used in the purchasing power survey, income and productivity measures calculated in purchasing power adjusted terms at constant prices are often recommended to assess developments in living standards and productivity over time across countries, cf. Productivity Commission (2011) and Dey-Chowdury (2007).[1] Calculations of GNI and GDP per capita with PPP correction in current prices, on the other hand, are generally better suited to comparing levels at a given point in time. At the same time, PPP correction in current prices will reflect terms of trade improvements to a greater extent.

1) Produktivitetskommissionen (2011): Danmarks Produktivitet – hvor er problemerne, *Analyserapport nr. 1 og* S. Dey-Chowdury (2007): International comparisons of productivity: the current and constant PPP approach, *Economic & Labour Market Review*, Springer, august 2007. Erhvervsministeriet (2023): Redegørelse om vækst og konkurrenceevne.
Source: OECD and own calculations.

It should be noted, however, that this comparison of purchasing power adjusted GNI per capita does not fully take into account the effect of differences in the development between export and import prices, i.e. the terms of trade. For Denmark, a trend towards a strengthening of the terms of trade has meant that GNI has increased more than GDP development and the development of the return on foreign assets would suggest, *cf. box 3.2*.

Part of the higher income per capita in the US compared to the EU can be attributed to a higher work input per capita. Thus, an employed person worked on average 8.4 percent less in the EU than in the US in 2023, and in Denmark the number of hours per employed person was 21 percent lower.[1] There are significant differences across EU countries. In Italy, the average working hours per employee were approximately 8 per cent below the level in the US, while the difference was almost 24 per cent for Germany.

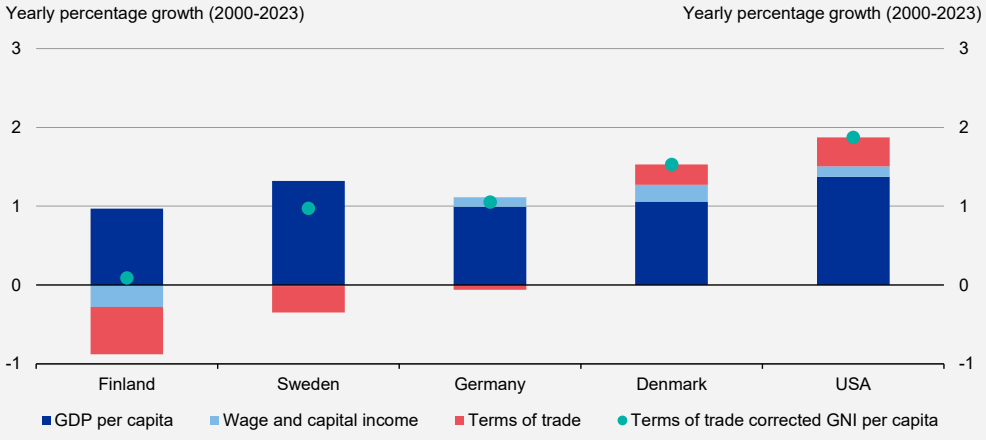
[1] Cf. the OECD Productivity Database.

The weaker development in GNP per capita is thus partly because citizens in EU countries have chosen more leisure time than in the US over greater material prosperity.[2] At the same time, income in the US is concentrated to a significantly higher extent than in EU countries among the wealthiest part of the population.[3]

Box 3.2 The impact of changes in the terms of trade on income developments

In comparisons of the development of living standards across countries, it is also important to take into account the development in terms of trade and gains from international trade. If, for example, Denmark exports goods and services that increase in price and imports goods and services that decrease in price, GDP growth in constant prices will underestimate the development in prosperity. These conditions are not fully captured by purchasing power adjustment, which compares a basket of goods and services across countries. In recent years, an improved relationship between the prices of exports and imports has contributed significantly to the growth in gross national income per capita in Denmark and the United States, *cf. figure a*. In contrast, Finland, Sweden and Germany, among others, have seen a weaker terms of trade.

Figur a Changes to the terms of trade can have a big impact on income developments



Source: Macrobond, OECD, Eurostat and own calculations.

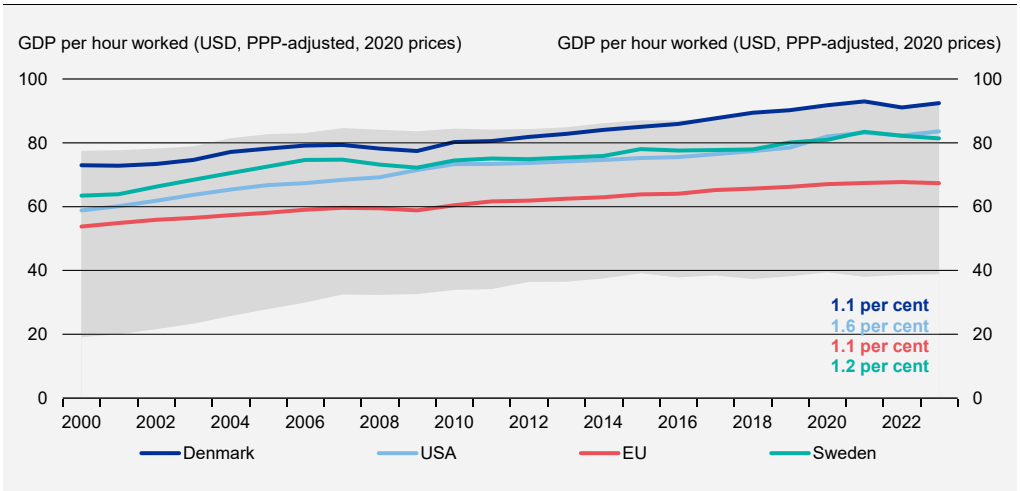
Higher productivity – i.e. value creation per hour worked – is the most important driver in terms of raising living standards. Increased productivity means that the resources used in production are used more efficiently. Productivity gains often arise as a result of innovation and the use of new production methods and new technology, which can lead to new goods and services and entirely new industries. In addition to differences in productivity, differences in value creation can also be due to differences in the use of physical and intangible capital and in the human capital of the workforce.

Differences in the level and development of GNP per capita between EU countries – and in relation to the US – largely reflect corresponding differences in productivity. Growth in hourly productivity – i.e. GDP per hour worked (purchasing power adjusted) – has generally developed weaker in the EU than in the US since 2000, and the level is also lower, *cf. figure 3.3*.

[2] In addition, the share of the population in the age group 15-64 years has fallen more in the EU countries than the US since the 1990's.
[3] Cf. the World Inequality Database.

However, several EU countries have higher productivity levels than the US and have productivity growth in line with the US. The productivity level in Denmark, for example, is at the high end of the EU countries, and Danish hourly productivity has roughly followed that of the US in recent years. Similarly, productivity growth in Poland and the Czech Republic has also been very strong, and in general there is a clear catch-up in the form of relatively stronger growth in the countries with the lowest productivity level. In contrast, productivity growth in, among others, France and Italy has been very weak.

Figure 3.3 Productivity growth has generally been weaker in Europe than in the US since 2000, but there is wide variation across countries



Note: The coloured numbers indicate the average annual growth rate in the period 2000-2023 for the economy in question. The grey-shaded area consists of the maximum and minimum among EU countries, except Luxembourg and Ireland, as well as Romania, Bulgaria, Cyprus and Malta. Luxembourg is a regional financial centre, among other things, for tax reasons. The development of GDP in Ireland is strongly influenced by the location of foreign companies' earnings in the country, which exceeds production in the country and thus income per capita.
Source: OECD and own calculations.

Methodological differences in the calculation of price and volume developments in national accounts between EU countries and the US may also play a role. The US's greater use of hedonic price indices, especially for IT products, results in lower measured price increases and thus higher real growth compared to the EU.[4] The lower productivity growth in Germany and several European countries since the corona pandemic must also be seen in the light of structurally higher energy prices. All other things being equal, structurally higher energy prices mean higher production costs and thus a lower potential production level and productivity.[5] In Germany, the decline in production has been particularly sharp in the energy-intensive part of industry, cf. *Economic Survey, May 2024*.

[4] Hedonic price indices take into account quality improvements in products. For example, data for 2000–2019 show that the price index for computer hardware in the US fell by over 70 per cent, while in the EU it fell by around 50 per cent, cf. EIB (2014): Dynamics of productive investment and gaps between the United States and EU countries, EIB Economics Working Paper 2024/01.
[5] The effect also depends on the extent to which it is possible to substitute production factors. To the extent that energy consumption is complementary to other production factors, higher energy prices and thus lower energy consumption reduce the efficiency of these production factors. See also Productivity 2023, The Economic Councils, 2023, Chapter II for a closer examination of the relationship between higher energy prices and productivity.

Some of the differences in measured productivity development between countries in the EU and the US in recent years may also be partly related to differences in the economic situation. According to estimates from the IMF, the US has had a higher output gap than the countries in the euro area. This may contribute to differences in productivity developments.[6]

The EU generally ranks lower on investments in intellectual property rights, digitalization and the spread of new technology

The analysis in the previous section was based on hourly productivity, calculated as GDP per hour worked (purchasing power adjusted). Differences in hourly productivity can be due to several factors, including differences in the size of the capital stock in relation to the amount of labour or differences in the quality of the labour force (human capital). A larger amount of capital per employee, e.g. in the form of machinery, buildings or intellectual property rights (including patents), will make the labour force more productive. A higher level of competence of the labour force will also lead to higher productivity. In principle, one should therefore consider both the use of capital and its quality as well as the level of competence of the labour force.

Based on data from EUKLEMS and INTANprod, the growth in hourly productivity can be divided into contributions from labour force composition, which covers changes in educational level and age composition, as well as investments in buildings and machinery, innovation, software, ICT equipment and company-specific competencies, which covers, among other things, investments in branding. The remaining contribution to productivity that cannot be attributed to these factors is instead attributed to an improvement in total factor productivity (TFP). TFP is thus measured as the value creation that cannot be explained by the production factors (inputs) in production. TFP can be, for example, technological progress, increasing human capital, organization and management, etc. Therefore, statistical uncertainties in relation to the calculation of production factors, for example the amount of capital and fluctuations in capacity utilization, will affect the calculation of TFP. Although EUKLEMS data are harmonized for the purpose of comparability across countries, differences in data quality, calculation methods and underlying assumptions remain. Since many types of capital inputs in EUKLEMS are also calculated based on model-based methods, the calculation and comparisons of growth contributions across countries should be interpreted with considerable reservations. These data are only available up to and including 2021, but the period 2000-2019 is examined here to avoid the impact of the corona pandemic.

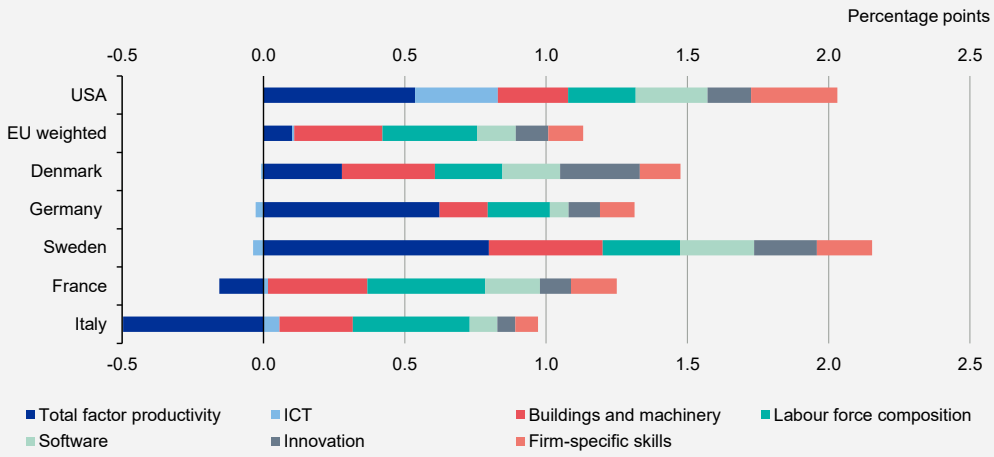
The decomposition shows that a significant reason for the weaker productivity growth in the EU overall is a smaller contribution from investments to hourly productivity, *cf. figure 3.4.*

The calculation shows that investments in ICT equipment have only contributed to productivity growth in the US, and investments in software and innovation have also had a larger contribution in the US than for the EU. However, significant differences are seen within the EU countries, where the productivity contribution from software and innovation is on par with the US

[6] Lower capacity utilization (e.g. due to a recession and lower demand) will lead to lower productivity, as some of the production factors are not immediately fully utilized. This may happen, for example, because companies seek to avoid laying off employees due to the costs associated with hiring and training workers. Over longer periods of time, however, this effect must be assumed to decrease in importance, as production factors are not locked in.

for Denmark and Sweden, while it is significantly smaller for the other countries shown in figure 3.4.

