

The outlook is for lower wage increases and stable inflation despite uncertain times

Pressure on the labour market has eased further over the past six months, and the Danish economy is currently in a neutral cyclical position. Inflation is low, and with the prospect of wage increases compatible with low, stable inflation, inflation is expected to stabilise just below 2 per cent in the coming years. However, geopolitical and trade risks may have a significant impact on the outlook. Several European countries, including Denmark, have announced the need for a rapid and significant increase in defence spending over the next few years. If the capacity pressure in Denmark increases noteworthy, it should be offset by fiscal measures that ease the capacity pressure accordingly.

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Prospect of a balanced growth trajectory and low inflation

Employment has continued to rise as activity in the domestic economy has picked up slightly. The Danish economy is currently considered to be in a neutral cyclical position, and the main scenario for the projection is a balanced growth trajectory. With the prospect of wage increases over the next few years compatible with low, stable inflation, inflation is expected to stabilise just below 2 per cent.



If the capacity pressure increases noteworthy, it should be offset by measures that ease it accordingly

It is currently unclear to what extent increased defence spending domestically and abroad will affect capacity pressure. If the capacity pressure in Denmark increases noteworthy, it should be offset by fiscal measures that ease the capacity pressure accordingly. This reflects that Denmark is currently assessed to be in a neutral cyclical position.



A significant increase in defence spending could challenge public finances

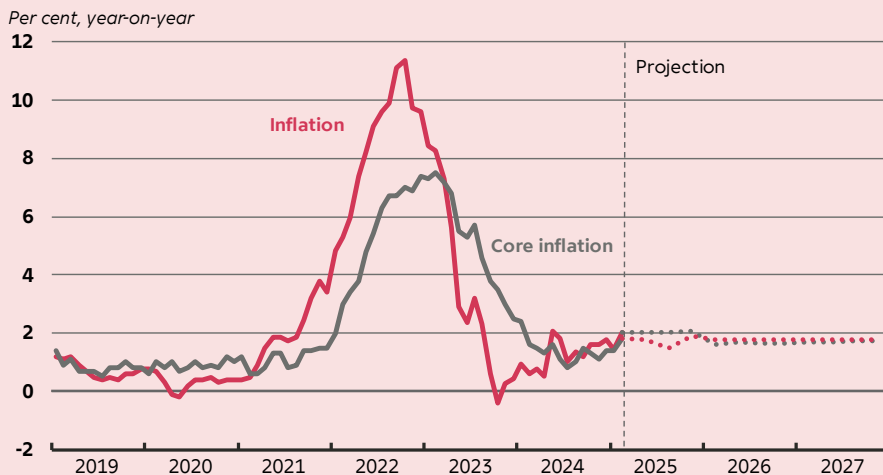
The framework for fiscal policy planning has successfully supported sound public finances, which has contributed to a stable economic development and the credibility of the fixed exchange rate. It is essential that this continues to be the case in future.

Why is it important?

Danmarks Nationalbank continuously oversees the Danish economy to meet our objective of ensuring price stability. We therefore assess developments in a number of areas and make macroeconomic projections to get the best basis for assessing whether socio-economic imbalances are building up. As Danmarks Nationalbank's interest rates are reserved for managing the exchange rate of the krone, it is important that other aspects of economic policy are aimed at ensuring a stable economy. Therefore, we make, for example, fiscal policy recommendations.

This analysis is complemented by a thematic analysis that goes into depth on the importance of the largest Danish companies for development of the Danish economy. A few large global companies account for an increasing share of economic activity, which means GDP can fluctuate more without increasing fluctuations in capacity utilisation accordingly. This makes it even more important to take a broad view of the economy when planning fiscal policy.

Main chart: Inflation and core inflation are expected to stabilise just below 2 per cent



Note: Last observation: February 2025.
Source: Statistics Denmark and own calculations.



Keywords

Outlook for the Danish economy

Danish economy

Economic policy

Economic activity

01 Highlights

Lower wage increases on the private labour market

The new collective agreements contain lower wage increases on the private labour market over the next three years compared to the previous agreements. Wage increases are considered to be compatible with low, stable inflation.

Rising employment and lower pressure on the labour market

Although employment has continued to rise, pressure on the labour market has eased further over the past year. Currently, labour market pressure is not expected to differ significantly from the period immediately before the pandemic, which was characterised by low inflation and moderate wage growth.

Prospect of growth in the Danish economy

Moderate growth in Danish export markets and rising disposable incomes provide the basis for demand in the economy to gradually pick up. Over the next few years, GDP will be driven to a greater extent than before by domestic production.

Inflation just below 2 per cent in the next few years

The causes of rising inflation in 2022 are deemed to have passed through the economy. With the prospect of lower wage increases, inflation is expected to stabilise just below 2 per cent throughout the projection.

The Danish economy is in a neutral cyclical position

The capacity pressure has eased considerably in recent years, and the Danish economy is currently considered to be in a neutral cyclical position. The cyclical position in Denmark is similar to the one in the euro area.

The outlook for the Danish economy is subject to significant risks

The risk outlook is particularly related to global risks. Trade conflicts, geopolitical unrest and weaker global growth may derail the recovery of the global and Danish economies. The need for further military armament may increase demand in Denmark and the euro area.



If the capacity pressure in Denmark increases noteworthy, it should be offset by fiscal measures that ease the capacity pressure accordingly.

TABLE 1

Key economic variables

Growth relative to the previous year, per cent	2024	2025*	2026*	2027*
GDP (real)	3.6	3.6	2.3	2.0
Employment, 1,000 people	3,229	3,247	3,260	3,271
Gross unemployment, 1,000 people	87	88	90	91
Balance of payments on current account ¹ , per cent of GDP	13.1	13.1	13.5	13.8
Government budget balance, per cent of GDP	4.2	2.0	2.2	2.4
House prices ²	3.2	3.5	3.2	3.2
Consumer prices	1.3	2.0	1.7	1.7
Core inflation	1.5	1.7	1.8	1.8
Hourly wages ³ (industry)	5.4	3.6	3.4	3.2

¹ 2024 is based on the publication of the balance of payments on current account, 11 March 2025.

² Nominal prices of single-family houses.

³ Confederation of Danish Employers' (DA) pay statistics for profits including inconvenience supplements for manufacturing

Note: * indicates projection. Government balance and house prices in 2024 are also estimates.

Source: Statistics Denmark and own calculations.

02 Overview and recommendations for economic policy

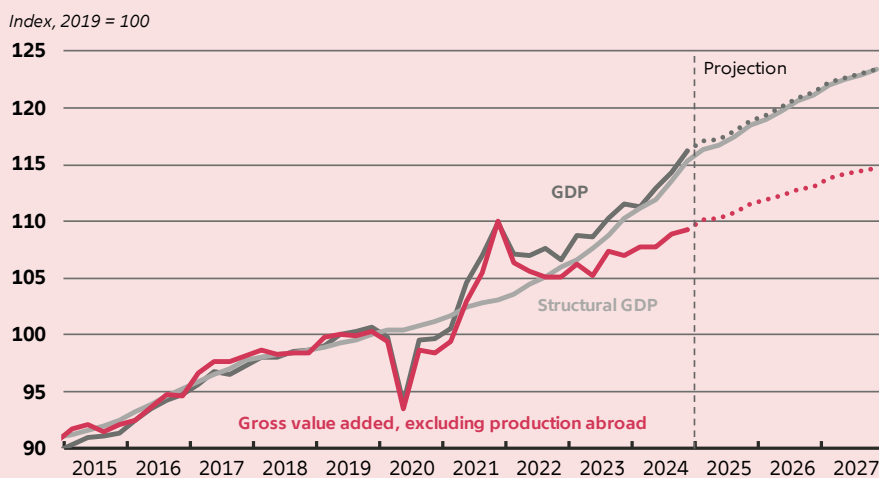
Growth in Danish export markets is moderate and is currently supported by a strong global service sector, robust labour markets and rising real incomes. At the same time, monetary policy in the US and the euro area has moved closer to a neutral level. The tight monetary policy of recent years has contributed to inflation in Denmark and the euro area returning to around 2 per cent. However, core inflation, i.e. consumer price increases excluding changes in the prices of energy and unprocessed food, is still at a high level in both the US and the euro area, partly due to continued price increases for services.

In recent years, growth in the Danish economy has been fuelled by an increase in exports of goods produced abroad under Danish ownership, including pharmaceuticals. Conversely, domestic demand has been weak, partly as a result of cautious households and tight economic policy.

Exports have increased over the past six months, and this seems to be due to goods produced in Denmark to a greater extent than in recent years. Gross value added, GVA, excluding production abroad under Danish ownership, increased by 1.9 per cent last year, see chart 1.

CHART 1

The Danish economy is in a neutral cyclical position



Note: *Structural GDP* is the long-term level of sustainable real output in the economy without creating inflationary pressures.

Source: Statistics Denmark and own calculations.

The projection is based on a number of assumptions, including growth in the global economy. The global economy is expected to remain in a situation of moderate growth over the next few years. This is expected to result in further growth for several Danish export companies, which are expected to contribute to domestic production growth to a greater extent than in recent years.

Growth in the pharmaceutical industry is expected to remain high and to be driven largely by Danish-owned production abroad. This also helps to keep Danish growth going.

Increasing domestic demand is expected to support the Danish economy as the effects of monetary policy tightening fade out this year.¹ Private consumption is further supported by expectations of a continued robust Danish labour market and growth in real wages. The Danish gross domestic product, GDP, is expected to increase by 3.6 per cent in 2025, 2.3 per cent in 2026 and 2.0 per cent in 2027. The relatively high GDP growth this year should be seen in the context of the reopening of the Tyra gas and oil field, which in isolation increases GDP by 0.5 per cent.²

Balanced labour market development and low, stable inflation

Employment has increased further as domestic activity has also picked up. By the end of 2027, 35,000 more people are expected to be in employment than at the beginning of 2025.

Pressure on the labour market has eased further over the past year, even though employment has continued to rise and is historically high. This is because more elderly people have stayed in work and because the influx of foreign labour has continued.

The easing of pressure is reflected in the fact that the number of new job postings and the proportion of companies reporting labour shortages have continued to fall. Overall, current pressure on the labour market is not expected to differ significantly from the period immediately before the pandemic, when the Danish economy was characterised by low inflation and moderate wage growth.

Lower pressure on the labour market is also reflected in the recently concluded collective agreements in the private labour market.³ The newly agreed wage increases are significantly lower than in the last collective agreements from early 2023, which was agreed after a period of significant pressure on the labour market and widespread demand from employees for compensation for real wage losses. The wage growth rates in the recently concluded agreements are considered to be more compatible with low, stable inflation than previously.

Inflation in Denmark is currently low, and the effects of the shocks to the Danish and international economies that caused inflation to rise in 2022 are deemed to have subsided. The high inflation was primarily due to external factors, especially corona-related supply and demand shocks, cost shocks related to energy prices following Russia's invasion of Ukraine, and other international factors, including developments in foreign prices, demand for Danish exports and the ECB's monetary policy interest rates.

¹ See Danmarks Nationalbank, *Towards a neutral monetary policy in 2025*, *Danmarks Nationalbank Analysis (Monetary and financial trends)*, no. 7, March 2025.

² The Tyra field ran at reduced production capacity during 2024 and is expected to run at full production capacity from early 2025. The reopening of the Tyra field will technically boost GDP growth by 0.5 percentage points in 2025.

³ Union members have to be balloted before the agreements can come into effect.

With the prospect of wage increases in the next few years compatible with low, stable inflation, inflation is expected to stabilise just below 2 per cent throughout the projection.

The outlook for the Danish economy may be affected by trade risks and geopolitical uncertainty

Although the outlook is for a balanced growth trajectory for the Danish economy, the outlook for both the Danish and global economies is associated with considerable uncertainty. The risk outlook is mainly related to trade risks and the current threat environment in Europe.

If global trade conflicts or the implementation of tariff barriers escalate, it could have a major impact on world trade. If the US imposition of a 25 per cent tariff on Danish and European goods and services – and European retaliatory tariffs – would reduce growth in Denmark. Specifically, model calculations indicate that the introduction of tariffs will result in a loss in Danish gross national income, GNI,⁴ of around 1.3 per cent compared to a situation without tariffs.

The current security threat in Europe may significantly change the fundamental assumptions behind the projection very quickly. The need to increase defence spending both at home and in the rest of Europe could also quickly become greater and more urgent than assumed in the projection. This could potentially increase demand and capacity pressure, push up inflation and lead to monetary tightening. Rearmament may also end up resulting in a major transformation of economies, with a greater proportion of labour and production tied to defence.

However, the Danish economy is well equipped to withstand changes in the economy. This is because there are currently no signs of any significant imbalances building up in the Danish economy that could amplify external shocks to the economy. Sound public finances also provide a solid foundation for withstanding unexpected economic headwinds.

The cyclical position in Denmark is similar to the one in the euro area

Denmark has a fixed exchange rate policy, and therefore the role of fiscal policy is to stabilise cyclical fluctuations in the Danish economy. If the cyclical position in Denmark differs from that of the euro area, monetary policy in Denmark will typically not be optimally aligned from a macroeconomic perspective. In such a situation, fiscal policy can contribute to ensuring a more favourable economic cycle, which will also support a stable development in inflation. When planning domestic fiscal policy, it is therefore relevant to consider the cyclical position in the euro area. Differences in the cyclical position between Denmark and the euro area should be reflected in differences in the degree of fiscal policy tightness.⁵

Capacity pressure in the Danish economy has eased considerably in recent years, and the Danish economy is considered to be in a neutral cyclical position. This is similar to the ECB's assessment of the cyclical position in the euro area. The underlying growth outlook for domestic activity in the Danish economy does not deviate significantly from expectations for developments in the euro area, and expectations for price and wage developments are also expected to be similar throughout the projection period.



Danish GDP is projected to grow by 3.6 per cent this year.

⁴ Gross national income, GNI, is calculated by the addition to gross domestic product, GDP, of property income (net) from abroad, income from remuneration of employees (net) from abroad and taxes on production and imports minus subsidies (net) from abroad. GNI thus measures a country's total income.

⁵ See Morten Spange, Monetary and fiscal policy in Denmark, *Danmarks Nationalbank Analysis*, no. 12, October 2022.

Increased defence spending may increase capacity pressure and challenge public finances

Following Russia's attack on Ukraine in 2022, Denmark and many other European countries have significantly increased their defence spending. Specifically, it has so far been agreed in Denmark that defence spending will increase to over 3 per cent of GDP this year and next. Several European countries, including Denmark, have also announced the need for a larger and significantly faster increase in defence spending over the next few years than is already planned.

It is currently unclear to what extent increased defence spending will affect capacity pressure in Denmark and the euro area, as it depends, among other things, on how much and how quickly defence spending is increased. It also depends on how much of the money will be spent on purchasing equipment abroad and how much will be spent on operating costs and personnel, for example. Purchasing equipment abroad is only considered to have a limited impact on domestic capacity pressure, while operating costs and personnel are considered to have a greater impact on capacity pressure.

If the capacity pressure in Denmark increases noteworthy, it should be offset by fiscal measures that ease the capacity pressure accordingly. This reflects that Denmark is currently assessed to be in a neutral cyclical position.

The framework for fiscal policy planning has successfully supported sound public finances by anchoring the long-term development in short and medium-term planning. Sound public finances have contributed to a stable economic development and the credibility of the fixed exchange rate policy. It is essential that this continues to be the case in future.

Danmarks Nationalbank's recommendations for economic policy

A significant and rapid increase in defence spending could increase capacity pressure and challenge public finances.

If the capacity pressure in Denmark increases noteworthy, it should be offset by fiscal measures that ease the capacity pressure accordingly. This reflects that Denmark is currently assessed to be in a neutral cyclical position.

The framework for fiscal policy planning has successfully supported sound public finances, which has contributed to a stable economic development and the credibility of the fixed exchange rate policy. It is essential that this continues to be the case in future.

03

Lower agreed wage increases and stable inflation

Wage increases on the private labour market have been high for the past two years and were 5.4 per cent last year. The collective agreements just signed contain lower agreed wage increases for the next three years. The actual wage increases negotiated in subsequent decentralised negotiations within companies are currently expected to largely follow the agreed wage increases in the collective agreements.

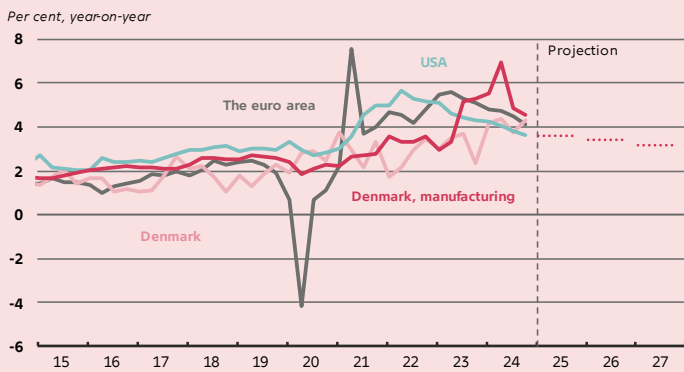
Inflation was 2.0 per cent in February and has been at a low level for the past year. High inflation in 2022-23 was mainly due to external factors, especially corona-related supply and demand shocks, cost shocks related to energy prices and other international factors. In recent years, high wage increases have been one of several factors affecting the Danish and international economies.

The shocks that caused inflation to rise are now estimated to have passed through the economy. At the same time, lower wage increases in the next few years are not expected to push inflation further. Against this backdrop, inflation is expected to stabilise just below 2 per cent throughout the projection period.

Prospect of lower wage increases in the next few years

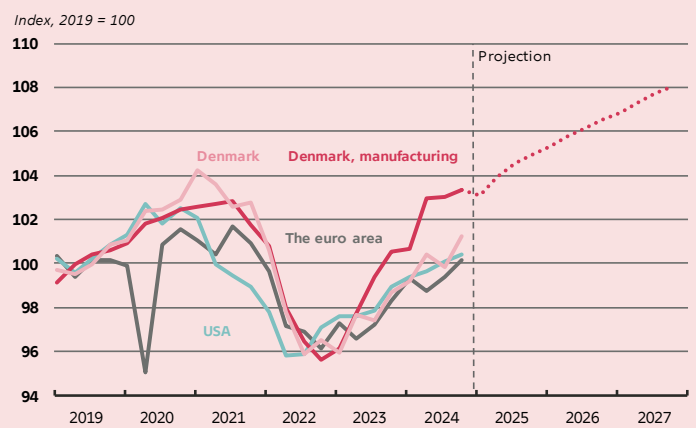
Wages in the private labour market in Denmark increased by 5.4 per cent last year, see chart 2. Wages picked up following the last collective agreement in early 2023, which came after a period of significant pressure in the labour market and widespread demand from employees for compensation for real wage losses in the face of high consumer price increases.

CHART 2
Wage increases are expected to come down ...



Note: The series for Denmark and the euro area shows wages per employee for the whole economy. For the US, the *employment cost index* is used as the wage concept. The dark red line shows real wages in the manufacturing industry, which is the wage concept used by Danmarks Nationalbank. The dotted line is Danmarks Nationalbank's projection.
 Source: Confederation of Danish Employers, Eurostat, US Bureau of Labor Statistics and own calculations.

CHART 3
... but real wages will also rise over the next years



Note: Real wages are calculated as nominal payroll per employee divided by the HICP index for Denmark and the euro area. For the US, the *employment cost index* is used as the wage concept. The dark red line shows real wages in the manufacturing industry, which is the wage concept used by Danmarks Nationalbank. The dotted line is Danmarks Nationalbank's projection.
 Source: Confederation of Danish Employers, Eurostat, US Bureau of Labor Statistics and own calculations.

The recently concluded collective agreements contain lower wage increases over the next three years than in the past two years, see box 1.⁶ This is primarily because pressures on the labour market are significantly lower compared to immediately before the last collective agreements, which means less upward pressure on wage increases than before, see also chapter 4. Additionally, inflation has fallen significantly.