Figure 3.4 Decomposition of contributions to growth in hourly productivity for selected countries, 2000-2019

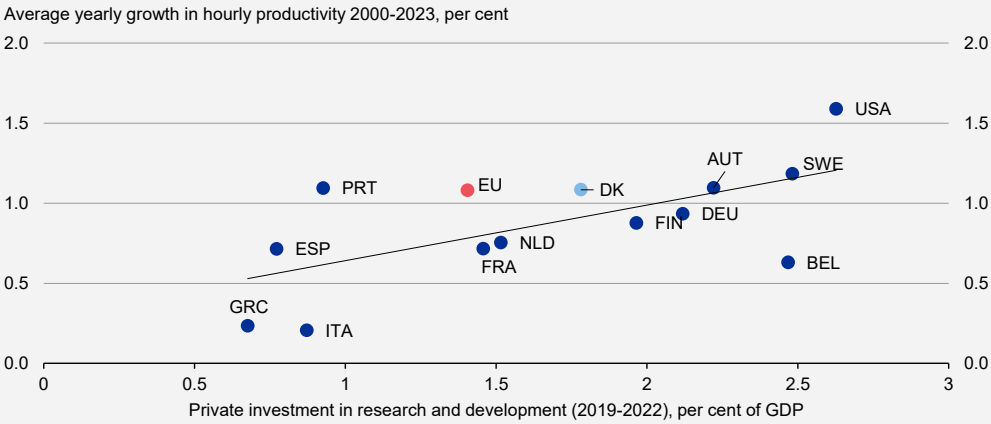


Note: Hourly productivity is calculated for the EUKLEMS definition of the market economy, which excludes certain industries where the public sector constitutes a significant share or which are otherwise not suitable for comparisons across countries. These are the industries of public administration, real estate, education, health care, etc., production of goods and services by households for own use and extraterritorial organizations. Hourly productivity is calculated using the so-called "bottom-up" approach, where the growth in hourly productivity is calculated for each of 27 separate industries and then weighted with the industry's share of total gross value added. EU11 includes Denmark, Germany, Belgium, the Netherlands, Spain, France, Italy, Greece, Ireland, Luxembourg and Portugal. The weighting of EU countries is based on GDP for EU countries with available detailed breakdown by growth contribution in the EUKLEMS database, which are the countries shown in the table. The 27 industries are a mix of one- and two-digit NACE Rev. 2-industry codes, which constitute the most disaggregated level available in the EUKLEMS database for which data is available for the countries. ICT relates to investments in computer and telecommunications equipment. Buildings and machinery etc. covers investments in buildings, transport equipment, industrial machinery etc. Software covers investments in software and databases. Innovation covers investments in research and development, the value of artistic copyrights and design capabilities etc. Company-specific competencies relate to investments in marketing and branding, as well as employee development etc. See Bontandini et al. (2023): EUKLEMS & INTANProd: industry productivity accounts with intangibles for a thorough description of the data basis and the method.
Source: Statistics Denmark, EUKLEMS, OECD and own calculations.

The smaller contribution from investments to productivity growth in the EU should be seen against the background of a significantly lower contribution from investments in research and development compared to the US, *cf. figure 3.5*. Thus, corporate investments in research and development in the US amounted to 2.6 per cent of GDP in 2019-2022, compared to 1.4 per cent of GDP in the EU countries in the same period. In the US, it has been technology companies that have contributed to a higher level of investment. In the EU, companies associated with the automotive industry continue to account for the largest private investments in research and development. This is also reflected in the fact that Germany generally invests a lot in research and development but has relatively small growth contributions from software and research and development. However, there are some EU countries, including Denmark and Sweden, which are characterised by large investments in research and development and larger contributions to productivity growth from software and research and development than the remaining European economies.

In general, total factor productivity growth has been stronger in the US than in the EU countries. However, there have been very significant differences across EU countries. In Germany and Sweden, TFP growth in 2000-2019 was on par with the US, whereas estimated TFP growth was negative in Italy and France over the same period.

Figure 3.5 EU-15 countries with higher private investment in research and development have performed better in terms of productivity growth



Note: Corporate investments in research and development as calculated by OECD (MSTI database).
Source: OECD and own calculations.

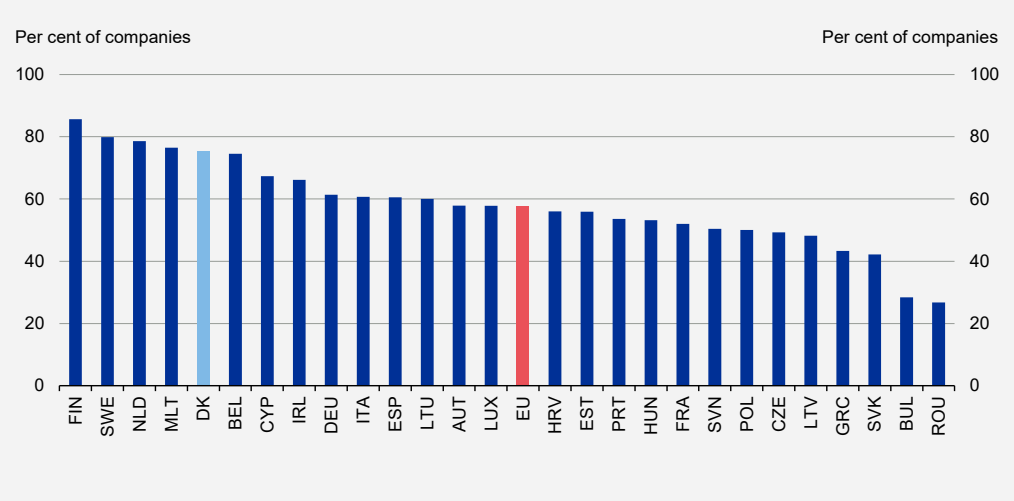
The lower research and development activity in EU countries can lead to companies falling behind in terms of applying the latest knowledge in production. A study from the EU Commission estimates a clear correlation between TFP growth and the build-up of intellectual property rights. An increase in investment in intellectual property rights of 1 per cent of GDP is thus estimated to increase TFP growth by 0.13 percentage points.[7]

There is a clearly lower level of investment in software and digitalization in EU countries. Denmark, Sweden and the Netherlands are the only EU countries that are above the US in relation to IMD's digitalisation indicators.[8]

There are generally significant differences across EU countries in the degree of digitalisation of the economy, which is also reflected in the use of digital technology in SMEs. In general, around 75-80 per cent of SMEs in the Nordic EU countries and the Netherlands have a basic digital intensity, while this is only around 60 per cent in Germany and Italy and half of the companies in France, *cf. figure 3.6*.

[7] Cf. Nikolov et al (2024): Mid-tech Europe? A sectoral account on total factor productivity growth from the latest vintage of the EUKLEMS database.
[8] Cf. IMD World Digital Competitiveness Ranking 2024.

Figure 3.6 SMEs in the Nordic EU countries and the Netherlands have a higher degree of digitalisation

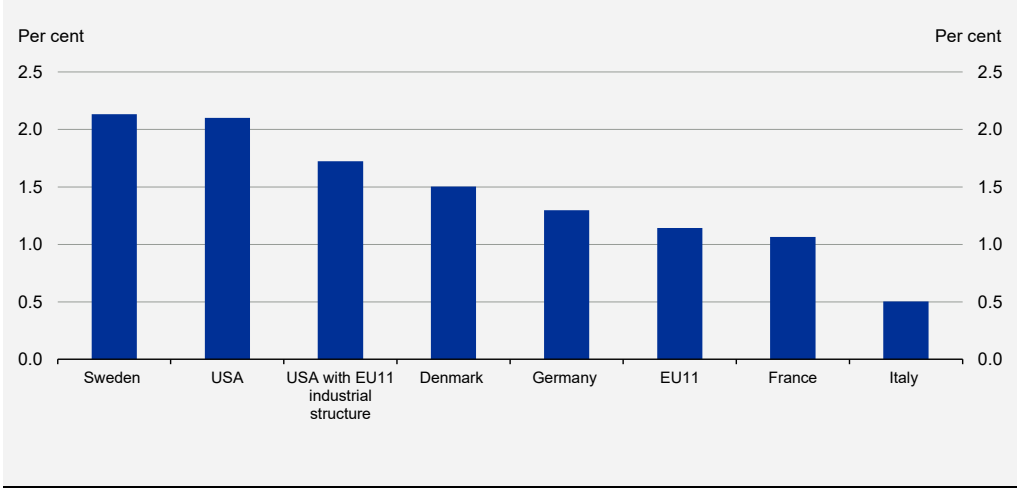


Note: The digital intensity score is calculated based on how many of 12 selected digital technologies are used by companies. A basic level requires the use of at least 4 technologies. The calculation covers manufacturing and service industries but excludes the financial sector and companies with 10-249 employees.
Source: The European Commission, DESI dashboard for the Digital Decade (2024).

Impact of industry composition on productivity growth

Differences in industrial structure can help explain differences in productivity development. Some industries have structurally higher productivity growth and capital intensity, and to the extent that these sectors constitute a larger part of the economy in the US compared to the EU, this could explain the lower productivity growth in Europe. However, if the industry composition is corrected, the US still has higher productivity growth than the EU over the period 2000-2019, when the calculation in EUKLEMS (which is adjusted for purchasing power in constant prices) is used, *cf. figure 3.7*.

Figure 3.7 Average annual growth in hourly productivity of the market economy, 2000-2019



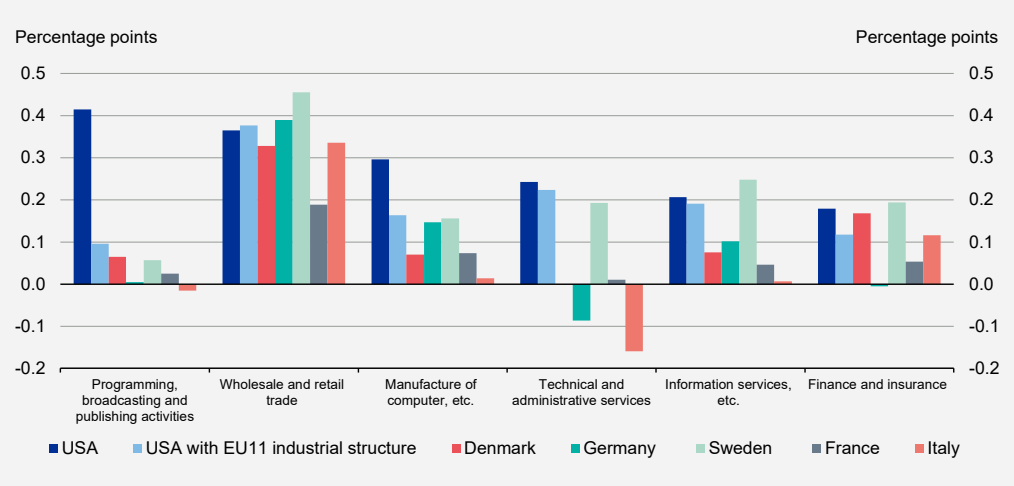
Note: See note to figure 3.4.
Source: Own calculations based on EUKLEMS & INTANProd.

Six industries are driving growth in the United States, and these industries together accounted for 58 percent of gross value added in 2019. The same industries have not driven growth in the same way in European countries, *cf. figure 3.8*.

The high growth contributions from broadcasting, publishing and computer manufacturing, etc., respectively, can largely be attributed to the fact that these are American positions of strength and that these constitute a larger part of the economy in the United States than in European countries. The growth contributions would thus be smaller if the United States had the same industrial structure as in European countries. Conversely, the significant contributions to the growth in hourly productivity within services and information services cannot be attributed to the industrial structure in the same way. Only Sweden has similar productivity growth within these industries.

In addition to wholesale and retail trade, the largest growth contribution to hourly productivity in Denmark comes from the manufacture of pharmaceutical products, and for Germany it is the manufacture of motor vehicles. Among the large countries in the EU, France and Italy in particular are characterized by a very weak development in hourly productivity, and with the exception of wholesale and retail trade in Italy, they have significantly lower productivity growth than the US in the six industries.

Figure 3.8 Contributions to growth in hourly productivity for the top 6 industries in the US based on contributions to growth, 2000-2019



Note: Calculated on the basis of the EUKLEMS definition of the market economy, which excludes certain industries where the public sector constitutes a significant share or which are otherwise not suitable for comparisons across countries. The industries are calculated using NACE Rev. 2, which is compatible with the Danish industry classification DB07. These are the industries public administration, real estate, education, health care, etc., production of goods and services by households for own use and extraterritorial organizations. Radio, television and publishing activities cover industry codes J58-J60. Wholesale and retail trade corresponds to industry code G. Manufacture of computers, etc. is C26. Technical and administrative services are industries M and N combined. Information services, etc. are J62-J63. Finance and insurance is industry code K.