The wage increases agreed in the collective agreements are merely a guideline for the subsequent decentralised negotiations within companies, where most wage developments in the private labour market are determined. Local wage negotiations within companies provide an opportunity to adapt wage developments to economic developments and to the given company's own financial and competitive situation within a collective agreement period.

⁶ Union members must be balloted on the collective agreements once all areas have been settled.

BOX 1

New collective agreements in the private labour market

During February and March, several three-year collective agreements were signed that set the framework for wage rises and other conditions for around 625,000 employees within the industries of manufacturing, trade, transport, service and construction.

The breakthrough settlement for the manufacturing industry provides for wage increases of just over 3.5 per cent in 2025 and 3.3 per cent in 2026 and 2027. The increases primarily cover an adjustment of minimum wages, which will increase by approximately 2.8 per cent this year and 2.5 per cent in the following two years. In addition, increases in the so-called free-choice scheme and employers' pension contributions are estimated to contribute just under 1 percentage point to total wage increases in the years in question.

In most of the private labour market covered by collective agreements, only minimum wage rates, the free-choice scheme and pension contributions are determined centrally. The remainder of the wage change is negotiated locally and can be adapted to each company's own circumstances, competitive situation and ability to attract and retain qualified labour. However, actual wage rises often closely follow the agreed increases, see the chart below.

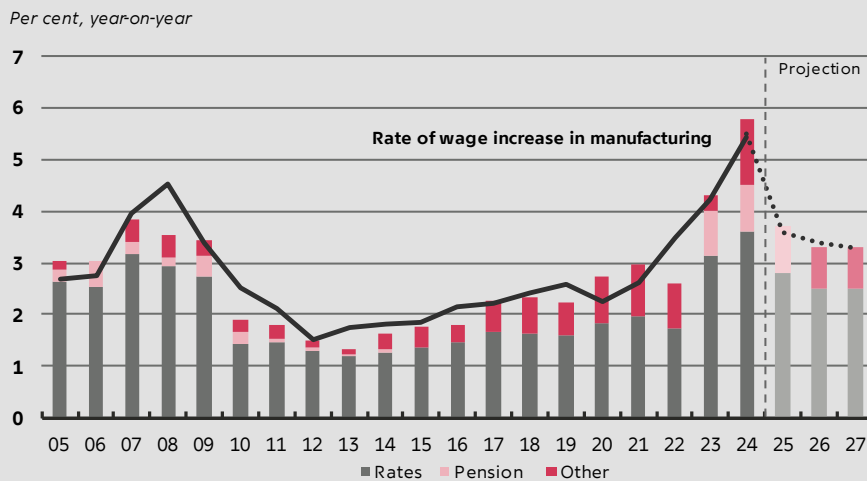
The outcome of the collective bargaining in the other parts of the minimum wage area, which constitutes around 80 per cent of the private labour market, largely follows the breakthrough settlement for the manufacturing industry. In the so-called normal wage area, where wage increases are determined in central negotiations, there has also been a breakthrough agreement in the transport area that provides an increase of around 12 per cent over the next three years. An increase in hourly wages of 3.3 per cent in 2025, 3.1 per cent in 2026 and 2.8 per cent in 2027 has been agreed, as well as similar changes to the free-choice scheme and pension payments in the manufacturing industry, which will boost wage increases by almost 1 percentage point each year. The outcome in other parts of the normal wage area largely follows the breakthrough agreement in the transport area. Union members must be balloted on the collective agreements once all areas have been settled.

In Germany, the agreed wage increases in the benchmark collective bargaining agreements are slightly lower than in Denmark, which should be viewed in the context of relatively weaker growth in the German economy in recent years. The German central bank, Deutsche Bundesbank, estimates that wages will rise by 2.5 per cent this year and by approximately 2.6 per cent in the following two years.¹

Continues ...

... continued

Chart
Reference curve for wage increases



Note: The reference scenario includes rates, pensions, free-choice schemes, and others and has been calculated excl. inconvenience supplements. The reference scenario includes the Industrial Agreement (*Industriens Overenskomst for arbejdere*), Collective Agreement for the Construction and Civil Engineering Sectors (*Bygge- og anlægsoverenskomsten*), Collective Agreement for Retail Trade (*Butiksoverenskomsten*), Collective Agreement between 3F Transport and DI (*Fællesoverenskomsten*) and the Transport and Logistics Collective Agreement (*Transport- og Logistikoverenskomsten*). Own forecasts of the cost impacts of the most recent collective agreements based on information about the cost impacts of previous collective agreements. Forecasts are based on the Industrial Agreement and the Collective Agreement between 3F Transport and DI.

Source: The Statistics Committee's status report and own calculations.

¹ See Deutsche Bundesbank, *Forecast for Germany: Significantly gloomier growth outlook – inflation decreases to 2%*, Deutsche Bundesbank, December 2024.

Based on the collective agreements, wages in the private labour market are expected to increase by 3.6 per cent this year, 3.4 per cent in 2026 and 3.2 per cent in 2027, which is lower than in the previous two years, see chart 2. The lower wage increases in the private labour market are also expected to spill over to wage increases in the public sector due to an expected continuation of the agreed adjustment mechanism when a new collective agreement is signed in early 2026.

The outlook for Danish wage increases is broadly in line with expected wage increases in the euro area, where the ECB expects increases of 3.4 per cent in 2025, 2.8 per cent in 2026 and 2.6 per cent in 2027. Danish wage growth rates have been weaker than abroad for a longer period. Since 2021, wages in the euro area and the US have increased by around 4 to 5 per cent more than Danish wages in terms of payroll per employee, see also chart 30 for relative wage increases in Denmark and abroad.

Expectations for wage growth and consumer price increases in the Danish and international economies imply that real wages will increase in the next years. Real wages reflect how much consumption a given nominal wage will buy and measured by the Danish Employers' Association's wage index for the



Wage increases in the private labour market are expected to rise by 3.6 per cent in 2025.

manufacturing industry, real wages are expected to increase by around 4.5 per cent over the next three years, see chart 3.

Real wages as measured by the Danish Employers' Association's wage index are currently around 1 per cent higher than in 2021, while real wages measured as total payroll per employee are still somewhat below the level in 2021. The latter figure is comparable to the euro area and the US, where real wages are also still below the 2021 level.⁷

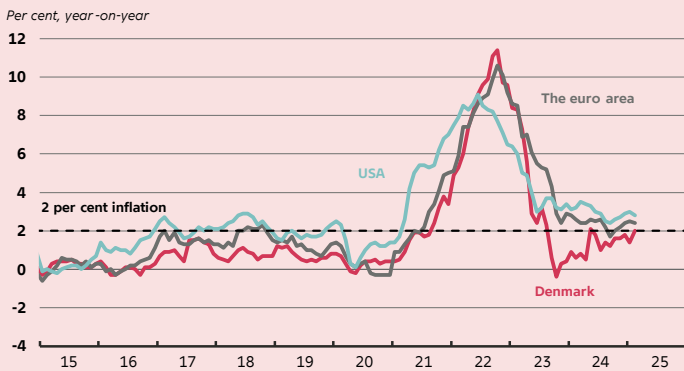
Low inflation in the past year

Inflation has fallen sharply since the end of 2022 and was 2.0 per cent in February, see chart 4. Currently, price increases in services contribute the most to inflation, while rising food and energy prices also contribute, see chart 5. In February, the direct contribution from energy was 0.3 percentage points, while service prices contributed 1.1 percentage points to inflation.

In the euro area and the US, inflation has also come down from the high levels of 2022 and 2023. Inflation in February was 2.4 and 2.8 per cent for the euro area and the US, respectively. As in Denmark, increases in the price of services are, in particular, pushing up inflation in the euro area and the US, and service price inflation abroad has proved more persistent than in previous periods.⁸ Energy prices in the euro area have started to rise again and are currently helping to push up inflation. Energy prices in the euro area remain significantly higher than in the US due to the fact that since 2022 Europe has been dependent on importing more expensive liquid gas from the US and elsewhere.⁹

CHART 4

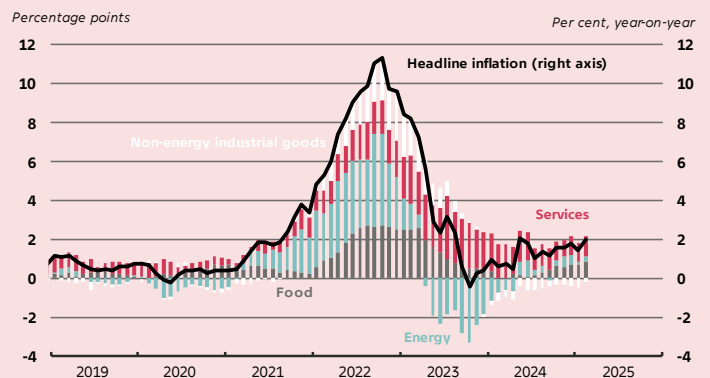
Headline inflation is currently higher in the euro area and the US than in Denmark



Note: HICP inflation for Denmark and the euro area. CPI inflation for the US. Last observation: February 2025.
 Source: Macrobond.

CHART 5

Service prices currently contribute the most to inflation, but the combined contribution of energy and food is almost as large



Note: Decomposition of HICP inflation. Last observation: February 2025.
 Source: Macrobond and own calculations.

⁷Differences in the development between the two measures of Danish real wages are partly because payroll per employee covers the entire economy and not just the private sector, and partly because the measure does not account for composition effects such as more older people staying in the labour market.

⁸ See Amatyakul, Igan and Lombardi, Sectoral price dynamics in the last mile of post-Covid-19 disinflation, *BIS Quarterly Review*, 2024.

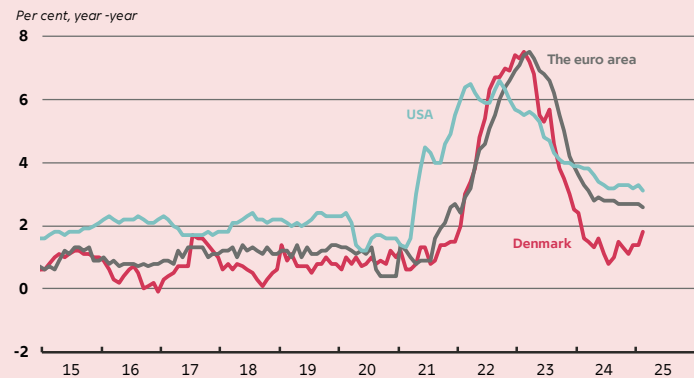
⁹ See Victoria Branner and Marcus Ingholt, Denmark risks a period of energy price fluctuations, impacting inflation and monetary policy, *Danmarks Nationalbank Analysis*, no. 15, November 2023.

Overall, inflation in Denmark has been at a low level over the past year. Core inflation, i.e. consumer price increases excluding changes in the price of energy and unprocessed food, is slightly higher than in the pre-inflation period and was 1.8 per cent in February, see chart 6. Core inflation is currently significantly higher in both the US and the euro area, where it was 3.1 and 2.6 per cent, respectively, in February. The higher core inflation in the euro area compared to Denmark is partly because the rate of price increases for services has been more persistent than in Denmark. Core inflation in the US is currently held up by high demand and high price increases on especially services.

Although the direct contribution of energy is not included in core inflation, the development of energy prices still plays a role through indirect effects.¹⁰ Since 2021, the rise in energy prices has played a key role in the rise in overall inflation, and model estimates indicate that core inflation in Denmark was still held down by negative indirect contributions from energy throughout 2024, see chart 7. Conversely, the current business cycle situation only contributes to raising core inflation in Denmark to a limited extent.

CHART 6

Core inflation is low in Denmark, but higher in the euro area and USA

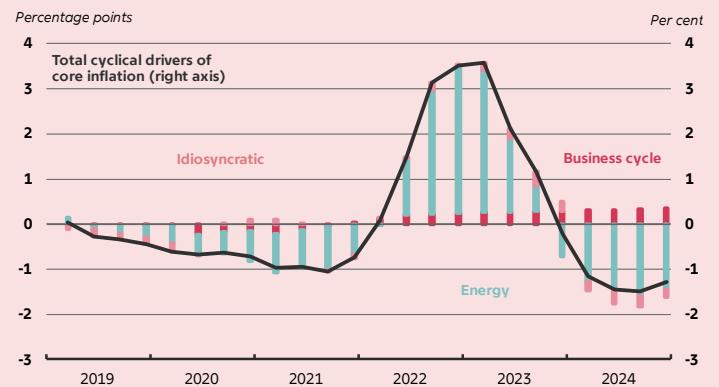


Note: HICP core inflation, i.e. inflation excluding price changes for energy and unprocessed food, for Denmark and the euro area. For the USA, core CPI inflation is shown. Last observation: February 2025.

Source: Macrobond.

CHART 7

The indirect contribution of energy price rises pulled down inflation in 2024



Note: For a more detailed description, see Christoffer J. Weissert, Trends and Cycles in the Danish Economy, *Danmarks Nationalbank Economic Memo*, no. 3, May 2024.

Source: Own calculations based on Christoffer J. Weissert, Trends and cycles in the Danish economy, *Danmarks Nationalbank Economic Memo*, no. 3, May 2024.

¹⁰ Indirect energy effects in core inflation refers to the fact that rising energy prices indirectly affect prices across the economy, as energy is an important input cost in production of other goods and services.

Wage growth has been a limited driver of inflation...

The interaction between wages and consumer prices is essential to developments in inflation. High inflation and the erosion of real wages in 2022, together with increased pressure on the labour market, resulted in high wage increases in 2023 and 2024. This increased the risk that there would be a shift in inflation expectations and that price and wage adjustments would prolong the period of high inflation. There are currently no signs that this risk has materialised.

External factors have been the main drivers of inflation in recent years, particularly corona-related supply and demand shocks, cost shocks related to energy prices and other international factors, see box 2.¹¹ In common with price increases, wage increases have been driven by these factors, but they have not in themselves been a significant driver of inflation. That is not to say that wage increases have not played a role in shaping the development of consumer prices, and had wages not increased to the extent they have over the past two years, inflation would also have been lower.

... but wages still play a role in the development of inflation

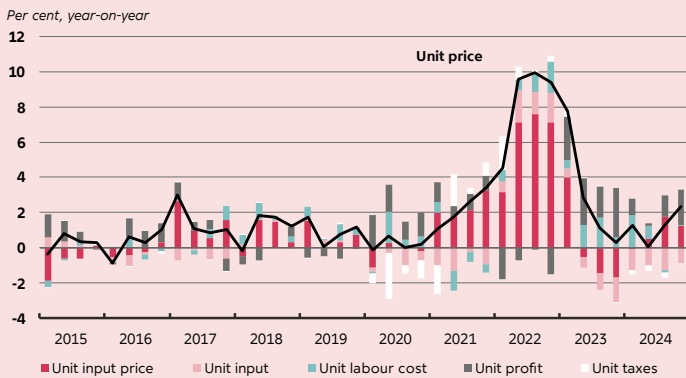
Higher wage increases have still played a role in the pass-through from the economic disruptions of recent years to inflation. This can be seen in a decomposition of companies' sales prices, see chart 8. It shows that the contribution of unit labour costs – i.e. labour costs per unit produced – to Danish companies' selling prices increased in 2023 and has been the main contributor to



There are currently no signs that the risk that price and wage adjustment would prolong the period of high inflation has materialised.

CHART 8

The contribution from salaries has decreased

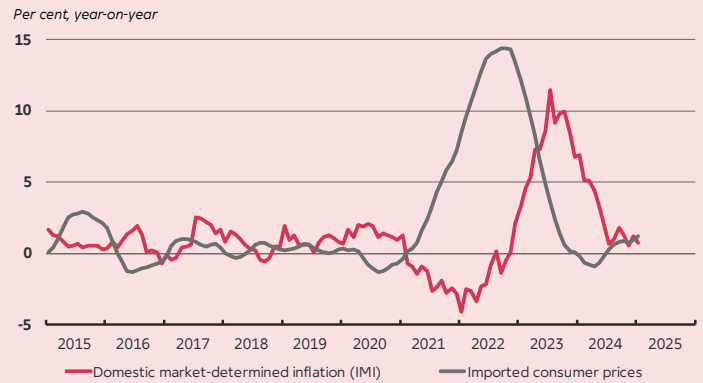


Note: Decomposition of the deflator for production value in private non-agricultural industries excl. utilities and transport. This excludes agriculture, mining, utilities and transport, where price formation is characterised by reflecting domestic factors only to a modest extent, as well as the public sector, where the calculated price development is largely imputed and does not reflect market price formation.

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

CHART 9

Domestic price inflation has been low since summer 2024



Note: Domestic market-determined inflation, IMI, excludes direct and indirect changes in the price of energy and imported goods, as well as price increases in unprocessed food, rent and administered prices excluding taxes. Last observation: January 2025.

Source: Statistics Denmark and own calculations.

¹¹ The development in price and wage inflation corresponds to a classic process of adjustment to external supply shocks, see also box 3 in Danmarks Nationalbank, The outlook is for a stable price development in the Danish economy, *Danmarks Nationalbank Analysis (Outlook for the Danish economy)*, no. 15, September 2024.

the development in the first half of 2024. In recent years, unit earnings have made a larger contribution to sales prices than wages, with falling material prices, among other things, giving room for higher profits. Rising material prices are currently contributing to companies' sales prices, whereas the decomposition indicates that the effect of higher wages has diminished.

Other indicators also suggest that the pass-through from the economic disruptions to inflation has also occurred through higher wage increases. Price growth in the so-called domestic market-based index of consumer prices, IMI, was high in the second half of 2023 and in the first half of 2024, which is deemed to reflect the high wage increases and thereby the transmission mechanism from recent years' shocks to the Danish and international economies, see chart 9.¹² IMI attempts to remove the part of the price development in the total consumer price index not determined by conditions in the Danish market economy (e.g. import prices and direct and indirect effects from energy prices), and thus expresses a clearer relationship between the development in Danish wages, demand and inflation.¹³ The annual rate of increase in the IMI has been low since mid-2024 and stood at 0.7 per cent in January.

BOX 2

Inflation has been driven by corona-related supply and demand shocks, energy prices and other international factors

Danmarks Nationalbank's DSGE model can be used to shed light on the driving forces behind the development of inflation in Denmark, as it facilitates distinguishing between *causes* of and *correlations* in economic developments. The model can therefore be useful for business cycle assessment, as it can be used to decompose the development of measurable macroeconomic variables into contributions from various unobservable drivers.

According to the model, inflation since 2020 has primarily been driven by three external factors, see the chart below: 1) the corona pandemic, 2) cost-push shocks and 3) international factors, which among others include the movement of foreign prices, demand for Danish exports and the ECB's monetary policy interest rates. Wage developments, on the other hand, have had very little impact on inflation.

The corona pandemic hits in the first quarter of 2020 and gradually contributes more to inflation as the Danish economy reopens. From the end of 2023, the shock contribution turns negative and pulls inflation down.¹ Through 2022, cost-push shocks had a positive effect on inflation, while the shock contribution reverses and dampens inflation from 2023. The shock thus largely reflects changes in energy prices following Russia's invasion of Ukraine.² International factors contribute negatively to inflation at the beginning of the period, while the contribution reverses from 2023. The large contributions from international factors through 2024 are mainly because the accumulated increase in foreign inflation, viewed in isolation, improves Danish competitiveness over time in the model.³ Compared to the large contributions from other shocks, domestic demand and supply shocks have had a limited effect on inflation according to the model, although domestic demand shocks made a positive contribution to inflation in 2020-21. However, the positive contributions predominantly come from the impulse from domestic demand shocks that hit the economy before 2020.

Continues ...