Source: Own calculations based on EUKLEMS & INTANProd.

3.2 Structural factors help to explain differences in productivity growth

Productivity in the economy reflects the efficiency of value creation in the economy, which can be based on a wide range of factors. Below, some of the factors that are considered to have the greatest impact on the diverse productivity of EU countries are reviewed, based on the economic literature, including business dynamics, regulation and barriers to trade in the EU, and demographic development. The section specifically delves into the importance of flexible Labour markets in relation to productivity development, including an analysis of Danish register data.

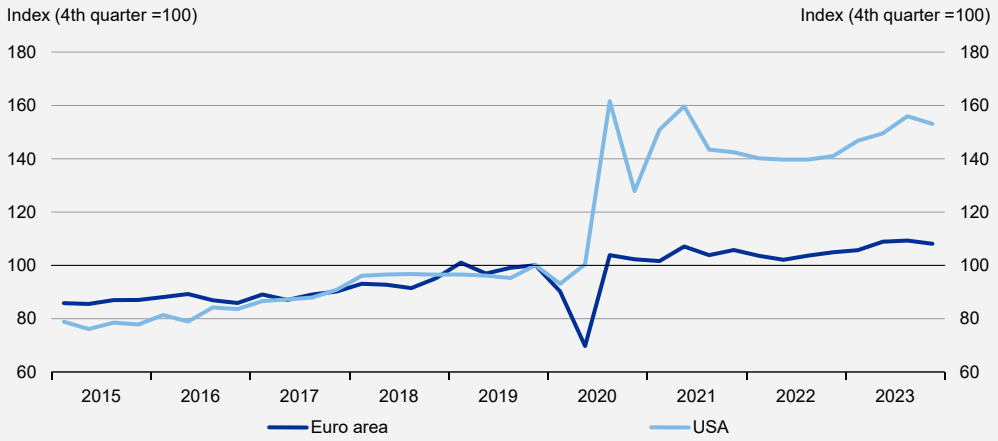
Business sector dynamism

Studies from, among others, the IMF indicate that the dynamism of business is generally less in the EU than in the US.[9] In the EU, the propensity to start new businesses is lower than in the US, and those that are established in EU countries generally do not grow as much. Less dynamic markets mean that resources are less likely to be reallocated to the most productive businesses. This hampers innovation and overall economic growth.

[9] IMF (2024): Europe's Declining Productivity Growth: Diagnoses and Remedies, IMF Regional Economic Outlook notes, oktober.

There are signs of a structural increase in the number of new business registrations in the US since 2019, which differs from the euro area, cf. Figure 3.9. An analysis indicates that more business registrations in the US led to a significant increase in the number of new jobs and reallocation in employment.[10]

Figure 3.9 The development in the number of new businesses has been stronger in the US than in the euro area after the corona pandemic



Note: Business registrations in the euro area and the United States.
Source: Federal Reserve (2024): Why is the U.S. GDP recovering faster than other advanced economies? and Haver Analytics.

The employment share in young enterprises (≤5 years old) has been falling steadily in several EU countries since 2000. This indicates that economic activity is increasingly concentrated in older, more established enterprises. The decline is seen across all sectors and is particularly pronounced for fast-growing young enterprises.[11]

Analyses have shown that companies in the EU have become less likely to adjust their workforce or production capacity in response to changes in productivity.[12] This leads to a less efficient allocation of labour and capital. A similar development has occurred in the US. In contrast to the US, where lower firm dynamics are primarily attributed to a weaker response to changes in productivity because of changing market conditions, developments in the EU as a whole are characterised by both lower dispersion of productivity shocks (and thus fewer firms with very positive developments) and reduced market responsiveness.

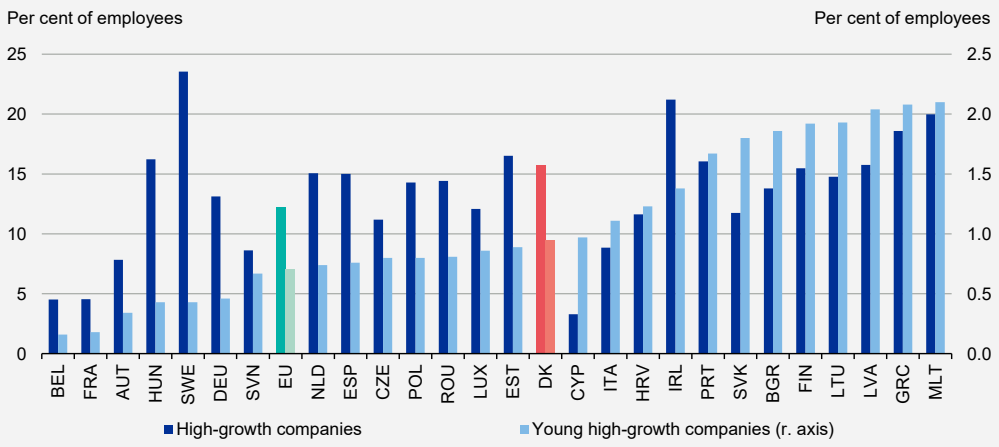
International organisations have found that the European business community has a relatively weak "up-or-out" dynamic compared to its American counterpart. In the US, it is more common for the most successful firms to grow rapidly, while inefficient firms leave the market. In

[10] Jf. Haltiwanger og Decker (2023): Surging business formation in the pandemic: Causes and consequences, *Brookings Papers on Economic Activity, fall 2023,* The Brookings Institution.
[11] Jf. Calvino m.fl. (2020): Declining Business Dynamism: Structural and Policy Determinants, *OECD Science, Technology and Industry Policy Papers.*
[12] Biondi et al. (2023): Declining business dynamism in Europe: The role of shocks, market power, and technology, *Jena Economic Research Papers, No. 2023-011,* University of Jena.

the EU, there are more small, low-growth firms that survive longer, which hampers the reallocation of resources such as capital and labour to more productive firms.[13] It is important for productivity growth that unproductive companies close, thereby freeing up resources for more productive companies. Studies indicate that so-called zombie companies have made up a relatively significant share of the economy in several EU countries, particularly in Southern Europe, but that this has not been a problem in Denmark.[14] Analyses also indicate that the presence of zombie companies can inhibit innovation from healthy companies.[15]

Differences in the degree of dynamism in business across EU countries are also seen in the proportion of high-growth companies in different EU countries. The proportion of employees allocated to high-growth companies (>10 per cent growth in employment) varies greatly across EU countries, with Sweden and Ireland having a relatively high proportion, while conversely it is low in France and Belgium, *cf. figure 3.10*. For Denmark, the proportion is also above the EU average.

Figure 3.10 Large variation across countries in the share of employment in high-growth companies



Note: High-growth companies are defined as companies with a growth in employees of more than 10 percent. Young companies are 5 years old or younger. Shown as a share of employees in companies with at least 10 employees.
Source: Eurostat and own calculations.

For Sweden, the share of employment in young high-growth companies (also called gazelle companies) is below the EU average of 0.7 percent of employment. There is also a large variation across EU countries in the share of employment in these companies. Several southern and eastern European countries have a relative high share of employment in young high-growth companies, while it is low in countries such as France, Belgium and Germany.

[13] IMF (2025): Europe's Productivity Weakness: Firm-Level Roots and Remedies, *IMF Working Paper no. 2025/040.*
[14] Cf. Danmarks Nationalbank (2019): Low prevalence of zombie firms in Denmark, *Analysis no. 29,* December.
[15] Ascani og Nair (2025): Innovation and zombie firms: Empirical evidence from Italy, *Research Policy,* Vol. 54 no. 3, Elsevier.

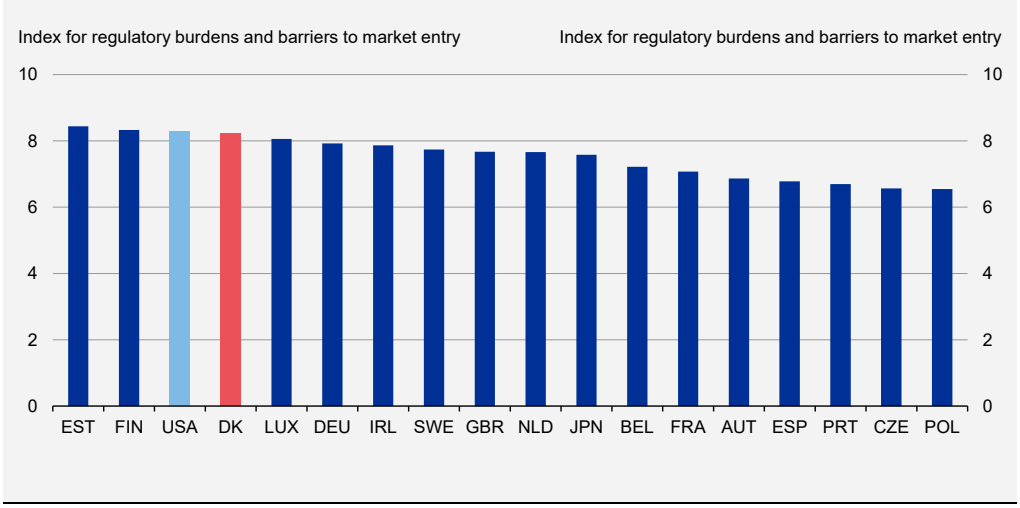
The cross-country differences show that established companies with more moderate growth play a greater role in a number of large countries in the EU, while in a number of smaller countries, high-growth companies play a greater role.

Product market regulation and productivity

Barriers from regulation can help explain the weaker business dynamics and lower investments in research and development and can thus be an underlying source for the weaker productivity development. Business regulation is often introduced to ensure competition or for reasons of consumer protection, safety, the environment or to limit harmful effects associated with pollution, etc. However, more extensive regulation of product markets can also contribute to reducing competition, as it can limit the opportunities for new companies to enter the market. Larger companies will typically find it easier to bear the costs associated with compliance with the regulation, e.g. in the form of documentation requirements. A recent study shows, for example, that small and medium-sized companies had their profits reduced by 12 percent because of expenses to comply with GDPR, while larger companies had their profits reduced by 5 percent.[16]

A measure of regulatory burdens and barriers to market entry indicates that the US is better off than most EU countries, *cf. figure 3.11*.

Figure 3.11 The US is better positioned than many EU countries in terms of regulatory burdens and barriers to market entry



Note: The indicator has been calculated as in Igan et. al. (2024): Productivity in the post-pandemic world:old trend or new path, *BIS Bulletin no. 93,* Bank for International Settlements.
Source: Fraser Institute.

However, there is a large spread across countries, and several Nordic EU countries and Denmark are, for example, on a par with the US. On the other hand, the indicator points to potential for reducing regulatory burdens and barriers to entry in EU countries, not least in France and several southern and eastern European countries. Conversely, the OECD's indicator for product market regulation (PMR) shows that regulation is not more lenient in the US than in

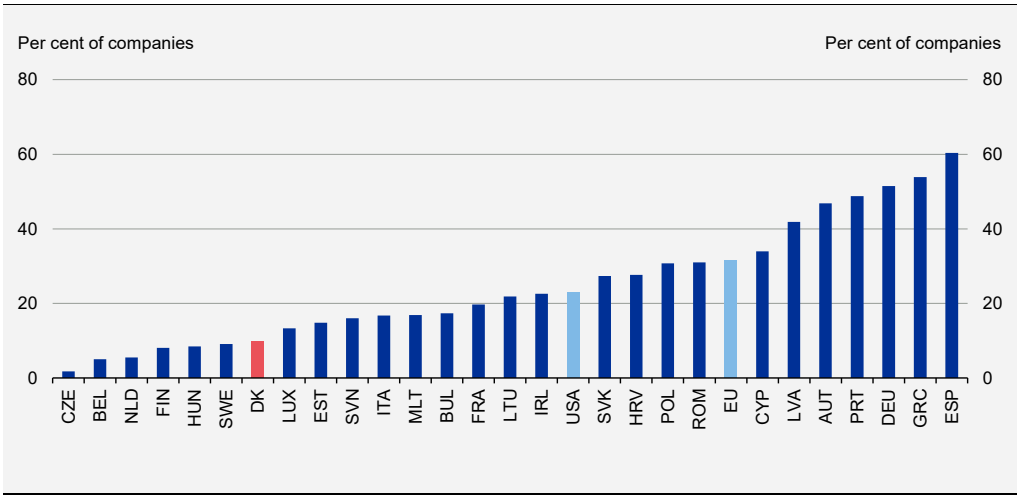
[16] Cf. Presidente og Frey (2022): The GDPR effect: How data privacy regulation shaped firm performance globally, VOXEU-column, CEPR, March.

the EU. In relation to the differences across countries, however, the OECD's PMR also shows signs of lower regulatory burdens in the Nordic EU countries, while conversely there are higher burdens in several southern and eastern European EU countries.[17]

Studies by the ECB, among others, indicate that more pro-competitive regulation is associated with higher total factor productivity at the sector level by facilitating the entry of new competitive firms and the exit of less productive firms.[18]

There are also signs that a larger proportion of companies in the EU than in the US state that regulatory burdens are a significant barrier to investment, *cf. figure 3.12*. However, it is worth noting that here too there are very large differences across EU countries. For example, only 10 per cent of companies in Sweden and Denmark respond that regulatory burdens constitute a major barrier to investment compared to the proportion of just over 20 per cent in the US. In Germany, on the other hand, just over half of companies respond that regulation constitutes a significant barrier, and this proportion is also high in Austria and Spain, among others. Germany and Spain thus contribute to raising the EU average.

Figure 3.12 Several companies in major EU countries cite regulatory burdens as a barrier to investment



Note: The proportion of companies that cite regulatory burdens as a major barrier to investment.
Source: EIB Investment Survey 2024.

There are also signs that a lack of harmonisation of rules across EU borders, as well as linguistic, legal and cultural barriers, have led to an incomplete internal market for goods and services in the EU.

[17] OECD (2024): Key takeaways from the 2023-2024 update of the OECD Product Market Regulation indicators, OECD, *ECO/CPE(2024)99*.
[18] Cf. Anderton et al (2019): Product market regulation, business churning and productivity: evidence from the European Union Countries, *ECB Working Paper no. 2332*.

Trade across national borders in the EU is thus less than across states in the US, when geographical proximity is considered. A model calculation from the IMF indicates that these barriers can be significant.[19]

Reduced trade across borders poses a significant drag on productivity.[20] Among other things, companies miss out on the economies of scale that can be reaped by producing in larger quantities for a larger market. At the same time, less competition from companies from other countries means that companies do not have to continuously become more efficient to the same extent. According to studies, the tendency for international trade to no longer grow as much as a share of GDP as before the financial crisis is a contributing factor in the general slowdown in productivity growth in many countries since the financial crisis.[21]

Lack of harmonisation of regulation and regulatory burdens is not the whole reason for these barriers. As mentioned, linguistic and cultural differences in the EU can also affect trade. At the same time, differences in legal systems are also difficult to harmonise. However, the magnitude of the barriers calculated indicates a significant potential for strengthening the internal market.

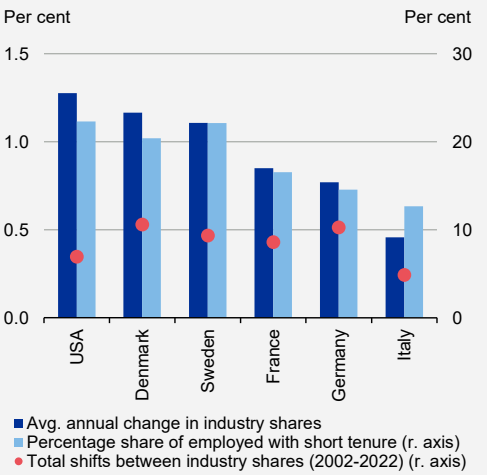
More flexible labour markets can support productivity

The weaker productivity growth and less dynamism in the business world, with fewer companies growing and closing down, may also be related to less flexible labour markets. Flexibility in the labour market can contribute to increased productivity because it supports a faster and more efficient reallocation of labour between companies, thereby facilitating adjustments to both cyclical fluctuations and structural changes in the economy. Overall, there is a tendency for higher job turnover in the labour market – measured by the share of employees who are new to jobs – to be positively correlated with productivity growth since 2000 across advanced economies, *cf. figure 3.13*.

[19] The IMF calculates the tariff rate that, based on a geographical model of international trade, leads to the same level of trade across EU countries as across states in the US. The calculation indicates barriers corresponding to a tariff rate of 45 percent for goods and 110 percent for services, cf. IMF (2024): Europe's Declining Productivity Growth: Diagnoses and Remedies, IMF Regional Economic Outlook notes, November.
[20] Cf. *Economic Survey*, August 2017.
[21] Goldin et al (2024): Why is productivity slowing down? *Journal of Economic Literature,* vol. 62, no. 1, March.

Figure 3.13 Countries with more new jobs appear to have had higher productivity growth since 2000

Figure 3.14 Higher turnover in the labour market is associated with higher ongoing industry turnover



Note: Percent of employment with short tenure in figure 3.13 is as calculated by the OECD. Data for 2019. The average annual industry turnover shown in figure 3.14 is measured on the basis of employment in 50 industries as calculated by the OECD. The turnover is calculated as the absolute changes in each industry's employment share divided by two. The average is measured from 2002 to 2022. Since one year's changes in industry composition can in principle be offset in the next year (e.g. as a result of changing economic conditions), there need be no correlation between the average annual industry turnover and the total industry turnover.
Source: OECD, IMF and own calculations.

One of the explanatory factors for the connection between job turnover and productivity growth may be that higher job turnover facilitates ongoing shifts between industries due to changes in demand. Thus, there seems to be a close correlation between the degree of job turnover and the annual average industry turnover in a number of countries, *cf. figure 3.14*. In this context too, the US has relatively high annual turnover in the industry composition, while turnover is more sluggish in countries such as Italy and Germany. This indicates that employment moves more easily between industries from year to year in, for example, the US. This is despite the fact that the overall change in the industry structure in, for example, Germany has been higher than in the US in the period from 2002 to 2022, which may reflect that there has been a greater need for turnover due to structural shifts in demand.

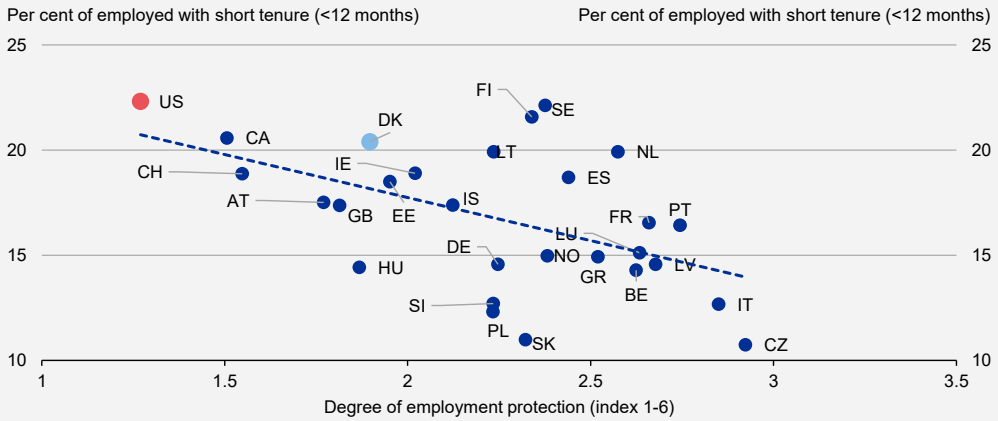
Overall, Danish data and international literature indicate that job changes tend to be from low- to high-productivity companies, *cf. box 3.3*. This also points to the fact that more liberal frameworks for job changes can support productivity development through improved allocation. Similarly, the IMF (2024) finds that increased job turnover in the US has supported productivity growth over recent years.[22]

Many factors can affect the dynamics and flexibility of labour markets. Overall, countries with a higher level of employment protection also have fewer new entrants to jobs, *cf. figure 3.15*. This may be because employee protection can be an obstacle to labour market dynamics. In Denmark, the level of employment protection is low in a European context, which should be seen in

[22] IMF (2024): "Post-pandemic Productivity Dynamics in the United States".

the light of the Danish flexicurity model, which makes it relatively easy for companies to hire and fire, while on the other hand there is an economic safety net for the unemployed combined with an active labour market policy that aims to get them back into work more quickly.[23]

Figure 3.15 Countries with lower employment protection tend to have more new entrants into work



Note: Employment protection based on a weighting of the OECD index for permanent and temporary employees, with scores from 1-6, with 6 being the most protective. Percentage of employment with short tenure is as calculated by the OECD.
Source: OECD, IMF and own calculations.

The immediate correlations may thus point to a trade-off between wage earner protection and productivity growth. Several empirical studies support this correlation and point to the fact that higher employment protection may weaken productivity growth, partly because of increased labour hoarding in knowledge-intensive industries.[24] Similarly, restrictions on workers' ability to change jobs can also weaken the effectiveness of labour allocation, e.g. through the use of non-compete clauses (non-compete clauses).[25]

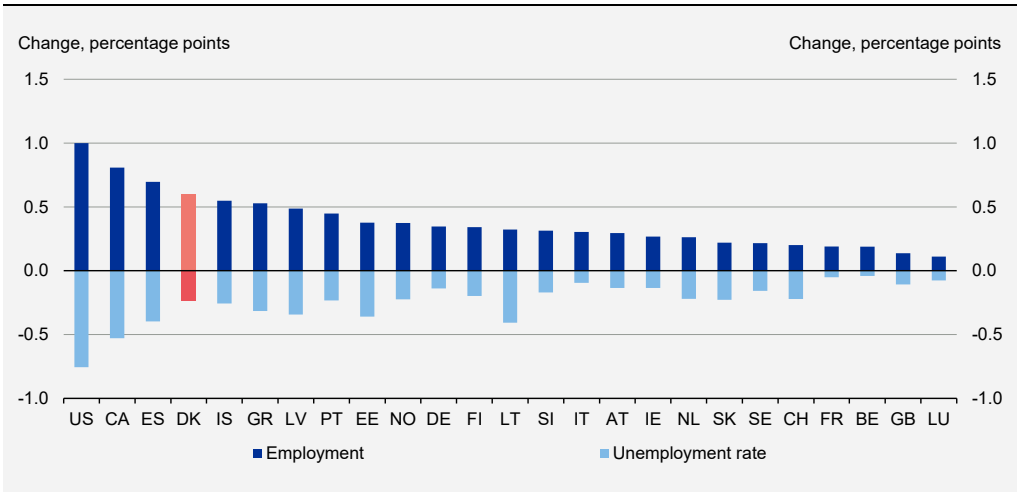
However, the productivity effects associated with increased labour market flexibility are not necessarily clear-cut. Lower employment protection may reduce companies' incentives to invest in employees.[26] Furthermore, more job losses may have 'scarring' effects on the productivity of those laid off in the long term - and on the economy as a whole.[27] In addition, more frequent job

[23] See e.g. Kreier & Svarer (2022): Danish Flexicurity: Rights and Duties, *Journal of Economic Perspectives*.
[24] See e.g. Fedotenkov, Kvedaras, & Sanchez-Martinez (2024): Employment protection and labour productivity growth in the EU: skill-specific effects during and after the Great Recession. *Empirica* og Autor, Kugler, & Kerr (2007): Do Employment Protections Reduce Productivity? Evidence from U.S. States. *The Economic Journal*. The former finds that higher employee protection weakens productivity growth, especially in industries where the level of education of employees is high. This is attributed to an increased degree of labour hoarding in companies that are particularly dependent on company-specific knowledge and skill accumulation.
[25] Shi (2023) points out that non-compete clauses can increase firms' incentives to innovate, but that a more inefficient allocation of labour more than offsets the benefits, and that an optimal policy would be approximately a ban on non-compete clauses. However, the literature in this area is limited. Shi, L. (2023): Optimal Regulation of Noncompete Contracts. *Econometrica*.
[26] See e.g. Deopke & Gaetani (2024): Why Didn't the College Premium Rise Everywhere? Employment Protection and On-the-Job Investment in Skills, *American Economic Review*.
[27] See e.g. Huckfeldt (2022): Understanding the Scarring Effect of Recessions. *American Economic Review*.

changes can hinder the development of company-specific experience. The effects on productivity of more flexible frameworks in the labour market must therefore also be seen in the context of other labour market policies, including policies that promote incentives for companies to train employees and policies that support the rapid return of dismissed persons to jobs and/or further training.

Greater flexibility in the labour market is also reflected in the short-term cyclical dependence of both employment, unemployment and productivity. There are generally large differences across EU countries, with labour markets in countries such as Spain and Denmark immediately reacting relatively strongly to fluctuations in GDP, while the impact is relatively modest in countries such as France and Belgium, *cf. figure 3.16*. Overall, however, the relative fluctuations are considerably larger in the US and Canada.

Figure 3.16 Large differences in the cyclical sensitivity of labour markets across countries



Note: The figure shows the coefficients from a simple linear regression for the period 2000 to 2023 with employment growth and the change in the unemployment rate explained by GDP growth in the same year, respectively..
Source: IMF and own calculations.