¹²Over the past 18 months, IMI inflation has been higher than, for example, price inflation on imported goods. However, higher IMI inflation does not necessarily indicate a strong pass-through from wages to prices but may also reflect a delayed pass-through from the above-mentioned drivers of headline inflation. Since energy and import prices are excluded from the calculation of IMI, all else being equal, in a situation where, for example, energy prices rise, IMI will mechanically decrease, and, conversely, IMI will increase when energy prices fall. In addition to this mirrored effect, this can also manifest itself as a delay effect, as shown in chart 9.

¹³ IMI attempt to capture the part of the price of goods and services produced under market conditions that can only be attributed to Danish market conditions. In addition to excluding the direct and indirect contributions from changes in the price of energy and imported goods and services from the net price development, changes in the price of unprocessed food, rent and administered prices are also excluded. This helps identify purely domestic-driven price developments and is more closely linked to the developments in Danish wages and the demand situation.

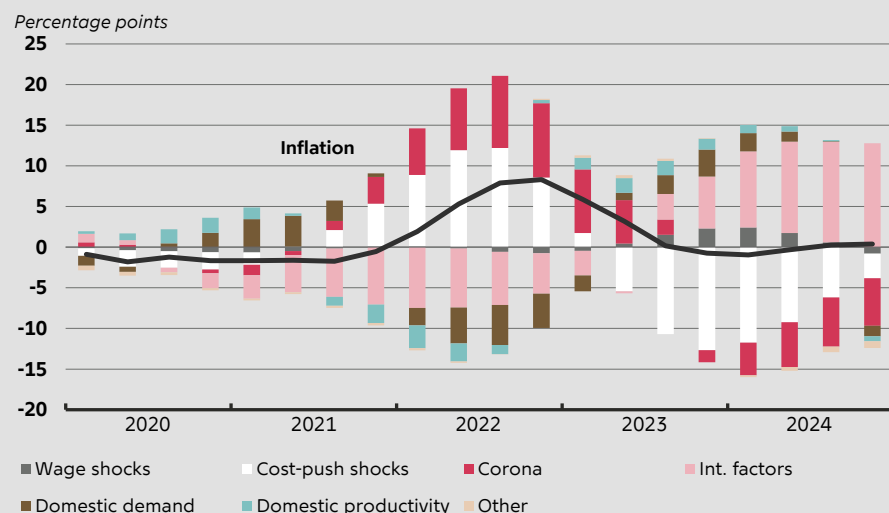
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The model also includes shocks to the wage Phillips curve, but these have had a limited effect on inflation in Denmark. The shock should be interpreted as a shock to wages beyond what can be explained by the historical relationship between wages and the development of the economy as determined by the wage Phillips curve. According to the model, wages since 2020 have largely responded as usual to the underlying shocks hitting the economy and have not contributed separately to increasing inflationary pressures.

This is not to say that wage increases have not played a role in the development of consumer prices. High wage increases have instead played a role in the transmission mechanism from shocks to the Danish and international economies in recent years to inflation. Therefore, if wages had not increased as much as they have over the past two years, inflation would also have been lower.

Chart

Shock decomposition of cyclical drivers of consumer price inflation



Note: The chart shows a historical shock decomposition of the cyclical part of consumer price inflation in the DSGE model since 2020. Each bar shows the contribution to inflation in a given quarter from the different shocks, with contributions stemming not only from new shocks in the quarter, but also the impulse from previous shocks that continue to impact the economy. Shock contributions are shown by grouping the same types of shocks into one total contribution.

Source: Own calculations based on Danmarks Nationalbank's DSGE model. DSGE stands for *dynamic stochastic general equilibrium*. The model includes fundamental drivers of cyclical development, known as 'structural shocks'. The model is a re-estimated version of the DSGE model developed in Jesper Pedersen and Søren Hove Ravn, *What Drives the Business Cycle in a Small Open Economy? Evidence from an Estimated DSGE Model of the Danish Economy*, *Danmarks Nationalbank Working Papers*, no. 88, December 2013. The re-estimated version is based on data from 1995 to 2022 and expanded with a corona shock among other things.

¹ The corona pandemic is modelled as extraordinary shocks during the period 2020 to 2022, which generate movements in the model's normal shocks. The procedure is based on the method by Filippo Ferroni, Jonas D.M. Fisher and Leonardo Melosi, *Unusual shocks in our usual models*, *Journal of Monetary Economics*, vol. 147, 2024.

² The cost-push shock covers two shocks: shocks to the price Phillips curve and shocks to import prices. The shock to the price Phillips curve is a shock that affects inflation beyond what can be explained by changes in firms' marginal costs, which are determined by wages, capital costs and productivity. The shock will therefore reflect changes in material costs, for example. According to the model estimates, the shock to the price Phillips curve is highly correlated with energy prices. The import price shock reflects changes in import prices beyond what can be explained by developments in foreign prices.

³ International factors include developments in foreign prices, demand for Danish exports and the ECB's monetary policy interest rates. International factors do not include fluctuations in prices that are part of the production by Danish firms, such as raw material prices.

Outlook for inflation to remain stable and just below 2 per cent in the next years

Since the peak above 11 per cent in October 2022, inflation is now low and stable again. This is both because that the shocks that caused inflation to rise have passed through the economy and because central banks have responded with sharp increases in interest rates. In the euro area, several measures of inflation expectations point to inflation close to 2 per cent.¹⁴ Danmarks Nationalbank's new expectations survey also indicates that inflation expectations among households in Denmark are stable, see box 3. In the absence of further shocks to the economy, inflation is expected to remain low and stable at just below 2 per cent over the next few years.

The recently concluded collective agreements are also expected to result in wage increases that are compatible with low and stable inflation in the next few years. Against this background, domestic wage development is not expected to fuel inflation. Inflation is expected to rise to 2.0 per cent this year and end at 1.7 per cent in 2026 and 2027, see chart 10. Core inflation is expected to rise from 1.5 per cent in 2024 to 1.7 per cent in 2025. Core inflation is expected to be 1.8 per cent in 2026 and 2027.

The price of energy rose sharply in late 2024 and early 2025.¹⁵ Higher energy prices are expected to raise overall inflation by 0.2 percentage points this year. Price increases on food and other imported goods and services have also gone up, which will also contribute to higher inflation this year. Conversely, inflation in the second half of 2024 was held down by low domestic price pressure, which is expected to remain low in 2025. Domestic market-based inflation is expected to remain low and stable in 2026 and 2027.

Overall, expected inflation in Denmark is slightly lower than what other institutions expect inflation to be in the euro area. For example, the ECB's March projection for the euro area shows consumer prices increasing by 2.3 per cent this year, 1.9 per cent next year and 2.0 per cent in 2027.

Lower inflation in Denmark should be seen in light of the more persistent increase in service prices in the euro area. Structural differences between Denmark and the euro area possibly also contribute to differences in inflation levels. The slightly lower expected inflation in Denmark compared to the euro area can also be seen in light of *price convergence*, which means that price levels between Denmark and the euro area will converge in the long run. The fixed exchange rate policy against the euro creates the basis for Denmark to have the same inflation rate as the euro area over time. However, lower inflation in Denmark may, in the case of long-run price convergence, be due to the fact that the Danish price level has historically been (and remains) higher than the price level in the euro area.¹⁶ Analyses indicate that price convergence has dampened Danish inflation vis-à-vis the euro area over the past decade.¹⁷



Inflation is expected to stabilise just below 2 per cent.

¹⁴ See Danmarks Nationalbank, Towards a neutral monetary policy in 2025, *Danmarks Nationalbank Analysis (Monetary and financial trends)*, no. 7, March 2025.

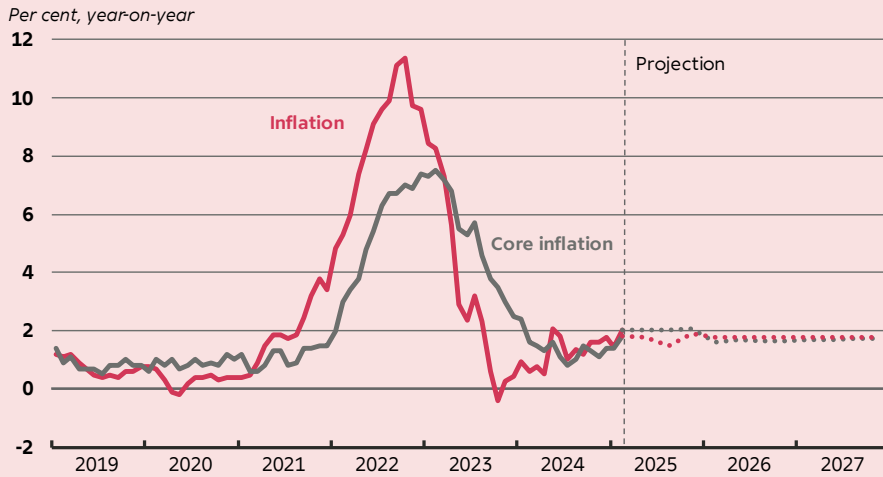
¹⁵ Spot prices for electricity and gas increased by 52 and 70 per cent respectively between January and March 2025 compared to the same three months a year ago. Spot prices pass through to consumer prices with a certain lag, see also Danmarks Nationalbank, The pressure on the economy should be eased, *Danmarks Nationalbank Analysis (Outlook for the Danish economy)*, no. 11, September 2022.

¹⁶ The Danish Competition and Consumer Authority, *Prisniveauet i Danmark, Velfungerende Markeder*, no. 77, November 2024 (Danish only).

¹⁷ See Mose Jensen, High price level contributes to lower inflation in Denmark than in the euro area, *Danmarks Nationalbank Analysis*, no. 5, March 2025.

CHART 10

Inflation and core inflation are expected to stabilise just below 2 per cent



Note: Last observation: February 2025.
 Source: Statistics Denmark and own calculations.

BOX 3

Expectations of decreasing inflation

Expectations for the future have a major impact on how wages and prices actually develop. This is partly because employers consider future costs (e.g. wages) and sales prices when planning production. Similarly, consumer expectations of future prices (along with current wages and prices) factor into their consumption decisions. In this way, inflation expectations play an important role in the development of the economy.¹

Inflation expectations are harder to measure than actual inflation. For that reason, in October 2024 Danmarks Nationalbank began a monthly questionnaire-based survey of Danish households' expectations of key economic conditions. It includes questions about perceived inflation today and expected inflation in one year and three years. In 2024 Q4, the median perception of actual inflation was 3 per cent, whereas actual HICP inflation was calculated at 1.7 per cent.

Previous studies of households' inflation expectations have shown that it can be informative to look at the evolution of expectations rather than their exact level.² In 2024 Q4, around a third of the survey participants expected inflation to be at the same level a year from now as it is today, see the chart in the box. Around 40 per cent of Danish households expected inflation to be lower than today and around 20 per cent expected inflation to be higher. Overall, these charts indicate an expectation of slightly decreasing inflation in a year's time compared to the current level. A similar picture is found for expectations of inflation three years from now, with slightly fewer expecting the same inflation as today and just over half expecting inflation to be lower. Overall, the expectations on the two time horizons indicate that inflation expectations are anchored around the current inflation level.

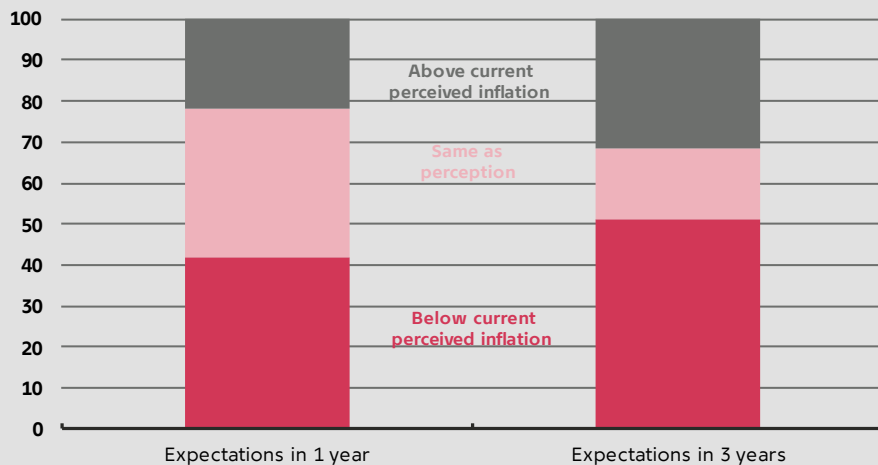
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Chart

More people expect inflation to be the same or lower than it is today

Per cent



Note: The chart shows the calculated proportions of respondents in Danmarks Nationalbank's expectations survey who in 2024 Q4 believed that inflation would be higher, exactly the same or lower than they thought it was when they were asked. There were just over 3,000 responses to the surveys. Responses are weighted based on respondent characteristics to reflect the population of Denmark.

Source: Danmarks Nationalbank.

¹ See chapter 5, Inflation expectations are still well-anchored, in Danmarks Nationalbank, Declining but still high inflation, *Danmarks Nationalbank Analysis (Outlook for the Danish economy)*, no. 4, March 2023.

² See Kim Abildgren and Andreas Kuchler, Revisiting the inflation perception conundrum, *Journal of Macroeconomics*, vol. 67, issue C, article no. 103264, 2021.

04

Prospect of a balanced growth trajectory in the Danish economy

Capacity pressure in the Danish economy has eased significantly in recent years. Although employment has continued to rise over the past year, pressure on the labour market has eased further and is not expected to differ significantly from the period immediately before the pandemic, when the Danish economy was characterised by weak consumer price growth and moderate wage growth. Less pressure on the labour market should be seen in light of a significant expansion of the labour force.

There are signs that growth among Danish export companies has been driven to a greater extent than in recent years by production within the country and outside the pharmaceutical sector. However, domestic demand is still weak and private consumption has remained roughly unchanged over the past year.

Activity in the Danish economy is expected to be supported by the pharmaceutical industry and its production abroad under Danish ownership in the next few years. Domestic demand is expected to gradually pick up over the course of this year, with moderate growth in Danish export markets contributing to an increase in business investment. Private consumption is supported by expectations of a still robust Danish labour market and further growth in real wages.

Employment growth is expected to slow down slightly and to develop roughly in line with the historical correlation with the development of domestic activity.

Danish economy runs at multiple speeds

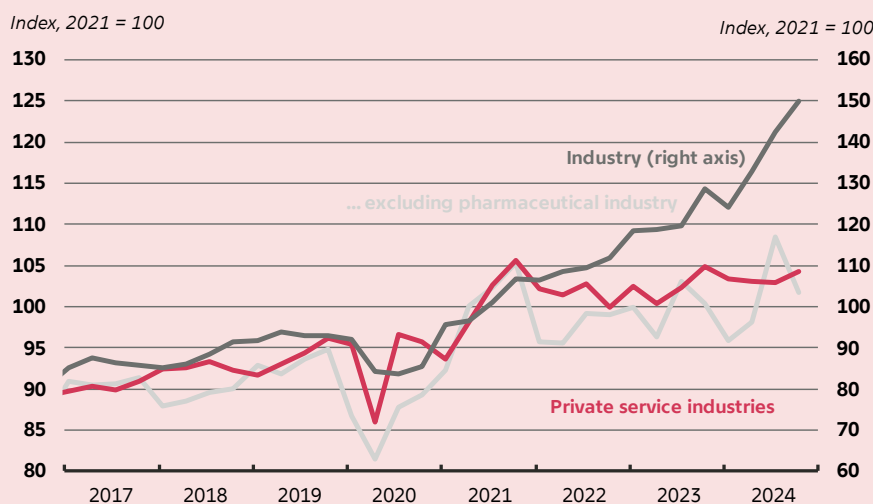
The Danish economy has been characterised by a dichotomy since the beginning of 2022, see chart 11. On the one hand, most parts of the economy have experienced a growth pause, while on the other hand there has been significant growth, especially in industry and the production of pharmaceuticals, which have largely been produced in foreign factories. Measured by GDP, the Danish economy has grown by just over 8 per cent since the beginning of 2022, but excluding production abroad under Danish ownership, domestic activity is estimated to have increased by only around 2.8 per cent in the same period. The slowdown in domestic growth has meant that pressure on the Danish economy has eased considerably, and it is currently considered to be in a neutral cyclical position.



The Danish economy is currently considered to be in a neutral cyclical position.

CHART 11

Gross value added in industry is still mainly driven by pharmaceutical production, while growth in the private service industry has been absent



Note: Gross value added.
Source: Statistics Denmark and own calculations.

Growth in the Danish economy is increasingly driven by a few large global companies. The increasing importance of the largest Danish companies could potentially increase fluctuations in Danish production and make GDP a less informative indicator for assessing capacity utilisation and identifying turning points in the Danish economy.¹⁸

The dichotomy in the Danish economy continued during 2024, but to a lesser extent than in recent years. The entire Danish economy grew by 3.6 per cent last year, and if production abroad under Danish ownership is excluded, domestic activity is estimated to have increased by 1.9 per cent. The increase in domestic activity is estimated to be driven by increasing pharmaceutical production within the country and a broader-based increase among Danish export companies, see

¹⁸ See Simon Juul Hviid, Rasmus Rold Sørensen, Morten Spange, Tobias Renkin and Mia Renee Herløv Jørgensen, The increasing importance of the largest companies, *Danmarks Nationalbank Analysis*, no. 8, March 2025.

also charts 28 and 29 in chapter 5. This is also reflected in the gross value added in manufacturing excluding pharmaceuticals, which is estimated to have increased by 1.2 per cent in 2024.

The broader-based increase has helped boost business investment, although higher interest rates being assessed to have dampened investment appetite. However, Danish GDP growth is still held back by weak development in the service industries, and private consumption has also been weak over the past year despite rising incomes and a continued strong labour market. Weak private consumption means that domestic demand has developed weakly, while overall demand in the economy has increased as a result of high exports.

Continued growth in employment

The labour market has continued to improve over the past six months, with payroll employment increasing by 34,000 people through 2024, while unemployment has increased at a slow pace, see charts 12 and 13. Although unemployment has increased in recent years, it remains low by historical standards.

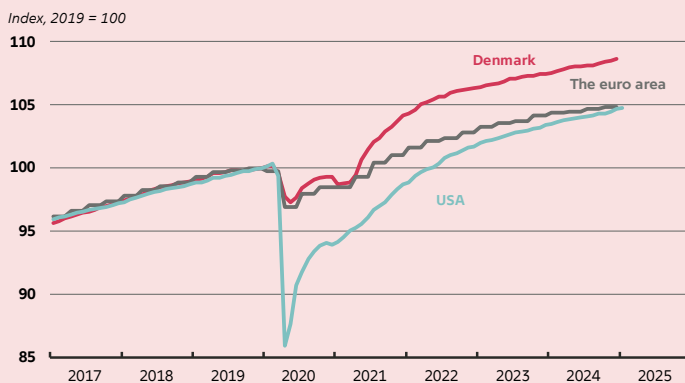
Recent employment growth has occurred across industries, particularly in *manufacturing* and *public administration*. Employment in these two sectors has increased by 6,000 and 4,500 people respectively over the past year. The increase in employment in the manufacturing sector should be seen in the context of the high activity growth in recent years, with manufacturing accounting for around 15 per cent of the total increase in employment since the beginning of 2022.



Payroll employment increased by 34,000 people over the last year.

CHART 12

Employment continues to rise in Denmark and abroad

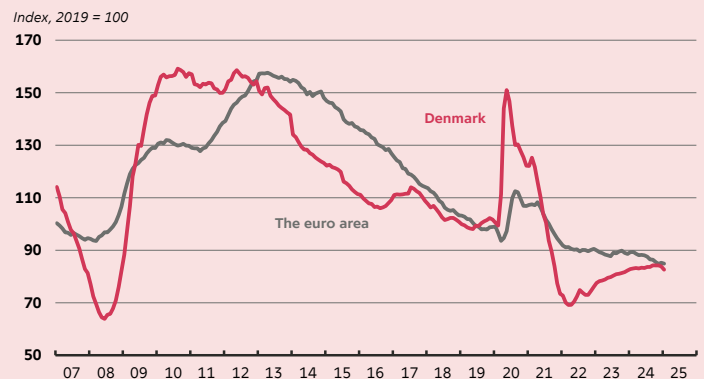


Note: For Denmark and the US, payroll employment is shown, and for the euro area, total employment is shown.