The short-term cyclical sensitivity of labour markets is also crucial for the cyclical sensitivity of productivity, according to a study from the ECB.[28] Thus, a slower cyclical adjustment in the labour market will, all else being equal, imply a more procyclical productivity. Against this background, the currently more subdued economic situation in the EU as a whole relative to the US could potentially explain part of the productivity lag in recent years, as it may be partly cyclical. For example, there are signs that relatively many European companies have held on to labour during a period of temporarily weaker demand.[29] This has also been reflected in the fact that employment has grown relatively more in the EU (4.5 percent) than in the US (3.1 percent) from 2019 to 2024.

[28] Dossche, Gazzani & Lewis (2021): Labour Adjustment and Productivity in the OECD, *ECB Working Paper Series*.
[29] Various measures of labour hoarding indicate that European companies have been holding on to labour despite weak demand, which has been high in several European countries in recent years. All other things being equal, this will dampen productivity growth.

Box 3.3 Importance of job changes for productivity

Job switching can increase productivity if it helps to allocate labour to firms that are best able to utilize resources. In general, workers find better job matches in more productive firms when they switch from one job to another than when they move from unemployment to employment. More productive firms can offer higher wages and thus attract skilled workers from less productive firms (Burdett & Mortensen, 1998). Empirically, job switching is associated with different characteristics. International studies (e.g. Albagli et al., 2025 and Haltiwanger et al., 2015) indicate that 1) the majority of job changes are towards more productive companies (approximately 54%), 2) job changes from smaller to more productive companies account for a large share of productive companies' employment growth (50-75%), 3) productive job changes are often procyclical and 4) that job changes from one job to another are to a greater extent up the productivity ladder than down unemployment.

In Denmark, job changes towards more productive companies have accounted for between 52% and 55% of job changes in the period from 2008 to 2022, cf. figure a. This is in line with the results from other studies, e.g. Stoyanov and Zubanov (2012). There is considerable heterogeneity across company size and industries. For example, there is a positive correlation between the size of the receiving company and the proportion of productive job changes, cf. figure b, while job changes to companies within industry, mining and utilities are particularly high up the productivity ladder. Job changes to less productive companies do not necessarily reduce productivity in the long run. Studies show that there can be positive externalities such as knowledge spillovers when workers switch from more productive companies to less productive companies, and in the long run they increase productivity for the receiving and less productive companies, cf. *Stoyanov and Zubanov (2012)*.

Figure a Share of job changes to more productive companies in Denmark

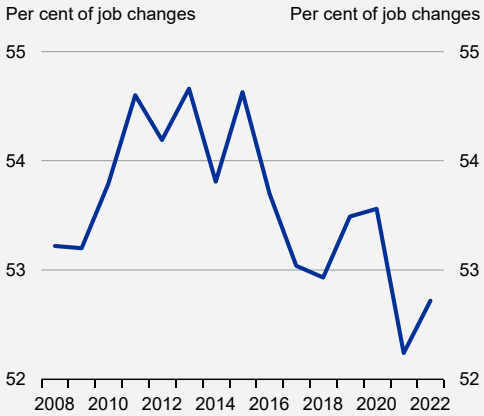
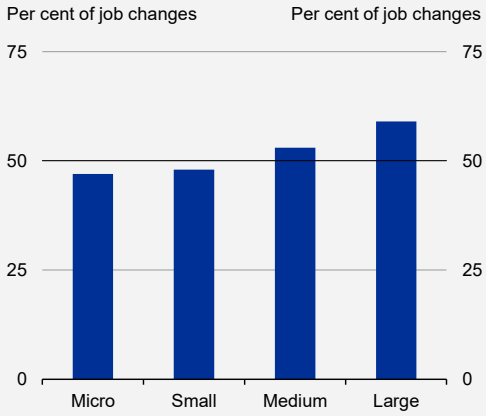


Figure b Share of job changes to more productive companies for different company size



Note: The analysis is based on register data from Statistics Denmark and covers full-time employees in the period 2008-2022. Job change is defined based on the CVR number for one's primary employment in the month. Job changes are corrected for where a large proportion of employees change to the same new CVR number, cf. method from Albagli et al. (2025). Productivity is defined as the value added per full-time employee. There are no productivity targets for all industries.

Source: Burdett & Mortensen (1998): Wage Differentials, Employer Size, and Unemployment, International Economic Review, Albagli et al. (2025): Productivity Growth and Workers' Job Transitions: Evidence from Census Microdata, The Economic Journal, Haltiwanger et al. (2018): Who Moves Up the Job Ladder?, Journal of Labour Economics, Stoyanov & Zubanov (2012): Productivity Spillovers Across Firms through Worker Mobility, American Economic Journal, Statistics Denmark and own calculations.

Demographics have an ambiguous effect on productivity development

Demographic composition can also have an impact on both the dynamics of the economy and productivity. This is central in a period when the populations and workforces of many countries are aging, but where there are also large differences across economies, *cf. figure 3.17*. When the population ages and the proportion of people of working age falls, production per capita weakens, all else being equal, through a lower labour supply. How productivity per working hour is affected by an older workforce is not given in the same way, however, as there are several opposing effects at play in this context.

International literature does not find a definitive sign for the effect on hourly productivity of an aging workforce, as different mechanisms can pull in different directions, *cf. table 3.1*.[30] Overall, reduced access to labour may provide incentives for companies to further invest in labour-saving technology, such as robots and artificial intelligence. Investments in this regard may be supported by higher savings, which tend to increase with aging towards retirement age – especially through pension savings.

Figure 3.17 Prospects for an aging population vary significantly across countries

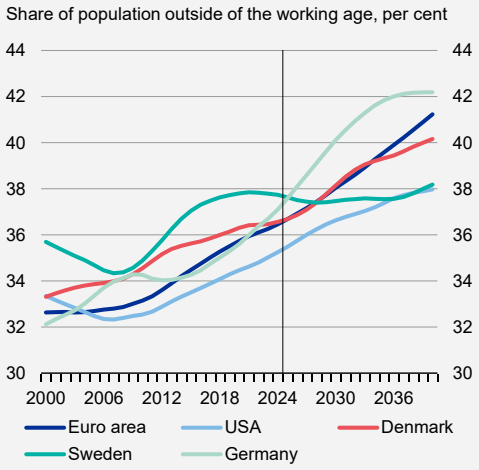


Table 3.1 Ambiguous effects on productivity from aging

Mechanism	Aging workforce effect on hourly productivity
Investments in labour-saving technologies	↑
Capital deepening	↗
Differences in productivity by age	↔
Dynamic effect through innovation	↓
Increasing demand after services	↓
Decreased job turnover	↓

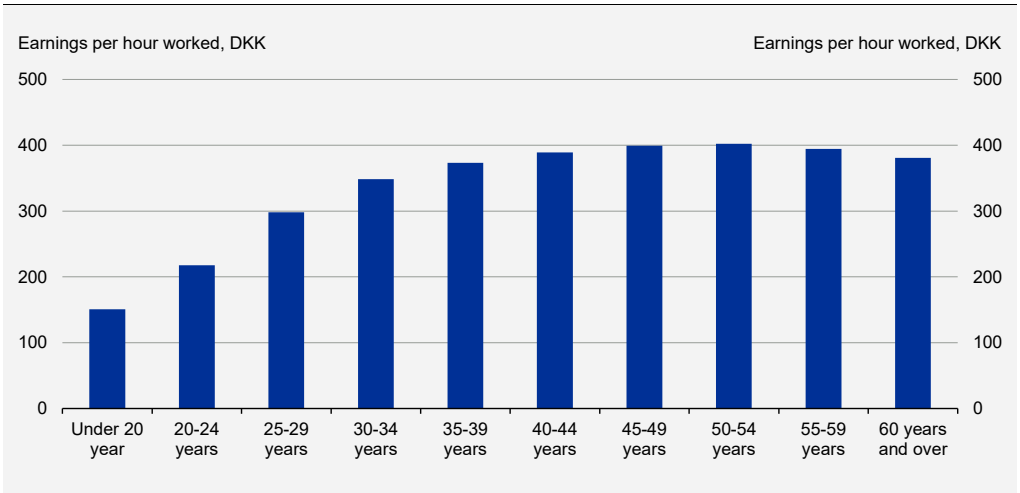
Note: The working age is defined in Figure 3.17 as people between 16 and 64. Table 3.1 is based primarily on the literature study in OECD (2024): Enhancing productivity and growth in an ageing society: Key mechanisms and policy options, OECD Economics Department Working Papers no.1807. Arrows indicate whether the literature generally points to a positive (↑), ambiguous (↔) or negative (↓) effect on productivity. ↗ indicates that results are predominantly positive.
Source: OECD, The World Bank and own calculations.

Workers' productivity can weaken with age, for example through weakened adaptability, but also strengthen, for example through increased experience. At the same time, aging can lead to lower dynamism, less innovation and lower mobility in the labour market. For example, the IMF (2024) finds that the propensity to start new businesses decreases as the average age of the

[30] This is one of the main points in an OECD literature study on this. See OECD (2024): Enhancing productivity and growth in an ageing society: Key mechanisms and policy options. This is also the conclusion of Danish data in the Danish Employers' Association (2017): "Only weak effect on productivity of more young and older people in jobs since the crisis".

population increases.[31] In addition, demand in the economy may be pulling towards occupations that have traditionally had lower productivity growth, including occupations related to welfare and health services. Wages are a widely used indicator of individual productivity. If the distribution of workers' wages across age groups is considered, Danish figures point to increasing productivity towards the age of 50, *cf. figure 3.18*. After that, productivity weakens slightly towards retirement age.

Figure 3.18 Hourly earnings for workers are highest when they are around 50 years old



Note: Data for 2023.
Source: Statistics Denmark and own calculations.

Healthy ageing and increased working life expectancy can also retain experienced workers and thereby increase productivity. IMF (2025) finds that healthier seniors (both cognitively and physically) are more productive and work longer hours.[32] Educational level, health status and access to technology among older people are therefore key factors.

Across countries, there are large differences in age composition, and demographic developments potentially pose a greater challenge to productivity in the EU as a whole than in the US. The share of the population outside the age groups that normally make up the majority of the workforce will increase somewhat more in European countries than in the US in the coming decades, *cf. figure 3.17*.

However, there are also significant differences. For example, Sweden is less challenged by demographic developments, while Germany and several southern European countries, including Italy, face a significantly higher share of the population outside the working age. This can put pressure on these countries' growth prospects when, all else being equal, the contribution from labour input is reduced. In this context, other contributions from, for example, more interna-

[31] IMF (2024): Europe's Declining Productivity Growth: Diagnoses and Remedies, IMF Regional Economic Outlook notes, november.
[32] World Economic Outlook, April 2025, Chapter 2, IMF.

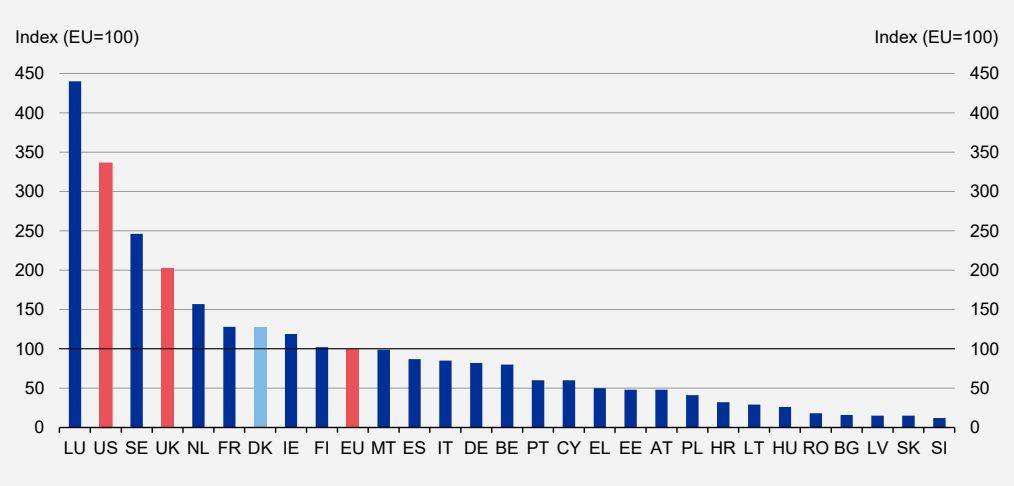
tional labour can contribute – both to increasing the workforce and through derived productivity effects.[33] However, the study by the OECD points out, that in many countries it requires a very large and sustained influx of labour to stabilise the declining proportion of people of working age.