Source: Statistics Denmark, Eurostat, U.S. Bureau of Labor Statistics and own calculations.

CHART 13

In Denmark, unemployment is rising slowly from a low level, while it has fallen slightly in the euro area



Note: The register-based unemployment rate is shown for Denmark. The unemployment rate for the euro area is survey-based (Labour Force Survey).

Source: Statistics Denmark, Eurostat and own calculations.

Employment growth continues the European labour markets as well, but at a slightly slower pace than in Denmark. Employment growth in the euro area has generally been weaker than in Denmark, which should be seen in light of the fact that growth and demand in the euro area have been weaker overall in the years following the pandemic. On the other hand, employment growth in the US

continues at a slightly higher pace than in Denmark, supported by continued strong demand in the US economy and a large influx of foreign labour.

The developments in the labour market cover significant underlying movements, with many people either changing jobs, losing their jobs, or returning to work after a period unemployed or being outside the labour force. Since the pandemic, employment growth has been driven mainly by a large influx of people outside the labour force who have found work. This is due to the influx of foreign labour, but also because more Danes outside the labour market have entered the workforce. However, the number of people who have been outside the labour market and are entering employment has steadily decreased over the past few years and is currently back to around the pre-pandemic level, see chart 14.

The general increase in employment since the pandemic has been further sustained by more unemployed people finding jobs and fewer of those employed becoming unemployed, see chart 15.¹⁹ The low degree of job separation can be a reflection of either a relatively strong attachment between worker and workplace, or that people who have lost their jobs have been able to quickly find another without becoming unemployed. The high proportion of unemployed people finding jobs may also be related to the fact that demand for labour has been very high and that real income from benefits, among other things, has been significantly eroded. The combination of a low degree of job separation and a high degree of unemployed people finding jobs is a prerequisite for sustained high employment.

CHART 14

The number of people outside the labour force entering employment has been extraordinarily high but has decreased



Note: 3-month moving averages. The chart shows the number of people outside the labour force who find a job each month. Last observation: September 2024.

Source: Statistics Denmark, E-income and own calculations.

CHART 15

Few employed people become unemployed and many unemployed people find employment



Note: 3-month moving averages. The chart shows the proportion of employed people who become unemployed and the proportion of unemployed people who find a job each month. Last observation: September 2024.

Source: Danish Agency for Labour Market and Recruitment and own calculations.

¹⁹ The proportion of employed people leaving the labour force has remained largely unchanged since 2017, with the exception of the corona period.

Although employment is currently still rising, the underlying movements thus paint a picture of a gradually more subdued labour market, and the recent period is approaching a pre-pandemic state. This can also be seen in *job turnover*, i.e. the proportion of people starting a new job, which is currently lower than before the pandemic.

Labour market pressure continues to ease

Looking at a wide range of indicators, the assessment is that the pressure on the labour market has eased further in Denmark over the past six months, see charts 16 and 17. Firstly, Danmarks Nationalbank's trend-adjusted index for the number of new job vacancies has declined throughout 2024. Secondly, companies' reported labour shortages show that the proportion of companies reporting labour shortages as a production constraint has continued to fall over the past six months. Finally, the Danish Agency for Labour Market and Recruitment's latest recruitment survey from December indicates that the recruitment challenges faced by companies are more or less unchanged compared to previous years.

Overall, the current pressure on the labour market in Denmark is not expected to differ significantly from the period immediately before the pandemic, when the Danish economy was characterised by weak consumer price growth and moderate wage growth. The pressure on the labour market has eased significantly since its peak in 2022, which is also reflected in the recently concluded collective agreements in the private labour market, see also chapter 3.

The picture of easing pressure on the labour market is also evident in the euro area, where the proportion of companies reporting labour shortages fell throughout 2024 and is currently on par with Denmark, see chart 17. The number



The current pressure on the labour market is not expected to differ significantly from the period immediately before the pandemic.

CHART 16

The number of job postings has decreased in Denmark

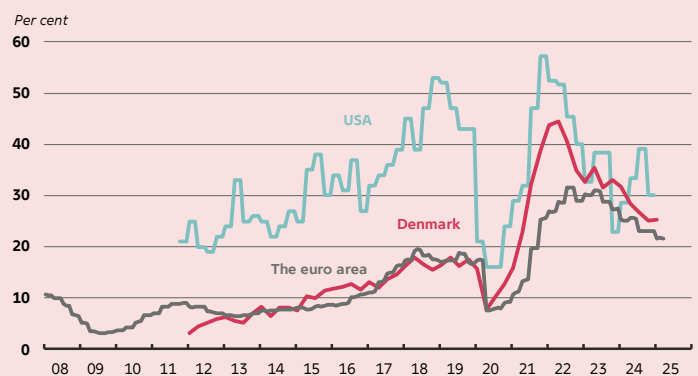


Note: The chart shows a chain index for the number of job postings. The index is chained at the company level, so that the increase in postings from month to month is based on the same group of companies in both months. See also Andersen, Bonin, Borgensgaard, Dahl-Sørensen, Darougheh, Grenestam, Hansen, Hviid, Jensen, The pressure on the labour market has eased after a job-intensive expansion, *Danmarks Nationalbank Analysis*, no. 4, March 2024.

Source: Jobindex and own calculations.

CHART 17

Labour shortages at home and abroad



Note: The chart shows the percentage of surveyed companies that state that labour shortage is a production constraint. All series show the development of the entire economy. For Denmark and the euro area, Q1 is calculated as an average of observations for January and February.

Source: Danish Agency for Labour Market and Recruitment and own calculations.

of job postings and indicators of labour hoarding in the euro area are also about the same as in Denmark. There are therefore currently no signs of significant deviations in the pressure on the labour market in Denmark compared to the euro area as a whole. However, the situation is different in the US, where there are signs of renewed labour market pressure and the proportion of companies reporting labour shortages has increased over the past year.

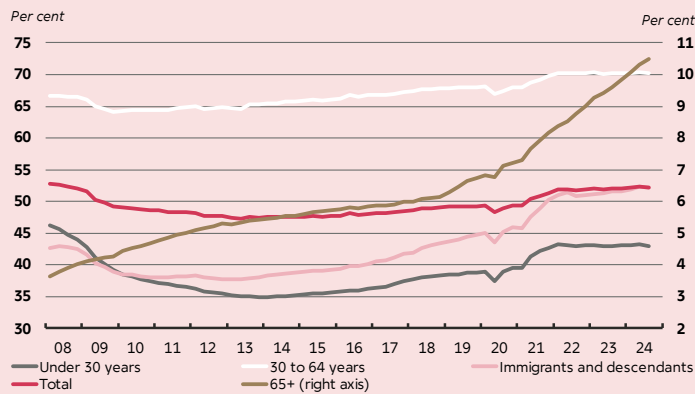
Higher structural employment has contributed to balanced development in the labour market

In recent years, increasing labour supply has enabled the sharp rise in employment, while the pressure has eased. As a result, *structural employment*²⁰ has also increased. The increase is due to several factors:

More older people have stayed in the labour market as the retirement age has gradually increased and agreements aimed at increasing labour supply among older people have come into force. The old age pension was last raised in 2022, but since then the employment rate for people over 65 has increased by a further 1.5 percentage points, see chart 18. This should probably be seen in light of the fact that since 2023 old age pensioners no longer have their old age pension amount offset, regardless of whether they have earned income on the side. Since 2022, the employment rate for people aged 30-64 has remained unchanged, suggesting that a larger proportion of the older population – even after retirement age – retains some connection to the labour market than before.

CHART 18

Employment rates have risen sharply among older people and among immigrants and their descendants

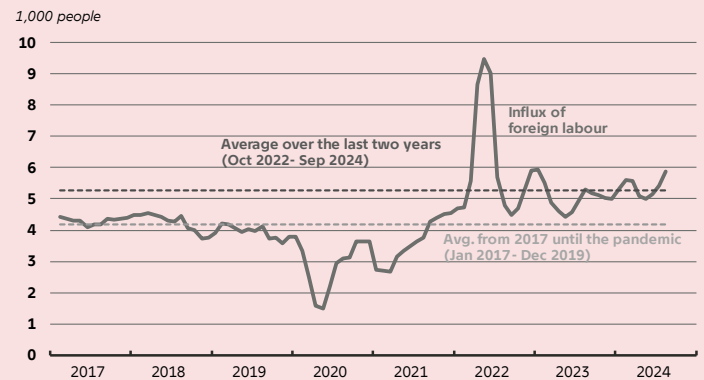


Note: Full-time employees in relation to the population of relevant age. *The employment rate for people under the age of 30 is calculated as all full-time employees under 30 in relation to the population between the ages of 15 and 29. The employment rate for people aged 65 and older is calculated as full-time employees over 64 in relation to the population aged 65 to 80. The employment rate for immigrants and their descendants covers all people in employment in relation to the population between the ages of 15 and 80.*

Source: Statistics Denmark and own calculations.

CHART 19

Increased monthly influx of foreigners coming to the country to work



Note: The chart shows the number of foreigners arriving in Denmark and entering directly into employment each month. The solid line shows a 3-month moving average. The dotted lines show an average of the inflow in the months marked in the chart. Last observation: September 2024.

Source: Statistics Denmark, E-income and own calculations.

²⁰ *Structural employment* is the supply-driven level of employment in the economy and the level of employment that is compatible with stable price and wage trends in the medium term.

Immigrants and their descendants have become more closely connected to the labour market, and the employment rate for this group increased significantly in the immediate post-pandemic period.

More foreigners have come to Denmark with the purpose of working. Especially since mid-2022, the average inflow has increased by around 1,100 people per month compared to the pre-pandemic period, see chart 19. This group has proven to be a labour reserve, with foreign workers accounting for a significant proportion of the overall increase in employment in the years following the pandemic.²¹

Foreign employees cover several different types of labour that stay in the country for varying lengths of time: seasonal work, short-term work such as large construction projects, but also highly skilled labour with more specialised skills that is not easily found among the resident labour pool. While highly skilled labour in particular tends to stay in the country for longer periods,²² there are signs that the recent influx of foreign labour is driven by a temporary high demand for labour in connection with major construction projects.

According to the Danish Agency for Labour Market and Recruitment, the recent increase in the number of foreign employees has mainly occurred in the metropolitan area and in several outlying municipalities, including Lolland and the surrounding municipalities. The development around Lolland should be seen in the context of high demand for labour in connection with the construction of the Fehmarnbelt tunnel.²³ Overall, the number of foreign workers involved in the construction of the Fehmarnbelt tunnel has increased by 5,500 since work began in early 2020.²⁴

The overall factors behind the expansion of the labour supply thus paint a picture of a flexible Danish labour market where Danish companies can draw on an external labour reserve when, for example, major construction projects require an extraordinary influx of labour that is either too large to be covered by the domestic labour reserve or requires other types of qualifications.

The growth of the Danish economy is expected to be supported by production abroad under Danish ownership in the next few years

Activity in the Danish economy is expected to continue to be supported over the next few years by the pharmaceutical industry, including production abroad under Danish ownership, referred to as *merchandising and processing*. The rest of the economy will remain moderate. GDP is expected to increase by 3.6 per cent in 2025, decreasing to 2.3 per cent and 2.0 per cent in 2026 and 2027, see chart 20.

²¹ Foreigners who have come to Denmark to work account for approximately 15 per cent of the increase in payroll employment from January 2021 to December 2024.

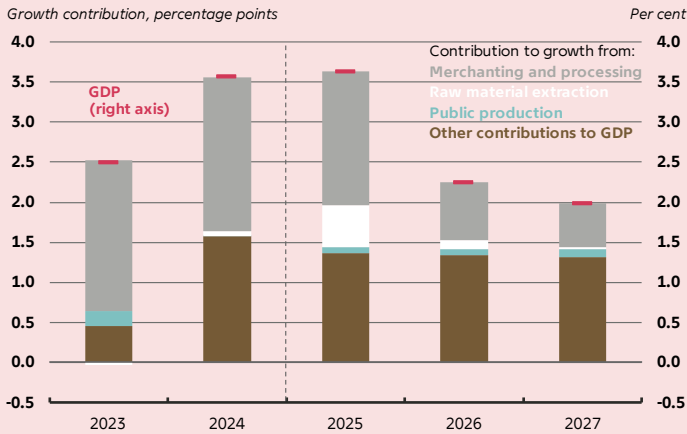
²² See Center for Økonomi, Økonomiforvaltningen, *Analyse af udenlandsk arbejdskraft*, City of Copenhagen, 17 September 2019.

²³ See Danish Agency for Labour Market and Recruitment, *Hvad driver beskæftigelsen i de enkelte kommuner?*, January 2025 (in Danish only).

²⁴ Q3 2024: See Danish Agency for Labour Market and Recruitment, *Monitoring of the regional labour market in relation to the labour needs of the Fehmarnbelt construction project*, quarterly update.

CHART 20

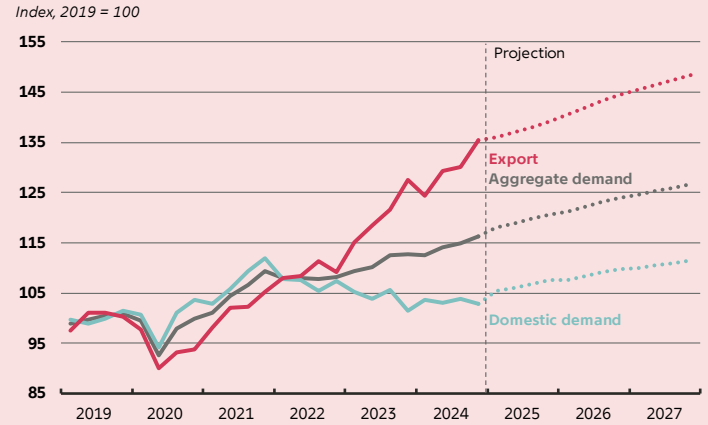
The Danish economy will continue to be supported by merchandising and processing in the next few years



Source: Statistics Denmark and own calculations.

CHART 21

Demand fuelled by strong exports



Source: Statistics Denmark and own calculations.

Domestic demand is expected to gradually pick up over the course of this year as the dampening effects of monetary policy in recent years fade.²⁵ Moderate growth in Danish export markets contributes to further growth in business investment. However, in the very short term, investments are expected to be held back by general restraint due to greater uncertainty in the global economy, including threats of increased tariffs from the US and the geopolitical situation. Private consumption is supported by expectations of a still robust Danish labour market and further growth in real wages. Private consumption is expected to boost domestic demand in the Danish economy to a greater extent than in recent years throughout the projection period.

The growth in domestic demand is further supported by strong growth in public demand, mainly due to increased defence spending,²⁶ but also other public consumption. Domestic demand is expected to increase by 3.0 per cent this year and 2.1 per cent next year, see chart 21.

According to international economic forecasts, growth in Danish export markets will continue in the next few years, creating the foundation for further growth in Danish exports. The growth in industrial exports is assumed to be driven by general growth among Danish export companies in line with developments in the export markets. Industrial exports are expected to be further boosted by expectations of continued high growth in the pharmaceutical industry in the coming years, and it is assumed that especially the domestically produced part of pharmaceutical exports will spill over to activity in the rest of the economy.²⁷



Domestic demand is expected to gradually pick up over the course of this year.

²⁵ See Danmarks Nationalbank, Towards a neutral monetary policy in 2025, *Danmarks Nationalbank Analysis (Monetary and financial trends)*, no. 7, March 2025

²⁶ The Acceleration Fund is technically categorised as public investments of kr. 25 billion in 2025 and 2026. The increase is assumed to be offset by increased imports, thereby having no effect on GDP.

²⁷ Model calculations from Danmarks Nationalbank show that an increase in exports of medicines produced in Denmark of 1 per cent of GDP could increase total Danish GDP by around 2 per cent in the short term. A large part of the increase in pharmaceutical exports in the projection is expected to be Danish-owned production abroad, which is why the effect of growth in pharmaceutical exports on Danish GDP is expected to be lower than the model calculations indicate. See Nikolaj Mose Dreisig Hansen and Mia Jørgensen, Increasing demand for pharmaceutical exports have both aggregate and geographical distributional effects, *Danmarks Nationalbank Economic Memo*, no. 9, August 2024.

Against this background, total demand in the Danish economy is expected to increase by 4.3 per cent this year, 2.8 per cent in 2026 and 2.4 per cent in 2027.

The expectation of a continued strong contribution to GDP growth from the pharmaceutical industry and production abroad under Danish ownership is based on equity analysts' expectations for sales in the largest Danish pharmaceutical companies. These assumptions imply that production abroad under Danish ownership is expected to contribute relatively strongly to GDP growth in 2025 and 2026 by 1.7 and 0.7 percentage points respectively in the next few years, see chart 20.

*The reopening of the Tyra field is also expected to make a large contribution to growth this year and is predicted to boost GDP by 0.5 per cent overall.*²⁸ Excluding the direct contributions from production abroad under Danish ownership and the reopening of the Tyra field, growth in Denmark is expected to be 1.4 per cent in 2025.

Tariffs on trade with the US will have negative consequences for the Danish economy

In the wake of the US presidential election, the risk of higher tariffs on Danish and European goods and services sold to the US has increased.

The US has already imposed a 25 per cent tariff on imports from the EU of steel, aluminum, and certain products containing these materials. Overall, approximately 5 per cent of the EU's total goods exports to the US are affected. In response, the EU has also imposed higher tariffs on American industrial goods.²⁹ Additionally, the US has imposed tariffs on trade with both Mexico and Canada and has increased tariffs on trade with China.³⁰ Both China and Canada have retaliated with counter-tariffs. Overall, the current increased tariffs are assessed to have only a limited impact on the Danish economy.

The projection for the Danish economy is based on a scenario where no additional tariffs are imposed on trade between the US and the EU.³¹

According to calculations from Danmarks Nationalbank, if the US introduces a 25 per cent tariff on all goods and services from Denmark and the EU, and if the EU reciprocates in kind, it will have an impact on the development of the Danish economy. According to the calculations, Danish GNI will fall by around 1.3 per cent in the short term compared to a situation without tariffs. The calculations also show that the impact diminishes in the long term, see box 4.

The US accounts for around a fifth of total Danish exports, making it one of Denmark's most important export countries, see also chapter 5. However, the proportion of exports to the US produced in Denmark only accounts for 3 per cent of total Danish exports, see also chart 32. This helps to mitigate the effects of a potential trade conflict with the US on the Danish economy.

²⁸ The Tyra field ran at reduced production capacity during 2024 and is expected to run at full production capacity from early 2025. The reopening of the Tyra field will technically boost GDP growth by 0.5 percentage points in 2025.

²⁹ The EU has reinstated previously suspended countermeasures from 2018 and 2020 and is currently investigating a new package of additional tariffs targeting American industrial goods.

³⁰ The USA has imposed a 25 per cent tariff on most goods from Mexico and Canada, but energy-related goods from Canada, such as crude oil, are subject to only a 10 per cent tariff. Chinese goods are now subject to a 20 per cent tariff, up from 10 per cent. Both China and Canada have retaliated with counter-tariffs.

³¹ The projection is based on adopted policy.

BOX 4

Negative impact of increased tariffs on the Danish economy

Free trade between countries helps ensure an efficient allocation of resources by allowing each country to specialise in the goods and services they are best at producing. Conversely, the introduction of tariffs makes imported goods more expensive, leading to an inefficient allocation of resources and higher prices for consumers.

Estimating the exact economic impact of changes in tariffs is subject to considerable uncertainty, as changes in global trade patterns affect the economy through many channels. Multi-country, multi-sector trade models based on global input-output tables are usually used to give an initial estimate of how the economy will react. In such models, it is not only the direct effects of reduced trade with e.g. the US that determine the economic impact of introducing tariffs, but also the indirect effects through trade with other countries.¹

There is a risk of the US raising tariffs against the EU on a broad range of goods, and the EU has announced that it would raise its tariffs correspondingly. In scenarios in which tariffs are imposed on all trade in goods and services between the US and the EU, calculations show that there would be significant negative macroeconomic effects in the short run, see the chart in the box. Economic losses are largest in the short run, as the imposition of tariffs reduce demand from the US, increase production costs for firms and raise import prices. In Denmark, the introduction of a 25 per cent tariff on trade between the US and the EU will lead to a loss in GNI² relative to baseline of around 1.3 per cent in the short run. The impact is significantly less if the tariff is 10 per cent instead. In the long run, the impact is less because firms and consumers have time to adjust their production and demand patterns. The economic impact is greater for Denmark than for the euro area because Denmark is a more open economy and has more direct trade with the US.

However, there are other important channels that are not captured by the model. The model's dataset does not include Danish-owned exports produced and sold abroad, even though this accounts for a large share of exports, especially to the US. Exports to the US produced in Denmark account for just 3 per cent of total Danish exports. However, Danish-owned exports produced and sold in the US are in practice not expected to be subject to tariffs. In addition, the model imposes tariffs on both goods and services, although in practice services are not expected to be subject to tariffs. Neither does the model take into account that nominal exchange rates will adjust, and in some countries currency depreciation may partially offset the GDP effects of higher tariffs in the very short term. Finally, monetary and fiscal policy is likely to adjust to the economic impact of tariffs, which is also not captured in the model.

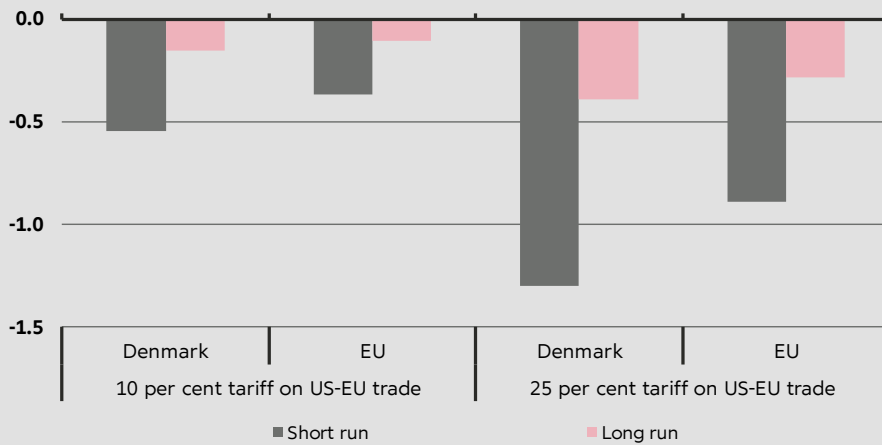
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Chart

Danish economy will be negatively affected by the introduction of tariffs on trade between the US and the EU

Effect on GNI, per cent relative to baseline



Note: The calculations are based on the Baqaee and Farhi (BF) model, which is an advanced input-output model that describes a world economy with trade links between industries across economies. Short-term equilibrium can be seen as occurring within a year after a shock, while long-term equilibrium only appears at least six years later.

Source: Baqaee and Farhi, Asian Development Bank Multiregional Input-Output Database and own calculations.

¹ For an elaboration of the mechanisms and assumptions of the trade model used (Baqaee and Farhi model), see Branner, Bentsen, van Deurs and Zhuang, Fragmentation of global trade could challenge the Danish economy, *Danmarks Nationalbank Analysis*, no. 16, October 2024.

² Gross national income, GNI, is calculated by the addition to gross domestic product, GDP, of property income (net) from abroad, income from remuneration of employees (net) from abroad and taxes on production and imports minus subsidies (net) from abroad. GNI thus measures a country's total income.

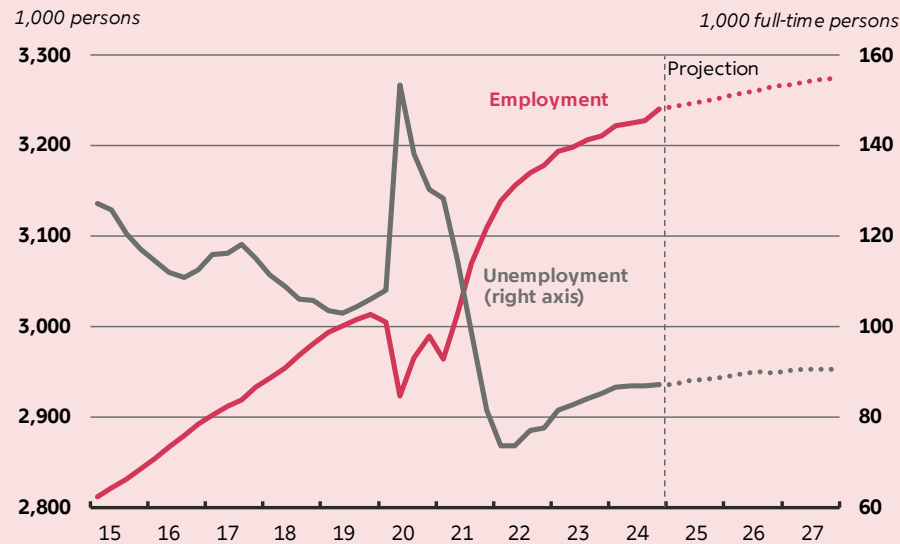
Employment growth will continue but at a slower pace

The employment growth of recent years is expected to continue at a more subdued pace over the next few years, see chart 22. Continued growth should be seen in light of the expectation of a moderate growth trajectory for the Danish economy, with domestic demand expected to pick up. The price of labour is still expected to be relatively low compared to other production inputs.

Employment is expected to increase by 12,000 people this year and to be 35,000 people higher by the end of 2027 compared to the end of 2024. At the same time, unemployment is expected to increase slightly throughout the projection period, reaching 91,000 people by the end of 2027. This is a low level in a historical context and should be seen in light of a general decrease in structural unemployment in recent decades.

CHART 22

Employment is expected to increase slightly over the next few years



Source: Statistics Denmark and own calculations.

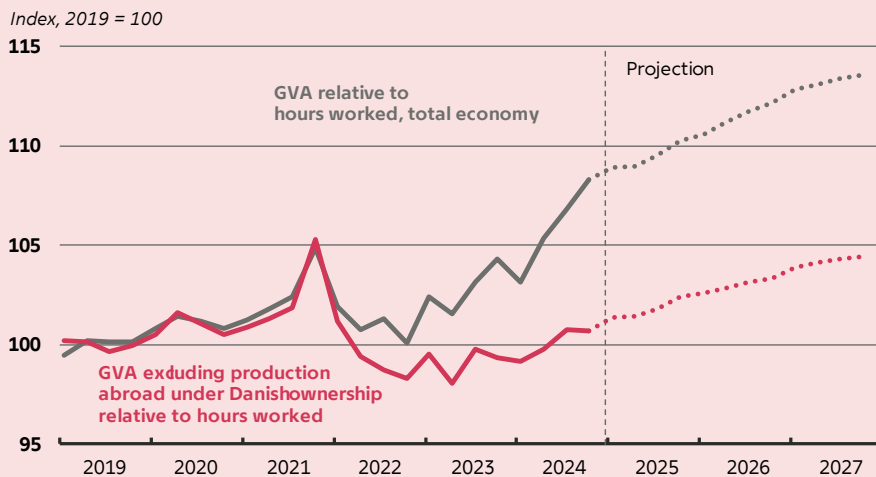
In 2022 and 2023 in particular, strong growth in employment relative to production resulted in a weak development in the ratio between employment and production when Danish production abroad is excluded, see chart 23.³² Domestic activity growth has again been relatively stronger than labour input growth over the past year – and more in line with the historical correlation with domestic activity development. Employment growth is expected to continue to be roughly in line with the historical correlation with the development of domestic activity.

Employment growth is expected to be lower than in recent years, partly reflecting weaker structural employment growth. This is partly because the number of people of working age is no longer increasing, and the effects of previous labour market reforms no longer contribute to increasing the labour supply to the same extent.

³²In economic analyses, it can be argued that fluctuations in domestic demand for labour and thus capacity pressure in the Danish economy within the typical forecast horizon of 2-3 years primarily depend on the production that takes place on Danish soil. See also Kuchler, Spange, Tjørnum, Tørsløv and Wederkinck, Danish productivity and competitiveness in a globalised world, *Danmarks Nationalbank Analysis*, no. 6, March 2025.

CHART 23

Gross value added in relation to hours worked has increased



Note: GVA is gross value added. The denominator is the same for the two series.
Source: Statistics Denmark and own calculations.

The organisation of Danish companies means that the link between production and employment has become weaker

The largest Danish companies have been an important driver of the high growth in the Danish economy in recent years. They are characterised by their ability to develop products and create ideas that can be scaled with low costs and limited use of labour and physical capital. However, they have a high use of intangible capital and labour abroad in production. When a large part of the economy is based on the production of such products, an increase in production will, all other things being equal, create less upward pressure on the capacity of the economy and the labour market than before. This may weaken the link between production and employment in the Danish economy, which has also been a contributing factor to the high growth in the Danish economy in recent years, despite the fact that capacity pressure is deemed to have subsided. The growth in employment is considered to be more indicative of the actual capacity utilisation in the domestic part of the economy than GDP.³³

The Danish economy is in a neutral cyclical position

The slowdown in domestic growth has meant that the pressure on the economy as a whole has eased significantly over the past years, and the Danish economy is currently considered to be in a neutral economic situation. Measured by the estimated output gap, capacity pressure has decreased from over 3 per cent in early 2022 to currently around 0.5 per cent. Employment is currently estimated to be around 0.5 per cent higher than the estimated structural level, see chart 24. This is about the same level as before the pandemic, when the Danish economy was characterised by weak consumer price growth and moderate wage growth.

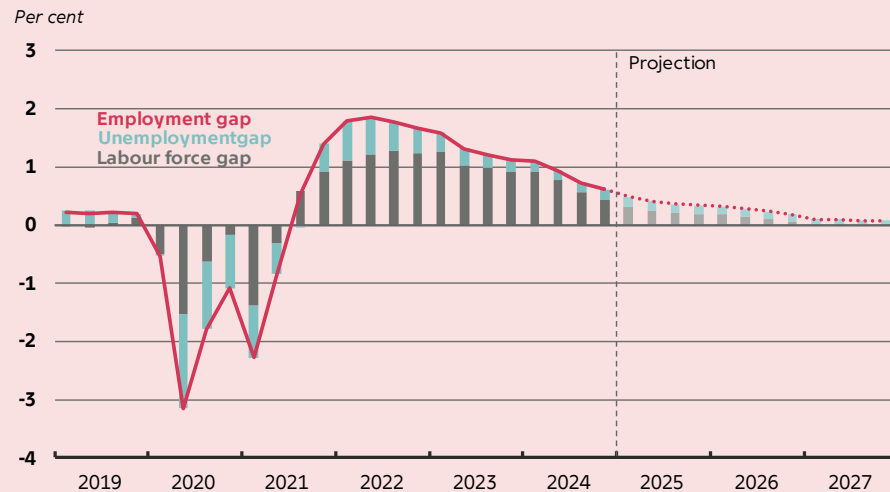


The Danish economy is expected to remain in a neutral cyclical position throughout the projection period.

³³ See Simon Juul Hviid, Rasmus Rold Sørensen, Morten Spange, Tobias Renkin and Mia Renee Herløv Jørgensen, The increasing importance of the largest companies, *Danmarks Nationalbank Analysis*, no. 8, March 2025.

CHART 24

Labour market pressure continues to ease



Note: The employment gap is the difference between actual and structural employment. Structural employment reflects the level of employment that the economy can achieve without long-term price pressure.

Source: Statistics Denmark and own calculations.

The Danish economy is expected to remain in a neutral cyclical position throughout the projection period. The reopening of the Tyra field and production abroad under Danish ownership also contribute to high growth in potential production this year. High growth in potential output means that the gap between GDP and the potential output level does not widen despite relatively high GDP growth. The economic situations in Denmark and the euro area are roughly the same, and the output gap in the euro area is estimated by international organisations to be around 0.³⁴

Outlook for healthy government surpluses despite high public demand

The government plans to ease fiscal policy this year compared to last year, reflected in relatively high real growth in public consumption and public investment of 2.9 and 35.1³⁵ per cent respectively this year. The growth in public demand is mainly due to the boost in defence, but also higher spending in other public consumption.

The impact of the increased defence spending on Danish economic activity will ultimately depend on how the funds are spent. This year and next year, the Ministry of Finance estimates the one-year fiscal effect at 0.5 and 0.2 percentage points respectively. In addition, there are possible effects of the so-called Acceleration Fund. However, the Ministry of Finance believes that the calculated financial effects are an over-estimate, as major procurements of military equipment typically have a higher import content, and the impact on domestic activity will thus typically be lower.

³⁴ Measured by the output gap and based on estimates from the OECD and European Commission. Also see chapter 5.

³⁵ The Acceleration Fund agreement is technically categorised as public investments of kr. 25 billion in 2025 and 2026 (2025 prices).

The Ministry of Finance believes that the overall fiscal policy since 2019 contributes to alleviating the capacity pressure in the Danish economy.³⁶ Measured by the multi-year fiscal effect, fiscal policy narrows the output gap by 0.5 percentage points this year, while fiscal policy narrowed the output gap by 1 percentage point last year. The same is true in the euro area, where the OECD expects fiscal policy to be slightly contractionary in the next few years. The expected activity impact of fiscal policy in the euro area is subject to considerable uncertainty and will depend, among other things, on the degree of military armament and its actual implementation.³⁷

Despite high growth in public consumption, there are prospects for a healthy surplus on the public balance, partly due to the continued strong labour market. On the one hand, low unemployment means that relatively few people receive public benefits, while on the other hand there are relatively many people in employment and therefore high income from income taxes. Furthermore, the pension yield tax for 2024 is expected to contribute around kr. 40 billion to the public balance surplus. In 2024, the government surplus is expected to be 4.2 per cent of GDP.

The government surplus is expected to decrease this year and next year to 2.0 and 2.2 per cent of GDP respectively. The lower surplus is partly due to higher public spending, which, in addition to the increase in defence, also covers higher increases in benefit income rates due to automatic indexation³⁸. The implementation of e.g. personal tax reform this year and next year will also contribute to a reduction in public revenue.

³⁶ See Ministry of Economic Affairs, *Economic Survey*, December 2024.

³⁷ See IMF, *Global Growth: Divergent and Uncertain*, *World Economic Outlook Update*, January 2025.

³⁸ The rate adjustment, which ensures that benefit income is adjusted each year by a percentage that reflects wage rises in the labour market two years prior.

05

Moderate growth in the global economy is fuelling growth for Danish firms

Global growth remains stable but subdued. Business confidence increased during the autumn, and international organisations expect the global economy to grow at a moderate pace in the future, while inflation will be low and stable.

The overall competitiveness of Danish industry puts Danish exporters in a good position to capitalise on growth in the global economy. This is expected to rub off on a wider range of Danish export companies. Exports are further fuelled by continued high growth in the pharmaceutical industry and production abroad under Danish ownership. This will help to keep up the current account surplus.

In the wake of the US presidential election, the risk of higher tariffs on goods and services exported to the US has increased. The possible introduction of tariffs on exports to the US would have negative consequences for Danish export firms.

Moderate growth in the global economy

Global growth remains stable but moderate. Business confidence remains positive in several countries, despite international organisations pointing out that high uncertainty, especially related to geopolitical developments and trade conflicts, could dampen growth.³⁹ The Purchasing Managers' Index, PMI, points to expectations of an expansion in economic activity and an optimistic assessment among companies about future economic conditions, see chart 25. Growth is currently supported by a relatively strong service sector, robust labour markets and rising real incomes that have enabled an increase in private consumption. Conversely, growth in a number of advanced economies is being dampened by industrial weakness and structural issues such as demographic ageing and weak productivity growth.

However, the global growth outlook masks large regional differences, with the US economy in particular growing somewhat faster than the euro area.

The US economy remains in a mild expansion, with an output gap of just above zero according to estimates from international organisations.⁴⁰ Growth continued in the 4th quarter, see chart 26. Growth is currently driven by private consumption and a continued strong labour market.⁴¹ The long-term positive development of the US economy is partly a result of increasing productivity and high migration.

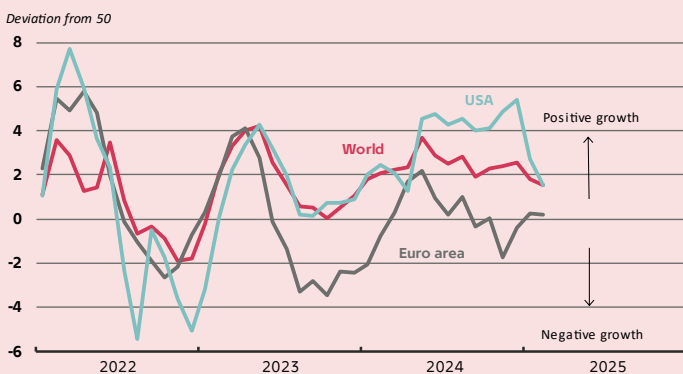
The euro area returned to positive growth through 2024 after stagnating in 2023. Growth in the euro area has been fuelled by, among other things, rising real wages, which have boosted private consumption, as well as increases in exports and public consumption. Currently, the euro area is in a neutral cyclical position with an output gap of around zero.⁴² Business confidence in the euro area, as measured by the PMI index, also points to a continued dichotomy of the economy, with growth in the service sector but a slowdown in the industrial sector.



The global growth outlook masks large regional differences.

CHART 25

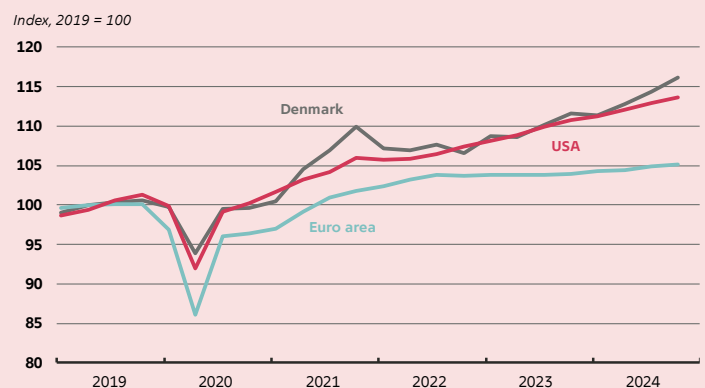
Business confidence points to continued moderate global growth



Note: The chart shows the PMI index for the whole economy.
 Source: Macrobond.

CHART 26

GDP has grown faster in the US than in the euro area



Note: The chart shows GDP in real terms.
 Source: Macrobond.

³⁹ See e.g. OECD, *Economic Outlook, Resilience in uncertain times*, 2024, and IMF, *World Economic Outlook, Global Growth: Divergent and Uncertain*, 2025.

⁴⁰ The output gap is an average of estimates from the IMF, OECD and European Commission.

⁴¹ See OECD, *Economic Outlook, Resilience in uncertain times*, 2024.