Capital markets

As previously mentioned, a contributing factor to the lower productivity growth in the EU as a whole is lower investment in research and development and less dynamism in the business sector. The Draghi report points out that the lower level of investment in the EU as a whole is partly due to the fact that capital markets in EU countries are less developed compared to the US and are therefore less able to channel savings into productive investments to the same extent.[34]

Compared to the US and the UK, EU countries have less deep capital markets overall. Depth is a measure of both investments in capital markets (e.g. pension savings, retail investments, etc.) and activities in financial markets (stock market listings, size of the stock market, etc.), *cf. figure 3.19*.

Figure 3.19 Capital markets depth in the EU-countries, the US and the UK, 2020-2023

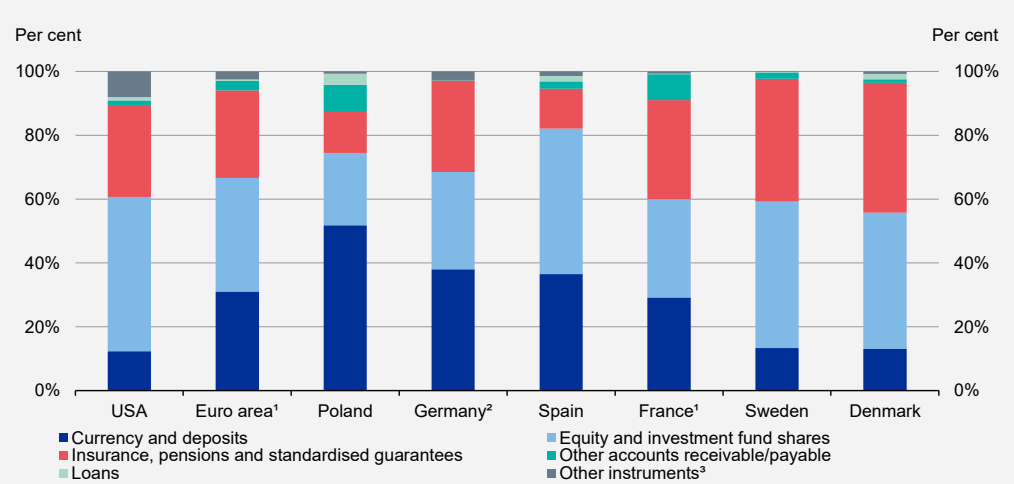


Note: Capital markets depth is an overall measure of the scope and activities of 27 sectors of the financial sector, including pension savings, bank deposits, stock market capitalization and merger activities.
Source: New Financial.

The differences between the US and the EU as a whole are particularly prominent in terms of household holdings. Households in the EU place their financial assets in bank deposits to a much greater extent than in insurance and pension schemes or in stocks and bonds, *cf. figure 3.20*.

[33] See also "International labour is of great importance to the economy", Economic Survey, August 2024.
[34] Draghi (2024): The future of European competitiveness, Part A, a competitiveness strategy for Europe, September.

Figure 3.20 Household financial holdings by type of asset, 2023



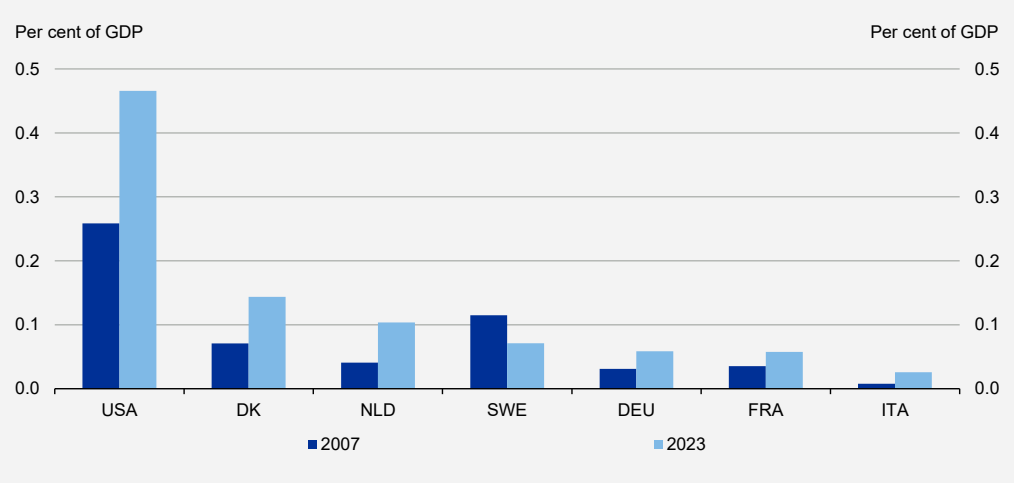
Note: The figure shows the type of assets as a percentage of households total financial assets.
1) Preliminary.
2) Data on "loans" are not available.
3) The sum of assets held in gold, special drawing rights, debt instruments, derivatives and employee stock options.
Source: Eurostat og St. Louis Federal Reserve Fred database.

Bank deposits account for 31.1 per cent of households' total financial assets in the EU as a whole, while the figure for the US is 12.3 per cent. Bank deposits provide the basis for bank lending, but not for risk-taking equity investments.

One area in which EU countries are generally less developed than the US is the so-called venture capital investments, which have become very important in relation to the financing of start-up companies, especially in the IT industry.

In the US, total venture capital investments amounted to just under 0.5 per cent of GDP, which is almost five times as much as in Germany and France, *cf. figure 3.21*.

Figure 3.21 Venture capital investments is much larger in the US



Source: OECD Entrepreneurship Financing Database.

Research shows that venture capital (VC) promotes innovation and patenting in start-ups and has a positive effect on the growth and size of companies, both globally and in the EU. Companies backed by VC typically perform better over time than those without.[35]

This is due, among other things, to the knowledge, advice and networks that VCs contribute beyond the financing itself. This value creation, in addition to the financial support, may mean that VCs are better than banks at helping start-ups increase production and job creation.

There is also evidence that VCs create more companies than they directly finance, which increases entrepreneurship and growth. This is particularly relevant considering the weaker business dynamics in the EU.

3.3 Productivity on the economic policy agenda in the EU

The international economic order is changing rapidly and is characterised by security and trade tensions, pressure on supply chains and a technological race between major powers. This reinforces the need to strengthen productivity development across EU countries, as increased productivity growth and economic resilience are the prerequisites for being able to make the necessary investments, including in defence and security, green transition and increasing expenditure on an ageing European population. Barriers to productivity development in EU countries are therefore also a central theme on the European agenda, which is reflected in reports and proposals from the European Commission.

The large differences in the productivity levels and growth of EU countries underline that strengthening European productivity requires both national reforms and joint EU measures. This is highlighted, among others, in reports by Enrico Letta and Mario Draghi, which make

[35] Arnold m.fl. (2024): Stepping up venture capital to finance innovation in Europe, *IMF Working Paper, 24/146.*

recommendations for strengthening the EU's productivity and competitiveness. The recommendations are largely reflected in the

EU Commission's Competitiveness Compass and Work Programme for 2025. The European Semester, which is the EU's ongoing cooperation on the national economic policies of the EU countries, is also expected to reflect the strengthened focus on productivity and competitiveness, including in the form of concrete country-specific recommendations to the EU countries on strengthened reform efforts.

Reforms at the EU level

With its Competitiveness Compass and its Work Programme for 2025, the European Commission has set out the path for reforms and initiatives at EU level in the coming years. In line with the Draghi report, the compass identifies three areas of focus that are considered crucial for productivity development in the EU. Productivity growth must be promoted by increasing innovation, a common plan for decarbonisation and competitiveness must be drawn up, and the EU's economic dependencies must be reduced and security increased. The latter applies to economic security, cybersecurity, protection of critical infrastructure and the strengthening of the European defence industry.

The Compass also identifies five horizontal areas of action to support productivity growth across sectors, including simplifying and reducing the burden of EU rules, making the most of economies of scale in the internal market, increasing access to finance, increasing labour market participation and developing the skills of the workforce to continuously match the needs of companies, and improving policy coordination at EU level.

To support the latter, the European Commission will launch a Competitiveness Coordination Tool in 2025. It will serve as a framework tool to streamline reform and investment measures at EU and national level, which are intended to strengthen the EU's competitiveness. According to the European Commission, the tool will serve as a complement to the European Semester.

Simpler regulation and increased access to capital as a European reform path

In the European Commission's work programme for 2025, regulatory simplification is particularly high on the agenda among new legislative initiatives. This should also be seen in the light of the fact that the European Commission has a target of reducing administrative burdens by 25 per cent overall and estimates that this could potentially result in savings for companies of 37.5 billion euros if the target is achieved. In addition, there is a target of reducing administrative burdens by 35 per cent for small and medium-sized enterprises.

A significant obstacle to innovation, investment and the implementation of technological advances can be regulatory barriers. In recent years, a large number of legal complexes have been adopted and implemented that draw resources from European companies' core business and instead spend them on new reporting requirements, controls and supervision of companies. The latest examples are, for example, the introduction of sustainability reporting (CSRD), the Working Time Directive and the General Data Protection Regulation (GDPR).

While several of these legislative complexes aim to protect citizens' privacy, promote sustainability, meet climate goals and transform the European labour market, regulation, especially in the case of unnecessary over-implementation in individual member states, can hinder productivity and competitiveness, including in relation to less regulated markets such as the United

States. However, EU regulation also contributes to a common set of rules across all 27 EU countries, which can reduce, among other things, fragmentation and burdens for companies in the form of, for example, the time associated with familiarizing themselves with the rules for different markets and compliance with requirements.

In order to deliver on the simplification agenda, the European Commission has put forward two so-called "omnibus packages" in February 2025, simplifying requirements for, among other things, sustainability reporting and the use of EU financial instruments, primarily the InvestEU fund. This is expected to significantly reduce administrative burdens for companies, and at the same time, the European Commission has announced additional omnibus packages.[36]

In addition, on 19 March 2025, the European Commission presented a communication on a "Savings and Investment Union", which is expected to improve the way in which the EU financial system channels Europeans' large savings into capital markets, thereby creating more financing opportunities for companies and better expected returns for citizens. The European Commission has published a timetable for the initiatives, which includes both EU initiatives that aim to further integrate and develop capital markets, as well as a number of calls for national initiatives that can also help reduce fragmentation or increase household participation in capital markets. The European Commission has previously estimated that if capital markets in the EU become more integrated, it could generate up to 470 billion euros annually in private investment.

National reforms in EU member states

The European Commission's Competitiveness Compass emphasises that it is crucial that reforms are implemented in EU countries if sufficient progress is to be made in strengthening the EU's productivity and competitiveness. This should be seen in the light of the fact that a number of policy areas of significant importance for productivity development, including those relating to labour markets, tax systems and education systems, fall under the competence of EU countries. EU cooperation to promote reforms and sound economic policies in EU countries is anchored in the European Semester, which, among other things, involves annual economic policy recommendations to EU countries. In the past few years, the European Commission has focused, among other things, on strengthening the productivity of EU countries in its recommendations. Several countries have received recommendations regarding, among other things, the framework conditions for businesses, including a particular focus on small and medium-sized enterprises, education, upskilling and lifelong learning, as well as green

[36] The European Commission has assessed that these two Omnibus proposals can provide total savings in annual administrative costs for the companies concerned of around 6.3 billion euros and mobilise additional public and private investment capacity of 50 billion euros, cf. European Commission (2025): Questions and answers on simplification omnibus II and II, 26 February 2025.

transition and phasing out Russian gas. The upcoming recommendations to EU countries, expected to be issued in July 2025, will, according to the EU Commission, have a stronger focus on promoting competitiveness.

The EU's efforts to promote national reforms will, among other things, be able to focus on the reform needs in EU countries, which the IMF points to in its autumn forecast for the European economy 2024.[37] The IMF points out, among other things, that there is a need for reforms that ease the administrative burdens for businesses, strengthen the flexibility of labour markets and increase the supply of qualified labour through education and training, and ensure well-functioning and efficient institutions and legal systems. The IMF also emphasizes that reforms must be implemented with a view to creating a better environment for private investment in research and development.

Productivity as a central agenda during the Danish presidency

Strengthening the EU's competitiveness, productivity and economic resilience will be a key priority during the Danish Presidency. The European Commission's Competitiveness Compass and Work Programme for 2025 will set the direction for a number of new initiatives that the Danish Presidency will help to manage. This includes the cross-cutting proposals on simplification of existing EU rules, burden reduction and modern regulation for business (the so-called omnibus proposals). In addition, the Danish Presidency is working to ensure simpler regulation from the outset by calling for more integrated use of the Better Regulation principles, including impact assessments. Issues of affordable energy prices, better and more streamlined access to private capital, increased European innovation and production capacity and a skilled workforce will also be central to the effort. The European Commission's announcement on a Clean Industrial Deal, published on 26 February 2025, is also expected to be central to the interaction between strengthened competitiveness and decarbonisation. The Danish side will also focus on the need for national structural reforms that increase productivity and growth potential, including to strengthen the basis for financing the priorities of defence and security, etc. The Danish presidency program and the government's political priorities are expected to be published in June.