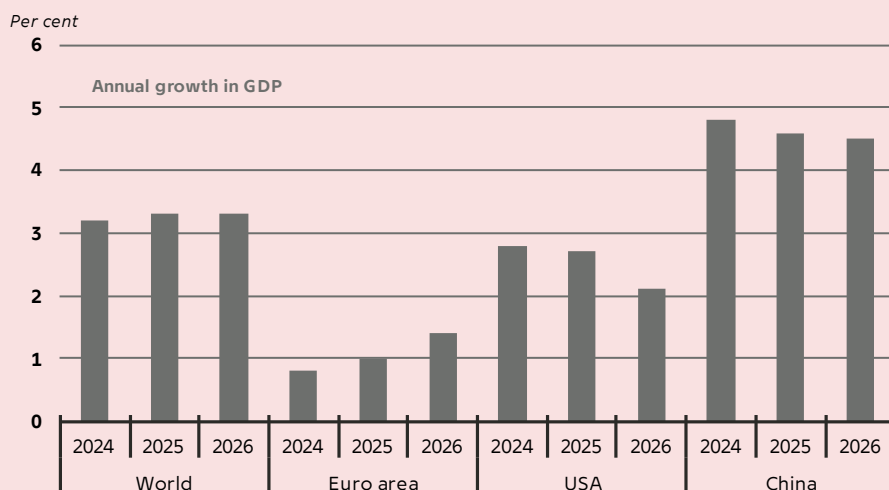
⁴² Based on estimates from the OECD and the European Commission.

Over the next few years, international organisations expect the global economy to be in a situation characterized by low inflation and moderate growth. For example, the International Monetary Fund, IMF, in their economic outlook from January estimates that global GDP growth will be around 3.3 per cent in 2025, which is close to the economic potential and the average growth level the past decade, see chart 27.

In the euro area, the IMF expects growth to pick up towards 2026, driven by a recovery in domestic demand. In particular, rising real wages will push private consumption, and investments are expected to increase due to more favourable credit conditions and increased public investment. In the US, the high growth in 2024 is expected to slow down towards 2026 due to a gradual slowdown in consumption growth and lower migration. China's growth is expected to slow down, among other things, to low private consumption and a weak property market, although investment is supported by loose monetary policy and increased public spending.

CHART 27

Growth is expected to slow slightly in the US and China, while consumption supports increasing growth in the euro area in 2025 and 2026



Note: The chart shows GDP growth in real terms.
Source: IMF.

Increase in exports produced in Denmark

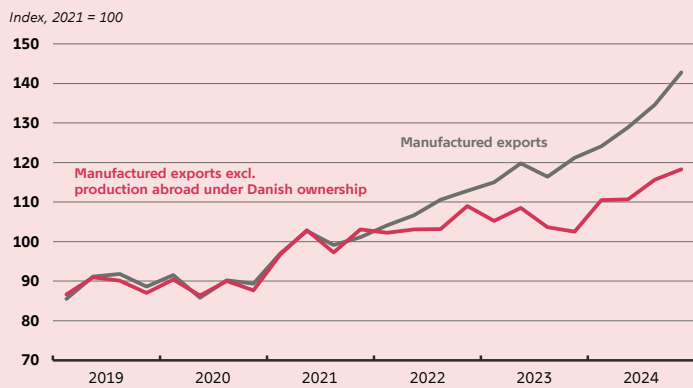
The increase in industrial exports continued in the second half of 2024, and by the end of the year industrial exports were almost 18 per cent higher than at the end of 2023, see chart 28. Unlike in 2022 and 2023, last year's increase in industrial exports covers both growth in goods produced within and outside Denmark's borders. Industrial exports of goods produced in Denmark have increased by 15 per cent, while exports of goods produced abroad under Danish ownership, called *merchandising and processing*, have increased by up to 22 per cent since the end of 2023.

The increase in the share of exports that cross the Danish border indicates a more broad-based growth among Danish export companies and covers both growth in pharmaceutical exports and growth in the rest of the industry, see

chart 29. The domestically produced part of industrial exports excluding the pharmaceutical industry is estimated to have increased by 8 per cent in 2024 compared to the previous year, while exports of domestically produced pharmaceuticals are estimated to have increased by around 11 per cent.

CHART 28

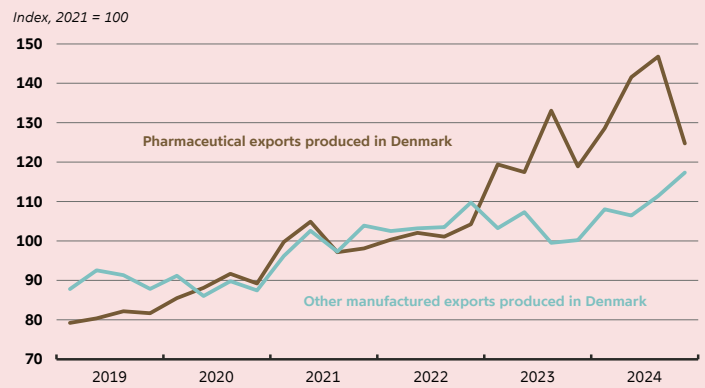
Exports of goods produced in Denmark have increased ...



Source: Statistics Denmark and own calculations.

CHART 29

... due to an increase in both domestically produced pharmaceutical exports and other industrial exports



Source: Statistics Denmark and own calculations.

Prospects of growth for several Danish export companies

With the prospect of moderate growth in Danish export markets, growth in Danish goods exports is expected to continue in the next few years. Growth abroad is improving, especially in a number of the neighbouring markets that are most important for other exports, excluding the pharmaceutical industry, including in Germany and Sweden.⁴³ However, the export order book in most parts of industry is still relatively small, suggesting that growth is expected to be modest in the short term.

However, Danish manufacturing companies are helped by their overall good competitiveness, which puts them in a favourable position to take advantage of the growth in export markets, see chart 30. Competitiveness depends on a number of factors that determine the overall conditions for companies and depends increasingly about other factors than labour costs. Competitiveness in Denmark has improved since 2008, largely reflecting a greater increase in labour productivity compared to other countries.

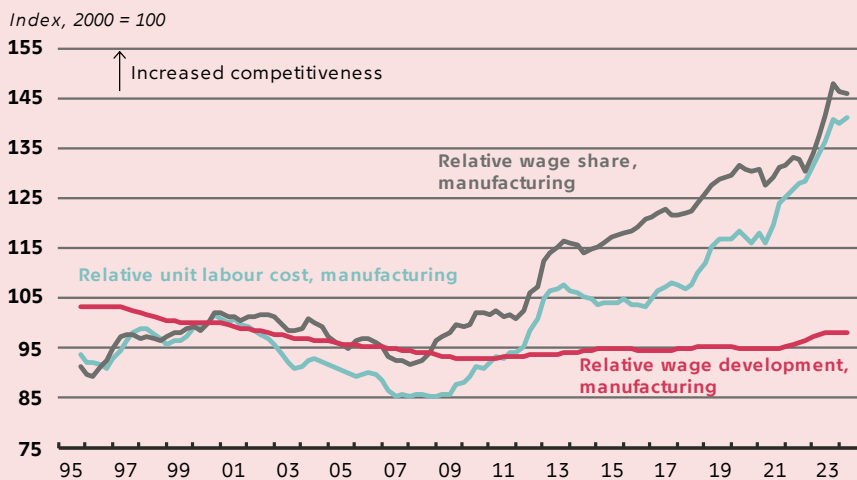
Merchanting and processing activities have also contributed to the increase in competitiveness in recent years. These activities differ from other production in that they do not directly use Danish labour as a factor of production. However, there are indications that these activities are made possible by their position of strength and that part of the profits from foreign activities cover the cost of employees and intellectual property rights in Denmark. Even if merchanting and processing activities are mechanically eliminated, competitiveness, measured by the relative wage ratio in manufacturing, has improved compared to e.g. Germany since 2010.

⁴³ In its January 2025 forecast, the IMF estimates that growth in the German economy will be -0.2, 0.3 and 1.1 per cent in 2024-26. The Swedish economy is estimated to grow by 0.9, 2.4 and 2.2 per cent during the same period.

The competitiveness indicators shown in chart 30 should be taken with a number of caveats. Indicators of competitiveness, where production volumes and values are compared to labour costs, largely reflect the amount of capital employed, including intellectual property. As such, they do not say much about wages compared to other countries, and thus not about wage competitiveness in a narrow sense. The changes in production structures over the past decades have further complicated the interpretation of the indicators.⁴⁴

CHART 30

Denmark's competitiveness is overall good



Note: The three metrics show development abroad in relation to Denmark. If relative wage development, unit labour costs or the wage ratio increases, it is a sign of improved competitiveness. All three metrics are for the manufacturing industry alone. Unit labour costs and the wage ratio are adjusted for self-employed.

Source: Bureau of Economic Analysis, Bureau of Labor Statistics and own calculations.

Growth in total Danish goods exports is expected to be 8.2 per cent this year, falling to 4.2 per cent in 2026 and 3.4 per cent in 2027. This is stronger than the weighted growth in Danish export markets and reflects an expectation of continued strong growth in the pharmaceutical industry, see chart 31. Based on analyst expectations, the pharmaceutical industry is expected to continue to contribute significantly to the growth of the Danish economy in the next few years. The rest of the export-oriented industries are expected to grow in line with the development in the Danish export markets.

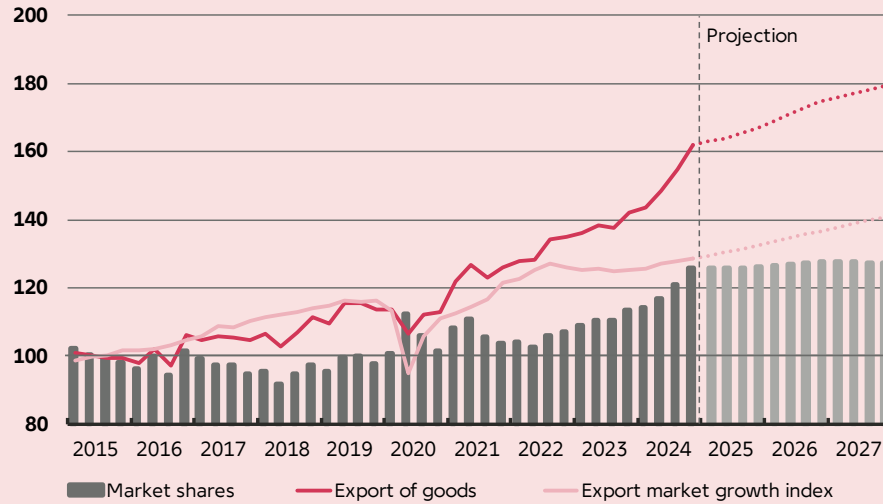
Overall, exports are estimated to increase by 6.0 per cent this year and 3.6 per cent next year. In addition to the strong growth in goods exports, this reflects a more subdued growth in services exports, which is weaker than growth in the export markets.

⁴⁴ See Kuchler, Spange Tjørnum, Tørsløv and Wederkinck, Danish productivity and competitiveness in a globalised world, *Danmarks Nationalbank Analysis*, no. 6, February 2025.

CHART 31

Prospects for further growth in Danish goods exports

Index, 2015 = 100



Source: Statistics Denmark and own calculations.

The risk of higher tariffs on a broad range of Danish and European goods and services sold in the US have increased in the aftermath of the presidential election in the US, and USA have already imposed 25 per cent tariffs on certain goods from the EU. If the US to a greater extent impose tariffs on trade with the EU and the EU reciprocates in kind, it will have negative consequences for Danish exporters. The tariffs are estimated to result in lower growth in Danish exports than is assumed in the main scenario of the projection for the Danish economy.⁴⁵ The US accounts for around a fifth of total Danish exports, making it one of Denmark's most important export countries,⁴⁶ see chart 32.

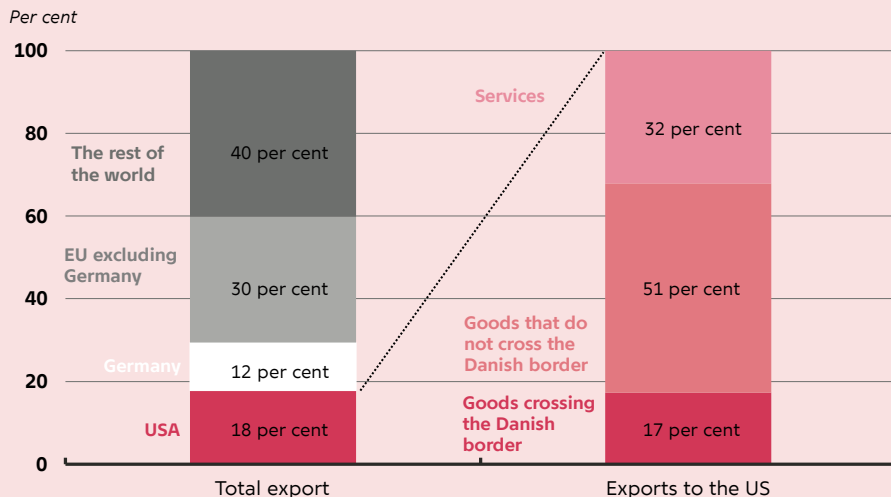
However, some conditions may mitigate the consequences. Neither services nor Danish-owned goods exports produced and sold in the US are expected to be subject to tariffs in practice. The share of goods exported to the US that are produced in Denmark accounts for just 3 per cent of total Danish exports. In the opposite direction, Danish-owned exports that are produced outside Denmark but not in the US will potentially also be subject to tariffs on an equal footing with exports produced in Denmark. Higher tariffs are also expected to reduce overall world trade and thus growth in several Danish export markets, see box 4 for more details.

⁴⁵ The projection is based on adopted policy.

⁴⁶ See also Stefan Gottschalck Anbro, Alina Grecu, Mathias Busk Tjørnum and Robert Wederkinck, *Extensive Danish trade and investment relations with the United States*, Danmarks Nationalbank and Statistics Denmark, March 2025.

CHART 32

Only a small part of exports to the US crosses the Danish border



Note: Calculated based on foreign trade. Calculated as the sum of Danish exports in 2024 in current prices.

Source: Statistics Denmark and own calculations.

Moderate growth in Danish export markets contributes to higher investments in Danish industrial companies

Interest rate increases in recent years have contributed to a reduction in total business investments, which has fallen by 1.5 per cent since the beginning of 2022, see chart 33. However, business investments started to increase again during 2024, which reflect higher growth in the Danish export markets and monetary policy gradually moving towards a neutral stance.⁴⁷ Changes in monetary policy interest rates affect investments with a certain delay, partly because companies often have a longer decision-making horizon and because it can take some time from decision to implementation of the investment.⁴⁸ Currently, higher uncertainty in the global economy, due in part to threats of increased tariffs from the US, may dampen investments.

However, the strong growth in Danish production abroad in recent years may have an impact on the interpretation of the development in total business investments. On the one hand, Danish-owned production abroad does not require investment in physical capital in Denmark, and any Danish-owned investments in foreign production capacity are therefore not reflected in total business investments. On the other hand, investments in intellectual property, including research and development, are part of overall business investments, which greatly facilitates generation of income from production abroad. Investments in intellectual property rights have remained fairly stable in recent years, except for a number of large individual patents, see chart 34.

Construction investments increased by 8.2 per cent from the end of 2023 to the end of 2024, and they have been the main driver of overall business investment growth over the past year. The recovery comes after significant declines in



Business investments started to increase again during 2024.

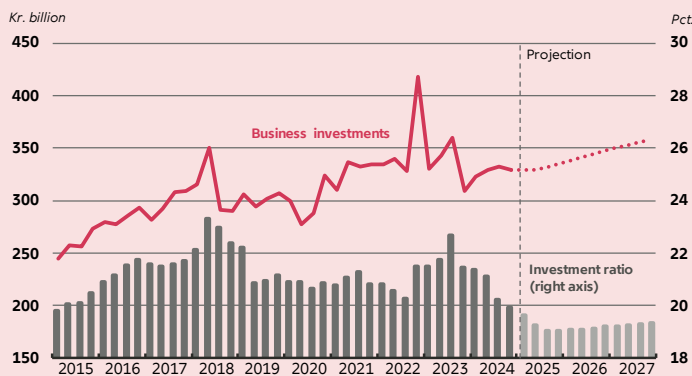
⁴⁷ See Danmarks Nationalbank, Towards a neutral monetary policy in 2025, *Danmarks Nationalbank Analysis (Monetary and financial trends)*, no. 7, March 2025.

⁴⁸ See Bonin, Cucic, Kuchler and Otte, The corporate investment channel of monetary policy in Denmark, *Danmarks Nationalbank Economic Memo*, no. 4, June 2024.

construction investments, which have fallen by almost 7 per cent since the beginning of 2023. Investments in machinery, equipment and transport equipment have also fallen steadily since the beginning of 2021. Compared to gross value added in the private sector, i.e. the investment ratio for equipment, the investment ratio has decreased since the end of 2018 and is now at a lower level compared to the period following the financial crisis.

CHART 33

Investments are expected to increase slightly in the next few years

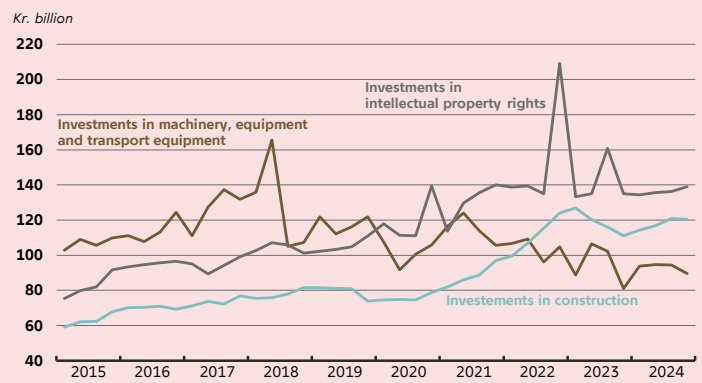


Note: The investment ratio is calculated as a 4-quarter moving average of the ratio of total business investments to gross value added in the private sector.

Source: Statistics Denmark and own calculations.

CHART 34

Investments in intellectual property are at a high level



Source: Statistics Denmark and own calculations.

Business investments are expected to increase in the next few years, as monetary policy will gradually become neutral for economic activity during 2025 and growth in the Danish export markets will remain moderate. In the very short term, higher uncertainty in the global economy is expected to dampen investments. As monetary policy gradually moves towards a neutral stance,⁴⁹ growth in total business investments is expected to pick up slightly. Total business investments are expected to increase by 0.8 per cent this year, 3.4 per cent in 2026 and 3.3 per cent in 2027.

Outlook for continued high current account surpluses

The current account surplus rose sharply through 2024 and in Q4 amounted to around 13 per cent of GDP⁵⁰, see chart 35. The increase throughout the year is due to an increase in the surplus on the services balance and a further increase in the surplus on the goods balance. The surplus on the goods balance has increased in recent years due to sales of goods produced abroad under Danish ownership.

Spot freight rate prices increased in 2024 as a result of unrest in the Red Sea and higher global demand. The unrest in the Red Sea meant that the number of ships passing through in 2024 was approximately halved compared to 2023. As in



The current account surplus is expected to be sustained by the surplus on the goods balance.

⁴⁹ See Danmarks Nationalbank, Towards a neutral monetary policy in 2025, *Danmarks Nationalbank Analysis (Monetary and financial trends)*, no. 7, March 2025.

⁵⁰ Based on current account data published on 11 March 2025.

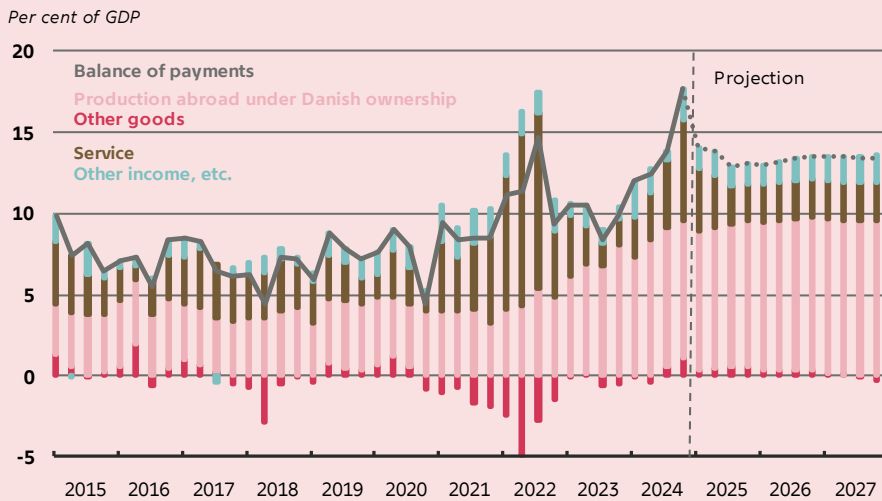
2022, the higher rates have resulted in a higher services surplus, albeit to a lesser extent than before.

By the beginning of 2025, freight rates had decreased again, but remain at a higher level compared to 2023 and the years before the pandemic. Based on a range of freight rate futures prices, freight rates are expected to remain stable at current levels in the next few years. Against this backdrop, the services surplus is also expected to decrease slightly compared to 2024. However, by the end of the projection horizon, freight rates are still expected to be at a higher level than in 2023, and the services surplus is expected to be around 2 per cent of GDP.

The current account surplus is expected to be largely sustained by the surplus on the goods balance. The current account surplus is expected to be relatively stable in the next few years. The current account surplus is expected to be 13.1 per cent of GDP this year, 13.5 per cent next year and 13.8 per cent in 2027.

CHART 35

The surplus on the services balance has increased



Note: Services are calculated excluding processing services included in production abroad under Danish ownership. Production abroad under Danish ownership is an accounting statement and is included in the balance of goods. The chart is based on data from preliminary national accounts, Q4 2024. The current account was revised downwards during 2024 with the data release on 11 March 2025. Source: Statistics Denmark and own calculations.

06

Improvement in households' economy

Growth in Danish households' consumption is still subdued, despite rising real disposable incomes and high levels of wealth. Restraint is also reflected in consumer confidence, which has fallen over the past year. However, restraint is not seen in the housing market, where, according to Boligsiden, the price of a single-family home increased by 4.7 per cent during 2024.

With expectations of a continued strong labour market and increasing purchasing power, private consumption growth is expected to gradually pick up and generally grow in line with incomes over the projection horizon.

House prices are expected to rise further the coming years, due to increases in household income, driven by real wage growth and a continued strong labour market.

Consumption remains subdued despite income growth

Household consumption remains subdued and total real consumption has risen slightly over the past year.

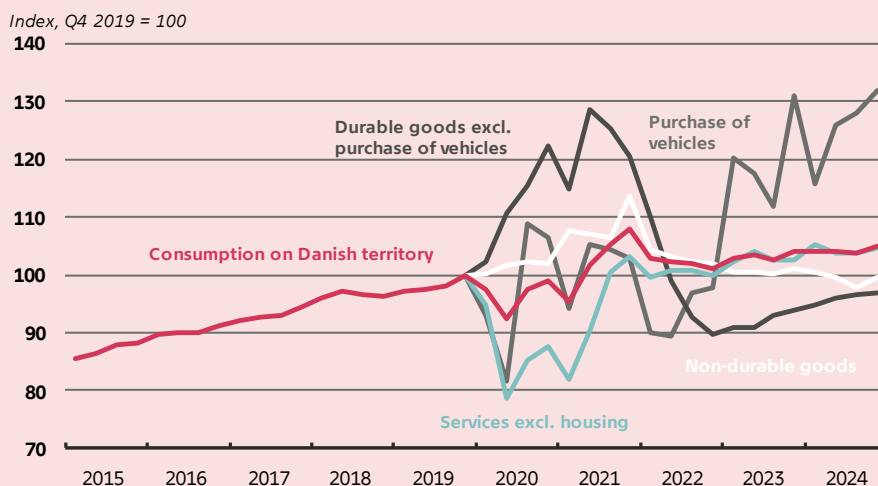
Consumption is currently fuelled by increasing service consumption and consumption of consumer durables such as furniture and especially cars, see chart 36. However, purchase of vehicles, which accounts for around 5 per cent of total consumption, is highly sensitive to changes in e.g. taxes and duties. The large fluctuations of recent years reflect that the registration tax on certain types of electric cars was increased in early 2024. Conversely, according to the national accounts, consumption of non-durable goods such as food and clothing has been decreasing the past year. This contrasts with developments in both retail sales and consumer transaction data, which conversely point to an increase in these types of consumption.⁵¹



The development of household consumption has been weak in the euro area and Denmark in recent years.

CHART 36

The development of consumer components gives a mixed picture



Source: Statistics Denmark and own calculations.

As in Denmark, the development of household consumption in the euro area has been weak in recent years, partly due to tight monetary policy. However, an increase in purchasing power at the end of 2024 contributed to consumption growth picking up again, and growth in Q3 was stronger than in Denmark. In the US, consumption is growing faster than in the euro area and has increased by more than 2 per cent per year since the beginning of 2022. However, there are large differences in consumption across income groups, with the increase in consumption almost exclusively driven by high- and middle-income households.⁵²

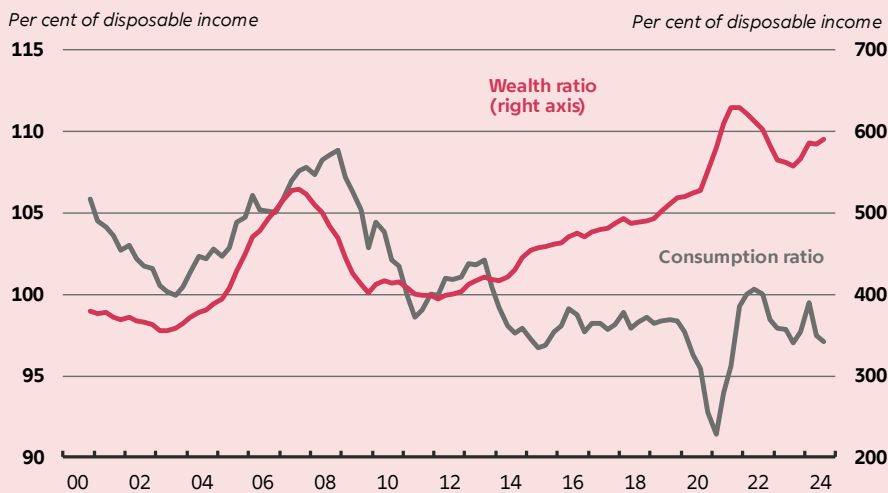
⁵¹ The total retail sales index increased by 2.1 per cent in 2024, while transactional data for the consumption of goods increased 1.8 per cent in the same period.

⁵² For example, the US Federal Reserve Bank has developed a measure of consumption by income that shows that middle- and high-income households have supported the strong demand for goods in the US economy in recent years, while low-income households have seen more flat consumption in the post-pandemic period. See Hoke, Feler and Chylak, A Better Way of Understanding the US Consumer: Decomposing Retail Spending by Household Income, *FEDS Notes*, October 2024.

The restraint in households in Denmark is reflected in the fact that the consumption ratio, i.e. the share of household disposable income spent on consumption, has fallen over the past year, see chart 37. This indicates that Danish consumers remain cautious, but is also partly due to the fact that part of the increase in income over the past year can be attributed to income types such as dividends, which to a greater extent is part of the income base for people with relatively low marginal propensity to consume.⁵³ Household restraint is also reflected in consumer confidence, which is at a low level and reflects the pessimistic expectations that households have for their own finances and the Danish economy. This should probably also be seen in the context of the current uncertainty in the global economy.

CHART 37

Moderate propensity to consume despite historically high wealth



Note: Four-quarter moving averages. The wealth ratio is calculated as the sum of households' equity, housing and pension wealth less tax and other wealth less gross debt as a share of disposable income.

Source: Statistics Denmark and own calculations.

The weak development in consumption probably also reflects the fact that some households have experienced a tightening of their budgets. This is partly because many household budgets are affected by higher interest costs as a result of the tight monetary policy of recent years. Although monetary policy interest rates were lowered through 2024, the effect of tight monetary policy is still estimated to have had some dampening effect on activity over the past year. Only during 2025, monetary policy is expected to become neutral for activity.⁵⁴

Tighter household budgets may also be a result of the fact that the prices of some essentials, such as food, have increased more than other goods and services in recent years. Food prices are currently around 23 per cent higher

⁵³ See Ministry of Economic Affairs, *Fordeling og incitamentter 2023*.

⁵⁴ See Danmarks Nationalbank, *Towards a neutral monetary policy in 2025, Danmarks Nationalbank Analysis (Monetary and financial trends)*, no. 7, March 2025

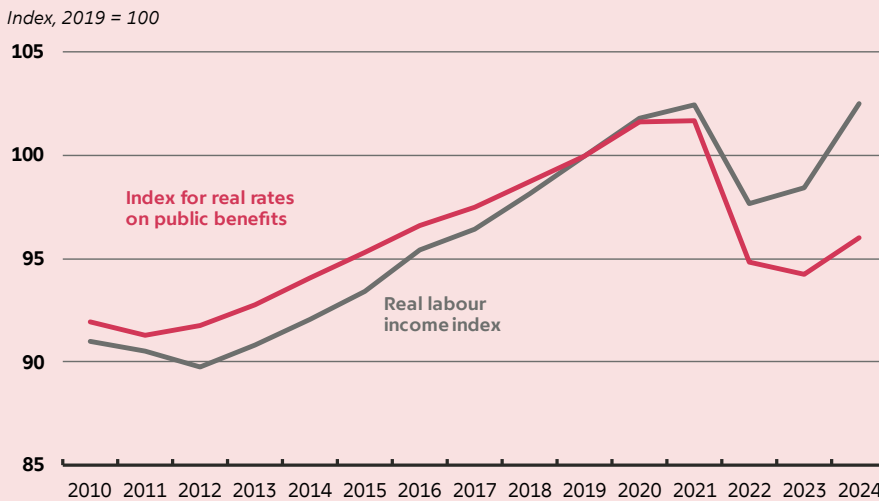
than before inflation started in early 2022, while wages in the private labour market have increased by around 13 per cent over the same period.⁵⁵

The higher prices of some essential goods may have particularly affected a number of households whose primary source of income is public income benefits. Public income benefits are regulated with a two-year delay in relation to wage developments in the private labour market. This has meant that the average development in the rates for public benefits has been markedly lower than the average wage income in recent years, while rates for public benefits in 2026 are expected to increase more strongly as a result of the relatively high wage increases in 2024,⁵⁶ see chart 38. Benefit income accounts for 10-15 per cent of total household disposable income and will be adjusted this year by 3.6 per cent, which is expected to help increase purchasing power among this group of consumers who may have a higher marginal propensity to consume.

In Denmark, however, households have high net wealth relative to disposable income, see chart 37. Despite the fact that a proportion of household wealth is tied up in e.g. the home, it is assessed that the high net wealth has supported a certain levelling out of consumption. In this way, households that have seen the

CHART 38

The average development in rates on public benefits has been lower than the average wage income in recent years



Note: The index for real wage income is calculated based on the wage development in the manufacturing industry. The Index for real rates on public benefits is calculated based on an index for the average rate adjustment of public benefits. Both series are deflated with HICP. The average rate of adjustment of public benefits in 2024 is calculated at 3.2 per cent based on the Economic Report, December 2024.

Source: Statistics Denmark and own calculations.

⁵⁵ Measured by the development of the Danish Employers' Association's wage index for the manufacturing industry.

⁵⁶ In the Economic Survey, December 2024, the Ministry of Economic Affairs assumes that the rate adjustment percentage in 2026 will be 5.5 per cent.

largest increases in interest costs in recent years as a result of tight monetary policy have been able to offset higher costs to some extent by reducing their current savings. All other things being equal, the rising net interest rates have had a minor, downward effect on consumption.⁵⁷

Slightly higher consumption growth in the next few years

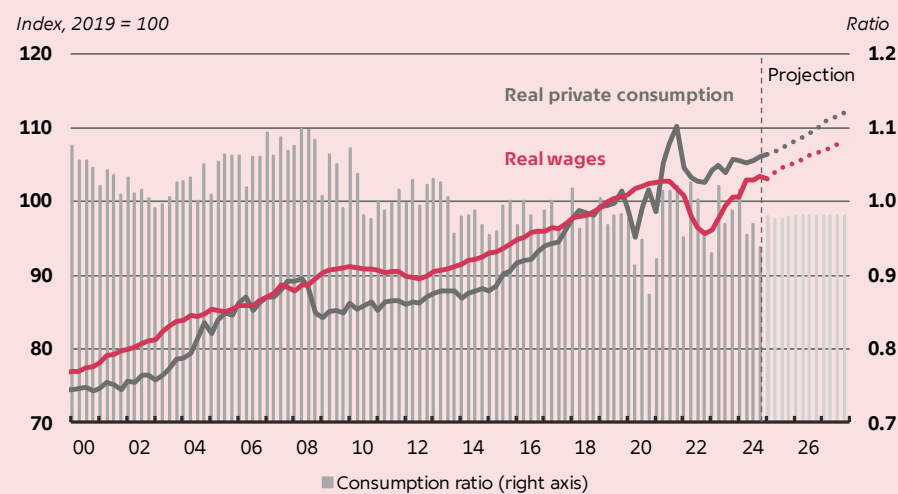
Private consumption is estimated to increase 1.4 per cent this year, and 1.8 per cent and 2.2 per cent in 2026 and 2027 respectively, see chart 39.

Monetary policy is moving towards a neutral stance this year, and the dampening effect of recent years on consumption is therefore expected to fade over the course of the year.⁵⁸ Real disposable incomes are also expected to increase as a result of rising real wages and higher benefit incomes. Reform of personal taxation is also expected to help increase spending opportunities both this year and next.

The increase in incomes is also expected to translate into consumption to a slightly greater extent than in the past year. Overall, consumption is expected to follow the development of incomes, and the consumption ratio is thus estimated to remain approximately unchanged throughout the projection period.

CHART 39

Private consumption is expected to increase over the next few years



Source: Statistics Denmark and own calculations.

Prospects for further progress in the housing market, supported by rising incomes

Household restraint in consumption does not seem to be reflected in the housing market. While increases in the housing prices was subdued in the first half of 2024, sales and prices picked up towards the end of the year. Preliminary figures from Boligsiden show that the prices of single-family houses rose by 2.5 per cent nationwide in Q4. The increase in prices and trading activity in the

⁵⁷ See also box 4 in Danmarks Nationalbank, Outlook for stable price development in the Danish economy, *Danmarks Nationalbank Analysis (Outlook for the Danish economy)*, no. 15, September 2024.

⁵⁸ See Danmarks Nationalbank, Towards a neutral monetary policy in 2025, *Danmarks Nationalbank Analysis (Monetary and financial trends)*, no. 7, March 2025.

housing market over the past year has been driven by rising real wages, an improving labour market and falling interest rates throughout the year.

Recent years have seen unusual shocks to the economy that caused fluctuations in house prices. The effect of the shocks to the economy is assessed to have been reflected in house prices.⁵⁹ Over the next few years, the future development of fundamental factors such as interest rates and incomes is expected to drive the development of house prices.

House prices are forecast to rise 3.5 per cent this year, 3.2 per cent in 2026 and 3.2 per cent in 2027. House prices are expected to rise over the next few years as a result of further growth in household disposable income, driven by real wage growth, combined with a still strong labour market. In addition, the price development is supported by the prospect of slightly lower property taxes in 2025 for many homeowners. This is because house prices in most of the country's municipalities fell from 2022 to 2024, and the change in housing taxes is based on this development.

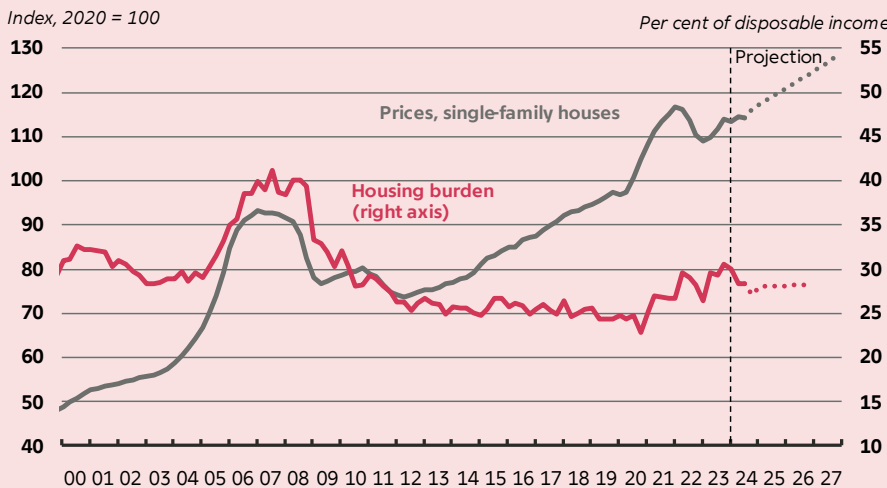
In recent years, financing a home has become relatively more expensive compared to household disposable incomes. This means that the housing burden, i.e. the proportion of homebuyers' income spent on financing the home, has increased compared to the previous ten years, see chart 40. The housing burden is estimated to be approximately flat throughout the projection period.



House prices are expected to rise 3.5 per cent this year, 3.2 per cent in 2026 and 3.2 per cent in 2027.

CHART 40

House prices are expected to continue to rise



Note: The housing burden is calculated as the stylised housing burden. The stylised housing burden shows the cost of buying an average house up to the loan limit as a percentage of average disposable income. The series are seasonally adjusted.
Source: Statistics Denmark and own calculations.

⁵⁹ See Kim Abildgren, Simon Juul Hviid, Asbjørn Westmose Klein, Thomas Krause, Andreas Kuchler, Stine Louise von Rüden and Amy Yuan Zhuang, Big shocks to the economy have fuelled house prices, *Danmarks Nationalbank Analysis*, no. 14, September 2024.

07

Risks to the outlook are characterised by geopolitical tensions and trade conflicts

The overall risks to outlook for the Danish economy are particularly related to global risks. This is mainly due to rising protectionist trends, where increased tariffs and less global trade may dampen growth and increase price pressure.

The expected recovery in the euro area may also fail to materialise and dampen Danish export opportunities. Conversely, expansionary fiscal policy in the US may increase demand for Danish goods. The domestic risks are mainly related to the expected development of private domestic demand.

Increased geopolitical tensions could result in Danish and European defence spending increasing significantly more than is assumed in the projection. A significant increase in defence spending in Denmark and Europe could result in a period of increased pressure on the labour market and higher inflation. This may be further exacerbated if rearmament also requires some adjustment in the structure of economies with a greater proportion of labour and production tied to defence.

Danmarks Nationalbank assesses there are currently no signs of major macroeconomic imbalances building up in the Danish economy that could amplify a possible recession in the event of unforeseen shocks to the global economy. Sound public finances also provide a good basis for withstanding unexpected economic headwinds if some of the risk scenarios materialise.

The outlook for the Danish economy is subject to significant risks

The outlook for the Danish economy is associated with both upside and downside risks, and Danmarks Nationalbank's main scenario for the development of the Danish economy is considered to be associated with extraordinarily high uncertainty.

As a small, open economy, Denmark is highly dependent on developments globally and among our largest trading partners. The projection assumes moderate growth in Danish export markets based on international growth forecasts. However, global economic growth is subject to a number of downside risks, particularly related to geopolitical developments and trade conflicts, see chart 41. Domestic risks are mainly related to the expected development of private domestic demand, where, among others, increased defence spending could result in increased capacity pressure.

The Danish economy is well equipped to withstand abrupt changes to the economy. This is because there are currently no signs of any significant imbalances building up in the economy that could amplify a potential recession. Furthermore, public finances also provide a good basis for withstanding unexpected economic headwinds if some of the risk scenarios materialise.