[37] IMF (2024): Europe's Declining Productivity Growth: Diagnoses and Remedies, IMF Regional Economic Outlook notes, November.

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	1,332	1,374	1,414	0.9	1.2	1.2	1.6	1.9	1.7
Public consumption[1)]	668	726	747	1.4	4.8	0.3	3.5	3.6	2.6
Public investments[2)]	93	122	129	3.1	28.2	3.6	1.3	2.1	2.4
Residential investment	161	168	175	2.0	3.2	2.4	1.2	0.8	1.9
Business fixed investment	404	405	414	2.8	-1.1	-0.3	1.1	1.2	2.8
Domestic demand excl. inventory investment	2,662	2,796	2,879	1.5	2.7	0.9	2.0	2.3	2.1
Inventory investment[3)]	-17	-10	-2	-1.0	0.0	0.3			
Total domestic demand	**2,641**	**2,783**	**2,877**	**0.4**	**2.9**	**1.2**	**2.1**	**2.5**	**2.1**
Exports of goods and services	2,065	2,168	2,237	7.5	4.3	2.3	0.7	0.7	0.8
Total demand	4,705	4,951	5,114	3.4	3.5	1.7	1.5	1.7	1.5
Imports of goods and services	1,744	1,843	1,905	3.0	4.4	2.3	1.0	1.2	1.1
Gross domestic product	**2,961**	**3,108**	**3,209**	**3.7**	**3.0**	**1.4**	**1.8**	**2.0**	**1.8**
Taxes on products, net	332	352	359						
Gross value added	2,629	2,756	2,849	4.0	3.3	1.5	1.6	1.5	1.8
- Non-farm private sector[4)]	1,824	1,913	1,986	5.8	3.7	2.1	-0.1	1.2	1.7
Gross national income	3,062	3,199	3,300						

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 2025-2026, 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	4.3	3.4
	3-month LIBOR	2.4	5.4	5.3	4.1	3.4
	10-year government bond	3.0	4.0	4.2	4.3	4.4
Euro area	Main Refinancing Operations Rate	0.6	3.8	4.1	2.3	1.9
	3-month EURIBOR	0.8	3.6	3.0	2.1	1.8
	10-year government bond (Germany)	1.1	2.4	2.3	2.4	2.5
Denmark	Certificates of deposit rate	0.0	2.9	3.3	1.8	1.4
	3-month CIBOR	0.6	3.5	3.5	2.1	1.8
	1-year adjustable mortgage rate	0.9	3.4	3.0	1.8	1.7
	10-year government bond	1.4	2.6	2.2	2.3	2.4
	30-year mortgage interest rate	3.7	4.8	4.3	4.1	4.2
	Average interest rate	1.4	2.8	2.4	2.7	2.6
Oil price						
Dollar per barrel		100.8	82.5	80.5	67.7	67.5
DKK per barrel		713.1	568.2	555.2	469.6	442.5
Exchange rate						
DKK per 100 dollar		707.6	689.0	689.4	694.1	656.1
DKK per 100 euro		744.0	745.1	745.9	746.2	746.6
Effective Krone Rate Index (1980=100)		101.9	104.7	105.0	104.9	106.6
Real growth rate. per cent						
External assumptions						
Export market growth[1]. per cent		8.0	0.9	2.3	1.8	1.7
Trade weighted GDP-growth[2]. per cent		3.0	1.1	1.4	1.6	1.7

Note: The projections are based on data through May 1. 2025. 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. IMF World Economic Outlook April 2025 and own calculations.

Table B.3 Befolkning og arbejdsmarked

	2022	2023	2024	2025	2026
1,000 persons					
Total population	5,890	5,919	5,946	5,971	5,990
- Labour force	3,235	3,285	3,315	3,346	3,351
- Total employment	3,160	3,202	3,229	3,258	3,262
- Gross unemployment (incl. activation)[1)]	76	84	87	91	91
- Net unemployment	65	72	77	77	77
- Outside the labour force	2,654	2,633	2,630	2,625	2,638
- 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	463	449	428	428

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	3,229	3,258	3,262
- Service industries	1,695	1,724	1,736	1,753	1,758
- Construction	211	211	213	215	215
- Manufacturing	322	329	336	340	340
- Agriculture	66	65	65	66	66
- Public sector	866	873	879	884	884

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	83	87	89	91
- per cent of workforce	2.3	2.5	2.6	2.6	2.7
Net unemployment	65	72	77	75	77
LFS unemployment (per cent)	4.5	5.1	6.2	6.7	6.8

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 persons					
Unemployment benefits (excl. activation)	55	62	68	66	69
Cash benefits (excl. activation)	64	61	58	53	54
Recipients of unemployment benefits and cash benefits in activation[1)]	21	20	19	23	23
Holiday benefit	2	2	2	2	3
Early retirement pensioners[2)]	226	234	241	248	253
Senior pension	19	26	29	30	29
Resource assessment benefit	38	37	36	36	36
Voluntary early retirement	47	34	26	20	17
Early retirement	7	12	12	12	11
Flex job scheme benefit	3	2	1	1	1
Disablement rehabilitation benefit[3)]	2	1	1	1	1
Sickness benefit[4)]	86	79	71	70	70
Maternity leave	53	50	50	54	55
Benefit for unemployed	13	15	15	15	15
Self-support, home-travelling and transitional benefits[5)]	14	14	13	18	15
Total	**650**	**650**	**644**	**649**	**653**
Student grant (SU)[6)]	297	287	284	283	284
Total, including SU	**947**	**937**	**928**	**932**	**937**
Pensioners	1,102	1,108	1,126	1,146	1,161
Total, including SU and pensioners	**2,049**	**2,045**	**2,054**	**2,078**	**2,098**
Subsidised employment[7)]	103	106	108	109	113
Total, including SU, pensioners and subsidised employment	**2,152**	**2,151**	**2,162**	**2,187**	**2,211**

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

	2024 Level	2022	2023	2024	2025	2026
	DKK bn.	Real growth rate, per cent				
Gross fixed capital formation	658	2.8	-6.6	2.7	4.2	1.0
Divided into groups:						
- Construction investments	327	-0.5	-4.5	0.3	8.0	2.1
- Tangible and intangible investments	330	6.1	-8.6	5.2	0.5	-0.1
Divided into groups:						
- Residential investments	161	-7.5	-12.4	2.0	3.2	2.4
- Public investments[1)]	92	1.8	-1.8	3.5	29.1	3.7
- Total business investments	404	7.9	-5.3	2.8	-1.1	-0.3
- Construction investments	118	13.1	4.8	-2.3	0.0	0.0
- Tangible and intangible investments	286	6.0	-9.2	5.0	-1.5	-0.5

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	1,188	1,266	1,317
Goods imports	1,005	921	932	987	1,014
Goods balance, total	**51**	**185**	**256**	**279**	**303**
Service exports	951	800	876	902	919
Service imports	730	756	812	856	891
Service balance, total	**221**	**43**	**64**	**46**	**29**
Balance of goods and services	272	229	320	325	332
- Per cent of GDP	10	8	11	10	10
Investment income from abroad, net	106	97	120	110	112
Wage income from abroad, net	-17	-20	-22	-23	-24
Other current transfers from abroad, net[1)]	-28	-30	-33	-42	-54
Net transfers from abroad, total	60	47	65	45	34
Current account, total	332	276	386	370	366
- Per cent of GDP	11.7	9.8	13.0	11.9	11.4

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

Table B.9 Exports and imports

	2024	2022	2023	2024	2025	2026
	DKK bn.	Real growth rate, per cent				
Exports						
Goods, total	1,188	5.6	5.5	9.8	5.5	2.7
- Electricity, fuels and gas	43	0.5	-9.8	14.2	16.5	-3.6
- Other goods	1,145	5.8	6.8	9.6	5.1	2.9
Services, total	876	9.5	15.9	4.4	2.7	1.8
- Maritime transport	384	-2.0	9.0	5.4	1.5	1.3
- Other services	416	15.8	30.2	3.1	3.6	2.0
Total	**2,065**	**7.2**	**10.4**	**7.5**	**4.3**	**2.3**
Imports						
Goods, total	932	-0.8	-4.2	1.9	4.9	1.6
- Electricity, fuels and gas	123	4.9	7.6	14.6	0.7	0.8
- Other goods	809	-1.6	-6.7	-0.1	5.5	1.7
Services, total	812	12.5	14.7	4.4	3.9	3.0
- Maritime transport	257	-8.4	36.8	2.5	0.9	-0.5
- Other services	555	24.4	1.1	5.2	5.3	4.5
Total	**1,744**	**4.4**	**3.7**	**3.0**	**4.4**	**2.3**
		Change, per cent				
Export prices						
Goods, total	1,188	12.8	-0.7	-2.2	1.0	1.3
Services, total	876	39.3	-27.4	4.9	0.2	0.2
Total	**2,065**	**23.9**	**-14.0**	**0.7**	**0.7**	**0.8**
Import prices						
Goods, total	932	23.0	-4.4	-0.6	1.0	1.1
Services, total	812	23.2	-9.6	2.9	1.4	1.0
Total	**1,744**	**23.1**	**-6.8**	**1.0**	**1.2**	**1.1**

Source: Statistics Denmark and own calculations.

Table B.10 Private consumption

	2024	2022	2023	2024	2025	2026
	DKK bn.	Real growth rate, per cent				
Total consumption	**1,332**	**-2.1**	**1.4**	**0.9**	**1.2**	**1.2**
- Purchase of vehicles	64	-8.1	28.5	4.3	1.0	2.0
- Housing	300	0.8	2.1	1.0	1.4	1.4
- Electricity, fuels and gas	88	-12.5	0.1	-0.7	-1.0	0.0
- Other goods	414	-3.7	-4.0	-0.5	1.3	1.2
- Other services	491	6.6	2.6	2.1	1.8	1.4
- Tourism expenditures	51	20.3	20.1	7.7	1.7	2.0
- Tourism revenues	76	89.6	7.9	6.8	4.1	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	242	309	310
- Households	-22	-9	-24	40	29
- Corporations	257	182	266	269	280
General government	98	93	133	49	47
Total	**333**	**266**	**375**	**358**	**356**

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)

	2024	2022	2023	2024	2025	2026
	Share, per cent	Real growth rate, per cent				
Total GVA	**100**	**2.4**	**3.0**	**4.0**	**3.3**	**1.5**
Public sector	18	0.4	1.1	0.2	1.0	0.2
Private sector	82	2.9	3.4	4.9	3.8	1.8
Private sector excl. mining and quarrying	81	2.9	3.5	4.8	3.2	2.0
Non-farm private sector[1)]	69	2.6	2.0	5.8	3.7	2.1

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. 2005-2024	2022	2023	2024	2025	2026
Real growth rate, per cent						
Total	**1.1**	**-1.3**	**2.0**	**3.2**	**2.7**	**1.5**
Public sector	0.3	0.1	0.7	-0.6	0.7	0.1
Private sector	1.2	-2.0	2.2	4.1	3.2	1.8
Private sector excl. mining and quarrying	1.5	-2.0	2.3	4.1	2.5	1.9
Non-farm private sector[1)]	1.5	-2.5	0.8	5.0	3.0	2.0

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

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

	2022	2023	2024	2025	2026
Real growth rate, per cent					
Disposable income	1.8	2.2	1.1	3.3	1.8
Contribution, percentage points					
Compensation of employees[2)]	-0.7	1.6	3.8	2.8	2.0
Social benefits	-2.3	0.1	0.9	0.8	1.4
Income taxes	6.0	-0.7	-4.7	0.6	-2.3
Net interest income	1.7	-0.8	-1.8	0.2	-0.4
Dividend etc.[3)]	1.2	1.5	-0.7	0.1	0.0
Net payments from collective pension schemes[4)]	-3.5	0.0	3.2	-0.4	1.4
Others	-0.7	0.5	0.3	-0.7	-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) Including dividends from investment funds.
4) Net payments from pension schemes in life insurance companies and pension funds. Further, it includes returns on pension schemes administered by the households.

Source: Statistics Denmark and own calculations.