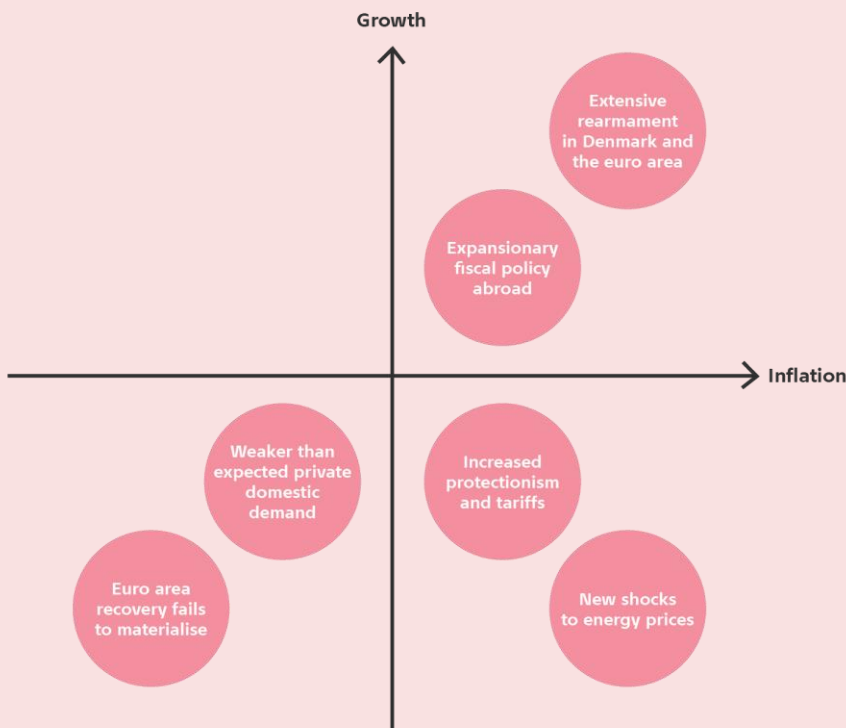


As a small, open economy, Denmark is highly dependent on global developments.

CHART 41

The risk outlook is characterised by global risks

Risk picture for the Danish economy



Anm.: This is not a ranking within each quadrant.
Kilde: Own illustration.

Increased protectionism and higher tariffs may dampen Danish companies' market opportunities

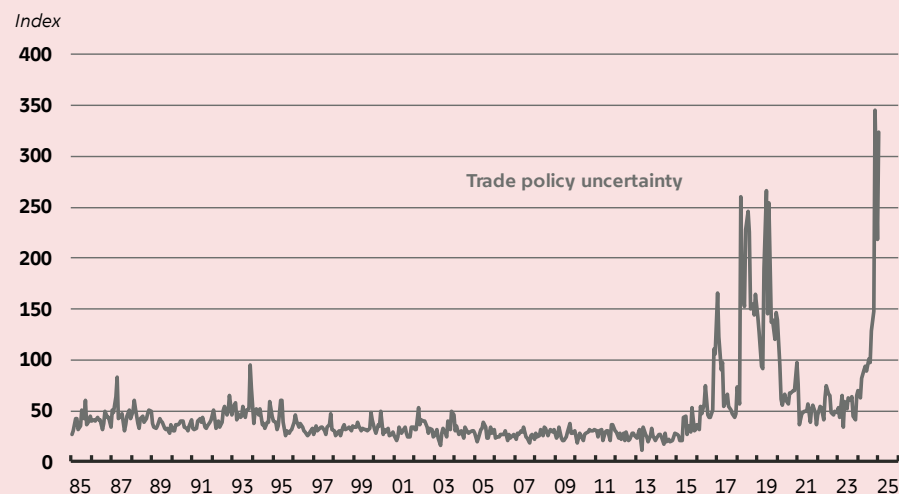
One of the key risks to the outlook for the Danish economy is increased protectionism, tariffs and increasing fragmentation of global trade. This is also reflected in an all-time high in an index for the measured trade policy uncertainty, see chart 42. In recent years, the amount of restrictive trade measures globally has steadily increased, while global supply chains are lengthening as direct trade between countries with conflicting political interests is replaced by indirect trade through connector countries.

Statements from the US administration combined with the protectionist tendencies of recent years pose a risk to global economic integration. A substantial rollback of globalisation or significant fragmentation of world trade would have large consequences for global trade and thus for the Danish economy. This might result in more difficult sales opportunities for Danish export companies, leading to a decline in exports. Increased fragmentation of world trade may also increase global inflation as both imports and production become more expensive.⁶⁰

CHART 42

Trade policy uncertainty is at an all-time high

Trade Policy Uncertainty (TPU) index



Note: The chart shows the Trade Policy Uncertainty (TPU) index. The TPU index is based on automated text searches in the electronic archives of seven newspapers: Boston Globe, Chicago Tribune, Guardian, Los Angeles Times, New York Times, Wall Street Journal and Washington Post. The index is calculated by counting the monthly frequency of articles on trade policy uncertainty as a proportion of the total number of news articles for each newspaper. The index is then normalised to a value of 100 for an article share of 1 per cent.

Source: Dario Caldara, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino and Andrea Raffo, The economic effects of trade policy uncertainty, *Journal of Monetary Economics*, no. 109, 2020, pages 38-59.

⁶⁰ See Branner, Bentsen, van Deurs and Zhuang, Fragmentation of global trade could challenge the Danish economy, *Danmarks Nationalbank Analysis*, no. 16, October 2024.

The US has already imposed a 25 per cent tariff on imports from the EU of, among other things, steel and aluminium, and the EU has also imposed higher tariffs on US industrial goods in response. It is currently a continuing risk that more extensive tariffs will be imposed on trade between the US and the EU. Increased tariffs pose a downside risk to growth in Denmark, especially in the short term, because it becomes more difficult for Danish companies to sell their goods to the US. However, model results show that the proposed tariffs will have less impact on the Danish economy in the long term, see box 4 in chapter 4 for more details.

Increased need for military rearmament may create capacity pressure

Following Russia's attack on Ukraine in 2022, Denmark and many European countries have significantly increased their defence spending. It is possible that geopolitical tensions will lead to a situation where there is a need for an even greater and significantly faster increase in defence spending in Denmark and in the rest of Europe than assumed in the projection.

With the defence agreement Denmark has raised defence spending to match the NATO requirement of 2 per cent of GDP and raised it above 3 per cent this year and next year. There are currently discussions about whether NATO member states should increase their defence spending beyond 2 per cent, and the EU has opened for the possibility of spending additional kr. 6,000 billion on defence.

A significant increase in defence spending in Denmark and Europe could result in a period of increased pressure on the labour market and higher inflation. This may be further exacerbated if rearmament also requires some adjustment in the structure of economies with a greater proportion of labour and production tied to defence.

The impact of the increased rearmament on Danish and European economic activity will ultimately depend on its size, financing and precise implementation. However, the economic literature largely agrees that a major rearmament risks increasing capacity pressure and leading to a general increase in price pressure – especially if rearmament is debt-financed.⁶¹ If increased defence spending in the euro area gives rise to upwards inflationary pressure, monetary policy is expected to counteract this. Given Denmark's fixed exchange rate policy, tighter monetary policy in the euro area will also soften some of the impact on activity in Denmark. A larger and faster increase in defence spending in Denmark than in the euro area could risk creating an independent Danish capacity pressure.

Energy price shocks may boost inflation

Developments in the geopolitical situation pose an upside risk to energy prices. Gas price increases in particular pose a risk to the Danish and European economies, as the balance between supply and demand remains tight. Following Russia's invasion of Ukraine, the EU has phased out the majority of Russian gas imports and is now dependent on meeting gas demand by purchasing liquefied natural gas, LNG, on the spot market.

In addition to geopolitical risks, weather may affect energy prices. The end of 2024 in particular was characterised by high electricity prices due to a prolonged period of cloudy and windless weather and low temperatures in parts of Europe. Long periods of unfavourable weather conditions can lead to increases in energy prices because the production of energy from renewable sources is low and a larger proportion of electricity production comes from natural gas.



A significant increase in defence spending in Denmark and Europe could result in a period of increased pressure on the labour market and higher inflation.

⁶¹ See box 2 in Danmarks Nationalbank, Outlook for stable price development in the Danish economy, *Danmarks Nationalbank Analysis (Outlook for the Danish economy)*, no. 15, September 2024.

It is possible that growth in the Danish export markets will be either stronger or weaker than expected

Europe is Denmark's largest trading partner, so developments in Europe are crucial for growth in Denmark. However, growth in the European economy may turn out to be more subdued than in the main scenario if the expected growth in key export markets such as Germany and Sweden fails to materialise. This could happen, for example, if low business confidence in German industry spreads to other parts of the economy or if structural challenges in the German economy knock European growth off course. If recovery fails to materialise, the Danish economy will suffer. Developments in China may also challenge growth. A more significant slowdown in the Chinese economy will lead to lower global growth, especially if the housing market develops more unfavourably than expected.

On the other hand, growth in the Danish export markets may also be stronger. Increases in non-defence public spending may also make fiscal policy more expansionary than assumed in the projection. Expansionary fiscal policy abroad will increase export market growth and thus the demand for Danish goods, which risks increase capacity pressure in Denmark. Announcements from the US administration suggest that the US will pursue a more expansive fiscal policy, and in Europe climate adaptation and demographics may necessitate greater public investment. If expansionary fiscal policy increases inflationary pressure, monetary policy is expected to counteract it.

A reduction in geopolitical tensions, for example, could potentially reduce the high level of uncertainty and thus boost consumer confidence. This could increase private consumption and investments and thus constitute an upside risk scenario for growth in the Danish economy. Furthermore, policy initiatives in the EU, including targeted reforms and investments, may improve confidence among households and businesses and thereby support higher growth.

There is a risk that economic pressure will develop differently in Denmark than in the euro area

Global risk factors that do not affect the economic situation in Denmark differently from the euro area do not generally give cause to change fiscal policy in Denmark. Danmarks Nationalbank believes there are generally no significant differences in risks to the outlook for Denmark and the euro area.

The main risk to the development of the Danish economy is that widespread pressure on the labour market will return. For example, pressure on the labour market may flare up again if demand in the Danish economy increases rapidly and strongly. This could be triggered by such things as a sudden improvement in the household consumption appetite that leads to the consumption ratio rising sharply from its current relatively low level. Furthermore, the large wealth of Danish households relative to euro area households creates the conditions for a sudden consumption-driven domestic recovery.

Conversely, the expected growth in private consumption and business investment may also fail to materialise. This could happen, for example, if the current high level of global uncertainty affects consumption and investment to a greater extent than assumed in the projection.

In recent years, growth in the Danish economy has been driven by a few large companies and their activities abroad.⁶² The increasing importance of the largest Danish companies may potentially increase fluctuations in the Danish economy and make GDP development more sensitive to fluctuations in a few companies.

⁶² See Simon Juul Hviid, Rasmus Rold Sørensen, Morten Spange, Tobias Renkin and Mia Renee Herløv Jørgensen, The increasing importance of the largest companies, *Danmarks Nationalbank Analysis*, no. 8, March 2025.

Large companies are expected to continue to contribute to the growth of the Danish economy and, in particular, to the continued growth of the pharmaceutical industry. Greater dependency of the Danish economy on a few large companies may result in a level of activity that is either stronger or weaker than predicted in the main scenario. A stronger development could happen, for example, if the production of diabetes and weight loss drugs can be rapidly expanded to meet stronger global demand. This can boost growth both directly and indirectly through higher activity levels among the industry's subcontractors.

Key economic variables

TABLE 2

Real growth relative to the previous period, per cent	2024						
	2024	2025*	2026*	2027*	Q2	Q3	Q4
GDP	3.6	3.6	2.3	2.0	1.4	1.3	1.6
Private consumption ¹	0.9	1.4	1.8	2.2	-0.3	0.2	0.6
Public consumption	1.8	2.9	0.6	0.9	-0.4	0.8	1.6
Residential investments	1.7	2.5	2.3	2.4	5.1	5.0	-2.1
Public investments	5.7	35.1	0.5	-8.5	-1.6	6.8	1.9
Corporate investments	-2.2	0.8	3.4	3.3	2.1	0.8	-0.9
Inventory investments etc. ²	-1.4	0.0	0.4	0.3	6.9	4.8	4.5
Exports	7.6	6.0	3.6	3.1	4.0	0.6	4.1
Manufactured exports	12.3	9.6	4.7	3.8	3.8	4.5	6.0
Imports	1.7	5.5	3.7	3.2	1.5	-0.3	0.7
Employment, 1,000 people	3,229	3,247	3,260	3,271	3,225	3,228	3,240
Gross unemployment, 1,000 people	87	88	90	91	87	87	87
Balance of payments on current account ³ , per cent of GDP	13.1	13.1	13.5	13.8	12.5	14.0	13.9
Government budget balance, per cent of GDP	4.2	2.0	2.2	2.4	4.1	3.0	5.3
House prices ⁴ , per cent year-on-year	3.2	3.5	3.2	3.2	4.3	2.2	2.1
Consumer prices (HICP), per cent year-on-year	1.3	2.0	1.7	1.7	1.5	1.2	1.7
Core inflation, per cent year-on-year	1.5	1.7	1.8	1.8	2.0	1.2	1.2
Hourly wages ⁵ (manufacturing), per cent year-on-year	5.4	3.6	3.4	3.2	6.9	4.8	4.5

¹ Includes both households and non-profit institutions serving households, NPISH.

² Contribution to GDP growth (this item comprises inventory investments, valuables and statistical discrepancy).

³ 2024 is based on the publication of the balance of payments on current account, 11 March 2025.

⁴ Nominal prices of single-family houses.

⁵ Confederation of Danish Employers' (DA) pay statistics for profits including inconvenience supplements for manufacturing.

Note: * indicates projection. Government balance and house prices in 2024 are also estimates.

Source: Statistics Denmark and own calculations.

Appendix: Assumptions in and changes of projection for the Danish economy

The projection is prepared using Danmarks Nationalbank's macroeconomic model, MONA, and is based on available economic statistics, including Statistics Denmark's quarterly national accounts for Q4 2024. The projection is based on statistics published up to and including 10 March 2025. The projection also includes a number of assumptions concerning the international economy, financial conditions, labour force developments and fiscal policy.

International economy

Export market growth is assumed to be 2.8 per cent in 2025, 3.1 per cent in 2026 and 3.1 per cent in 2027, see table A1. Wage increases abroad are assumed to gradually decrease from 4.6 per cent in 2024 to 3.3 per cent in 2025 and 3.2 per cent in 2026 and 2027. Price increases for imported goods and services are assumed to stabilise at around 2 per cent based on the latest OECD forecast from December 2024, which includes explicit assumptions about Denmark's export market growth, competitor prices abroad and adjustments based on other international organisations' forecasts and economic data since then.

Interest rates, currency and energy prices

Developments in short-term and long-term interest rates in the projection are based on the expectations of future developments that can be derived from the yield curve in the financial markets. The money market interest rate measured by DESTER is therefore assumed to be 2.1 per cent in 2025, 1.8 per cent in 2026 and 2.1 per cent in 2027.

The projection assumes that the effective krone rate and the USD rate will remain approximately constant at the current level.

Energy prices are generally expected to follow the development in oil prices, which are assumed to follow futures prices during the projection period. The oil price in the projection is based on an average of futures prices in March prior to the finalisation of the data. Oil prices were around USD 71 per barrel in the first third of March and are predicted to fall gradually to USD 68 per barrel by the end of 2027.

Given the special developments in gas and electricity prices in recent years, this projection also takes into account gas and electricity price developments, as in Danmarks Nationalbank's previous projections. As with oil prices, gas prices are assumed to follow the futures price going forward and are assumed to decline for the rest of 2025 to around kr. 300 per MWh from the current level of around kr. 322 per MWh and then end at around kr. 218 per MWh by the end of 2027. Electricity prices are assumed to follow the futures price for the first four months, but due to few contracts being traded with delivery further ahead and significant seasonal fluctuations in futures prices, electricity prices are then assumed to follow gas futures prices. The price of electricity is therefore assumed to fall to around kr. 430 per MWh in June 2025, compared to the current level of kr. 591 per MWh, after which the development will follow the decline from gas futures.

Fiscal policy assumptions

The projection is based on the preliminary estimates from the national accounts of consumption and investments in the public sector and the Finance Act in *the Economic Report*, December 2024 and the medium-term scenario in *the Updated 2030 scenario*, February 2025. Against this background, real public consumption is assumed to increase by 2.9 per cent in 2025, 0.6 per cent in 2026 and 0.9 per cent in 2027. Public investments are assumed to increase by 35.1 per cent in 2025, 0.5 per cent in 2026 and decrease by 8.5 per cent in 2027. The Acceleration Fund agreement is technically categorised as public investments with kr. 25 billion in 2025 and 2026 (2025 prices).

TABLE A1

Overview of projection assumptions

	2024	2025	2026	2027
International economy				
Export market growth, per cent, year-on-year	1.8	2.8	3.1	3.1
Foreign price, per cent, year-on-year ¹	0.7	2.5	1.9	2.0
Foreign hourly wages, per cent, year-on-year	4.6	3.3	3.2	3.2
Financial conditions etc.				
Money market interest rate, per cent, p.a.	3.3	2.1	1.8	2.1
Average bond yield, per cent, p.a.	3.2	2.7	2.9	3.0
Effective krone rate, 1980 = 100	105.0	104.1	104.2	104.2
Dollar exchange rate, DKK per USD	6.9	7.0	7.0	7.0
Oil price, Brent, USD per barrel	81.0	71.6	68.7	68.1
Fiscal policy				
Public consumption, per cent year-on-year	1.8	2.9	0.6	0.9
Public investments, per cent, year-on-year	5.7	35.1	0.5	-8.5
Public-sector employment, 1,000 persons	879	882	885	888

¹ Weighted import price for all countries to which Denmark has exports. The projection assumes the same growth rates for the weighted export prices in the countries from which Denmark receives imports.

Revisions in relation to the previous projection

The GDP growth estimate has been revised upwards by 1.3 in 2025 and 0.8 percentage points in 2026, see table A2. Changed estimates for export market growth help dampen growth this year and in 2026, while foreign prices and wages and especially the exchange rate help boost growth this year, but dampen growth slightly in 2026. The upward revision in 2026 mainly reflects other factors, primarily due to updated analyst expectations for the determination of merchanting and processing in Danish exports.

The estimate for the rate of increase in consumer prices, HICP, has been revised downwards by 0.1 percentage points for 2025 and 2026. Changed assumptions about foreign wages and prices as well as exchange rates contribute to an upward revision of the inflation estimate in all years. The negative contribution

from other factors in 2025 reflects that the level of inflation came out lower at the end of 2024 than assumed in the previous projection. The negative contribution from other factors in 2026 partly reflects assumptions of higher electricity and gas prices. Other factors also come into play, as electricity and gas prices have fluctuated more than the normal oil price pass-through suggests.

TABLE A2

Changes in the projection

Per cent, year-on-year	GDP			Consumer prices, HICP		
	2024	2025	2026	2024	2025	2026
Projection from September	2.1	2.3	1.5	1.3	2.1	1.8
Contribution to revised forecast from						
Export market growth	0.0	-0.2	-0.1	0.0	0.0	0.0
Interest	0.0	0.0	0.1	0.0	0.0	0.0
Exchange rates	0.1	0.4	-0.1	0.0	0.1	0.2
Oil prices	0.0	0.0	0.0	0.0	0.0	-0.1
Foreign prices and wages	0.1	0.2	-0.1	0.1	0.2	0.2
Other factors	1.2	0.8	0.9	-0.3	-0.5	-0.5
This projection	3.6	3.6	2.3	1.3	2.0	1.7

Note: The transition from the previous projection to this projection may not add up due to rounding.

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The analysis consists of a Danish and an English version. In case of doubt as to the correctness of the translation, the Danish version will prevail.

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