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

	2022	2023	2024	2025	2026
DKK bn.					
Disposable gross income	1,266	1,331	1,367	1,439	1,490
Private consumption	1,246	1,299	1,332	1,374	1,414
Gross investment[2)]	163	153	161	142	146
Net capital transfers[3)]	8	5	4	6	2
Direct net lending	**-135**	**-116**	**-122**	**-71**	**-67**
Adjustment for the change in pension entitlements[4)]	113	108	98	111	97
Net lending[5)]	**-22**	**-9**	**-24**	**40**	**29**
Per cent of disposable gross income					
Direct net lending	-10.7	-8.7	-9.0	-4.9	-4.5
Net lending	-1.7	-0.6	-1.8	2.8	2.0

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	3.5	3.6	3.0
Housing gross investment (real growth)	-7.5	-12.4	2.0	3.2	2.4

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	52.2	55.8	55.4	55.0	55.0
The entire economy	58.3	61.4	61.1	60.8	60.8
Wage increase, per cent					
Private sector					
- Hourly earnings (excl. nuisance bonus)	4.0	4.2	4.8	3.5	3.2
Public sector					
- Hourly earnings (excl. nuisance bonus)	2.3	2.5	4.7	-	-
- Budgetary impact	1.9	2.4	5.0	3.9	3.2
Wage adjustment rate, per cent	1.2	2.7	3.2	3.6	4.5

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 2022-2024 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.
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	0.9	1.8	1.7
Tariffs and housing benefits, contribution	0.0	-0.7	0.4	0.1	0.0
Consumer price index	7.7	3.3	1.4	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	668.2	725.7	746.6
Income transfers[1)]	387.9	399.8	418.1	437.3	465.9
Investments	87.1	89.1	93.1	121.8	129.2
Interest expenditures	20.3	18.6	21.7	21.3	22.1
Subsidies	39.9	36.0	36.7	41.4	44.1
Other expenditures[2)]	91.1	106.0	108.2	111.2	114.1
Total expenditure[3)]	**1,250.8**	**1,285.8**	**1,346.1**	**1,458.7**	**1,522.2**
Personal income taxes, etc,[4)]	570.3	593.5	632.2	645.4	667.4
Labour market contributions	117.1	120.7	128.4	135.7	140.5
Pension yield taxation	11.2	13.0	43.0	25.3	46.0
Corporate taxes	94.3	106.1	122.7	128.8	132.9
VAT	266.0	259.2	271.4	289.0	296.9
Other duties	143.1	132.4	129.3	134.2	135.6
Other taxes[5)]	2.3	2.2	2.2	2.3	2.4
Interest revenues	29.9	42.2	43.6	42.5	41.4
Other revenues[6)]	119.0	112.9	110.2	109.6	110.0
Tariffs etc. to the EU	-4.6	-3.6	-3.7	-3.8	-4.0
Total revenue[7)]	**1,348.7**	**1,378.6**	**1,479.3**	**1,507.4**	**1,568.6**
General government budget balance	**97.9**	**92.7**	**133.2**	**48.7**	**46.3**
Net interest expenditure	-9.6	-23.7	-22.0	-21.1	-19.3
General government primary balance[8)]	88.3	69.1	111.3	27.5	27.0

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, tax on gifts and other personal taxes.
5) Other taxes include mandatory pension payments for civil servants etc.
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**	**397.0**	**419.5**	**428.8**
- VAT	266.0	259.2	271.4	289.2	297.2
- Registration tax	11.5	10.7	7.2	6.6	7.6
- Excise duties	68.4	57.5	64.6	66.1	64.9
- Energy (incl. PSO)	38.4	27.5	34.3	34.6	33.5
- Environmental	3.7	3.5	3.7	4.5	4.6
- Tobacco and spirits etc.	11.3	12.0	11.5	11.4	11.3
- Others	14.9	14.4	15.1	15.6	15.5
- Property taxes	33.1	33.5	26.7	27.7	28.7
- Motor vehicle tax paid by businesses	4.2	4.1	3.7	5.5	5.5
- Other indirect taxes	21.4	22.9	23.4	24.4	24.9
Direct taxes	**785.5**	**826.6**	**918.0**	**930.5**	**980.9**
- Withholding taxes[1)]	547.4	570.6	607.2	625.8	647.7
- State tax	188.6	197.7	208.4	219.2	225.8
- Bottom tax	164.0	172.8	181.2	191.1	199.3
- Middle tax	0.0	0.0	0.0	0.0	13.7
- Top tax	22.0	22.4	25.2	26.1	9.4
- Top-top tax	0.0	0.0	0.0	0.0	1.4
- Total municipal tax[2)]	285.2	299.6	316.9	327.6	339.4
- Property value tax	14.4	14.4	14.4	13.8	14.1
- Other withholding taxes[3)]	61.8	61.4	69.5	65.3	68.4
- Pension yield tax	11.2	13.0	43.0	25.3	46.0
- Corporate tax	94.3	106.1	122.7	128.9	131.9
- Other personal taxes	8.4	9.1	9.8	8.4	8.4
- Motor vehicle tax paid by households	7.1	7.1	6.9	6.5	6.5
- Labour market contributions	117.1	120.7	128.4	135.7	140.5
Social security contributions[4)]	2.3	2.2	2.2	2.3	2.4
Capital taxes	7.4	6.7	8.3	4.9	5.4
Customs and import duties (collected by the EU)	4.6	3.6	4.6	3.9	3.9
Total taxes	**1,204.4**	**1,227.1**	**1,330.1**	**1,361.1**	**1,421.4**
GDP	2,844.2	2,804.7	2,960.9	3,108.2	3,208.6
Total taxes, share of GDP	**42.3**	**43.8**	**44.9**	**43.8**	**44.3**

1) For 2020-2024, the distribution of withholding taxes to the state and municipalities is from Statistics Denmark. For 2024-2026, 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 and own calculations.

Table B.21 Development in the tax base for municipalities

	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
			DKK bn.					Per cent		
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	1,384.3	0.5	5.3	8.6	3.1	3.3
May 2025	1,138.0	1,196.5	1,275.3	1,326.2	1,373.8	0.5	5.1	6.6	4.0	3.6

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

Table B.22 Income transfers

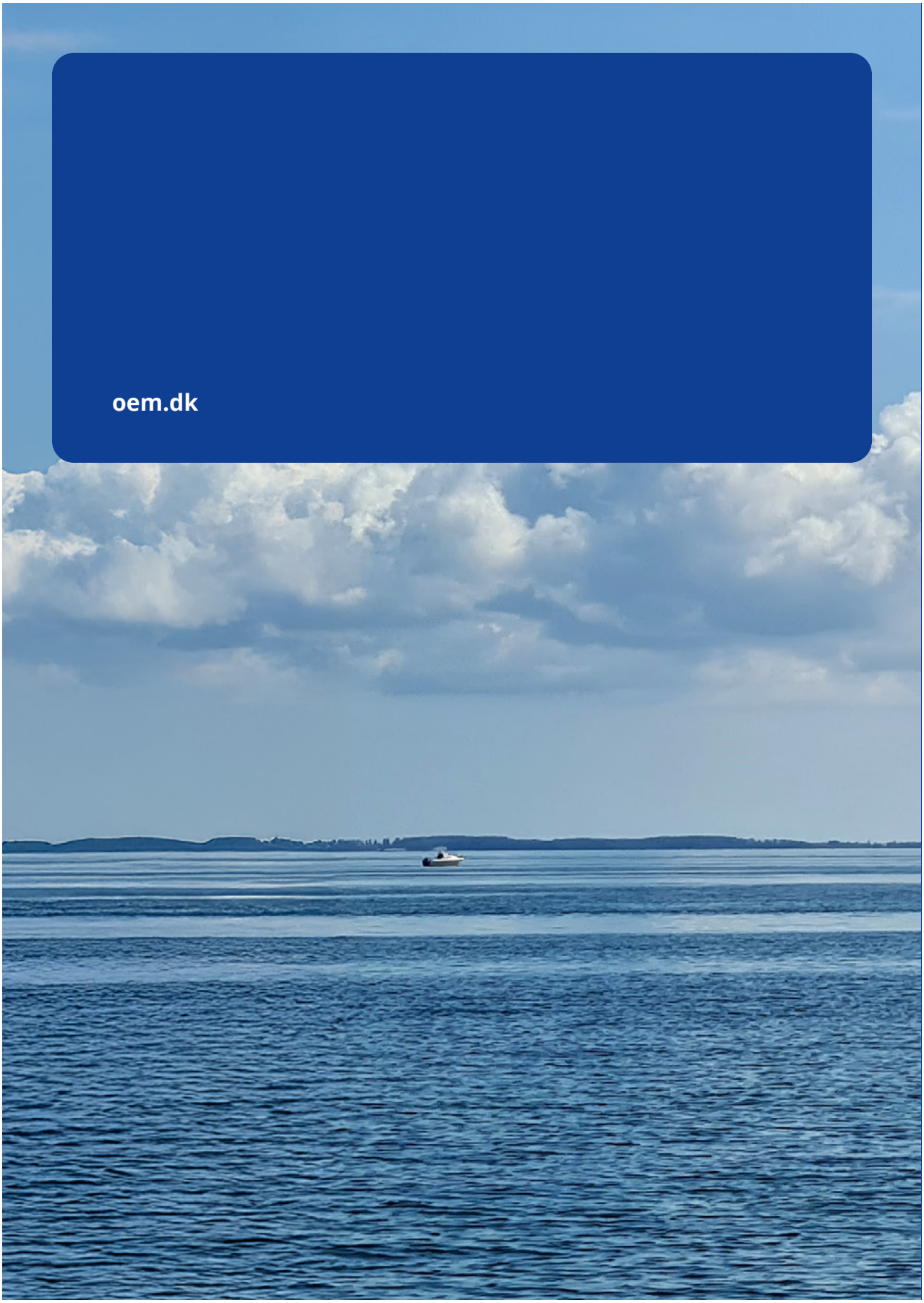
	2022	2023	2024	2025	2026
DKK bn.					
Unemployment benefits (excl. activation)	11.7	13.7	15.5	15.4	17.1
Cash benefits[1] (excl. activation)	27.8	29.4	30.7	32.0	34.7
Vacation allowance	0.5	0.5	0.6	0.5	0.5
Anticipatory pensions[2]	47.7	51.2	54.4	57.4	61.2
Resource rehabilitation allowance	6.6	6.5	6.5	6.6	7.1
Early retirement benefit	7.8	5.7	4.6	3.8	3.2
Rehabilitation benefit	0.4	0.3	0.3	0.3	0.2
Sickness benefit	16.5	14.8	15.2	15.7	16.5
Maternity pay	12.0	11.9	12.5	13.0	13.8
Rent benefit	15.6	16.0	16.7	17.3	18.9
Child and youth benefit	14.9	15.8	16.1	16.6	16.7
Other transfers[3]	24.6	23.3	21.3	22.8	25.3
Student grants (SU)	20.0	19.9	20.2	21.0	22.2
Public pension scheme[4]	145.2	151.7	162.0	172.3	183.2
Other pension schemes[5]	36.5	39.0	41.5	42.6	45.3
Total[6]	387.9	399.8	418.1	437.3	465.9
Total, excl. public and other pensions	206.2	209.1	214.7	222.5	237.4
Total, excl. education grants, public pensions and other pensions	186.2	189.2	194.5	201.4	215.2

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. 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

	Aug. 2023	Dec. 2023	May 2024	Aug. 2024	Dec. 2024	May 2025
2023						
GDP (real growth rate, per cent)	1.2	1.2	1.9	2.5	2.5	2.5
Gross unemployment (1,000 persons)	85	84	84	84	84	83
Consumer prices (change, per cent)	3.8	3.4	3.3	3.3	3.3	3.3
Balance of payments (DKK bn.)[1)]	266	300	304	276	276	276
Actual budget balance (DKK bn.)	56	77	87	93	93	93
2024						
GDP (real growth rate, per cent)	1.4	1.4	2.7	1.9	3.0	3.7
Gross unemployment (1,000 persons)	94	97	89	87	87	87
Consumer prices (change, per cent)	3.0	2.8	2.1	1.8	1.5	1.4
Balance of payments (DKK bn.)[1)]	287	347	325	307	380	386
Actual budget balance (DKK bn.)	29	44	48	56	86	133
2025						
GDP (real growth rate, per cent)	-	1.0	1.8	2.2	2.9	3.0
Gross unemployment (1,000 persons)	-	101	95	89	91	89
Consumer prices (change, per cent)	-	2.1	2.1	2.0	1.9	1.9
Balance of payments (DKK bn.)[1)]	-	339	332	310	365	370
Actual budget balance (DKK bn.)	-	23	21	31	49	49
2026						
GDP (real growth rate, per cent)	-	-	-	-	1.7	1.4
Gross unemployment (1,000 persons)	-	-	-	-	91	91
Consumer prices (change, per cent)	-	-	-	-	1.7	1.7
Balance of payments (DKK bn.)[1)]	-	-	-	-	349	366
Actual budget balance (DKK bn.)	-	-	-	-	42	47

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