



DENMARK

June 2016

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR DENMARK

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with Denmark, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 22, 2016 consideration of the staff report that concluded the Article IV consultation with Denmark.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 22, 2016, following discussions that ended on May 4, 2016, with the officials of Denmark on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 31, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Denmark.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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June 27, 2016

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Washington, D. C. 20431 USA

IMF Executive Board Concludes 2016 Article IV Consultation with Denmark

On June 22, 2016 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Denmark.¹

Economic performance has been relatively weak for an extended period, notably on account of low productivity growth that has lagged peers. Recently, a trend decline in oil and gas production has also started to weigh on output. Moreover, Denmark was hard hit by the 2008/09 global crisis, which coincided with the puncture of a local housing bubble. The initial recovery was interrupted by renewed weakness in 2012–13, broadly following developments in the neighboring euro area to which the Danish economy is closely tied. A moderate recovery resumed from 2014.

The outlook is for a gradual further recovery. Supported by low interest rates and oil prices, private consumption will continue to be the main driver for growth in the short term. However, investment is also projected to pick up, reflecting the diminishing impact of firm deleveraging and the strong recovery in the housing market. Export growth is likely to remain low, in line with the weak external environment. On these trends, the economy is forecast to grow by 1.3 percent in 2016 and 1.6 percent in 2017. Inflation is expected to remain subdued in 2016, reflecting lower oil prices, but then rise steadily, reaching 2 percent in the outer years reflecting a tightening labor market and a closing output gap.

Risks are tilted to the downside. A sharper than expected slowdown in Europe or in emerging markets could derail the recovery given Denmark's deep integration in the world economy. Also, in view of exceptionally high household debt and a high share of adjustable rate mortgages, volatility in global financial conditions leading to a spike in market interest rates could abruptly

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

raise households' debt service and depress consumption. The disruption of trade and financial flows that would likely accompany a "Brexit" compounds these risks. Domestically, an unchecked continuation of rapid house price increases would heighten the risk of a correction over the medium term.

Executive Board Assessment²

Noting the extended period of relatively weak growth and the considerable downside risks to the outlook, Executive Directors encouraged the authorities to build on a strong track record of sound policies to help sustain the economic recovery, reduce financial sector vulnerabilities, and raise growth prospects.

Considering Denmark's moderate public debt level and the absence of an independent monetary policy, Directors broadly supported plans for a gradual fiscal consolidation while allowing flexibility for fiscal policy to act as the main stabilizer of cyclical fluctuations. They emphasized that if downside risks materialize automatic stabilizers should be allowed to operate and short-term fiscal support would be warranted. Conversely, they considered that a faster fiscal tightening may be needed if the recovery gathered pace faster than expected. Directors agreed that monetary policy should continue to focus on maintaining the exchange rate peg.

Directors noted that rapid price increases in segments of the housing market together with high household indebtedness could pose macroeconomic and financial stability risks. They therefore welcomed the recent measures that are expected to restrain mortgage lending, and the strengthened risk management guidance for lenders. However, Directors believed more should be done to mitigate medium-term risks, and encouraged the authorities to strengthen the macroprudential toolbox and to consider introducing debt-to-income limits as well as reducing the tax deductibility of mortgage interest payments. They also encouraged efforts to alleviate supply constraints and ease tight rental market regulations. Directors called on the authorities to end the procyclical valuation freezes for land and property taxes.

Directors commended the authorities for the good follow up on the 2014 FSAP advice, and encouraged implementation of the remaining recommendations. In particular, they suggested measures to strengthen the operational independence of the financial supervisor (DFSA). Given the interconnectedness of the Nordic banking system, Directors welcomed the ongoing efforts to enhance regional cooperation on financial stability issues and underscored the importance of reaching strong agreements on information sharing, cross-border supervision, depositor protection, and resolution arrangements.

² At the conclusion of the discussion, the Managing Director, as a Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Directors welcomed the government's growth package, including plans to devise a new strategy for selected network sectors and to liberalize the Planning Act. They also encouraged reforms to strengthen competition and increase firm productivity, including by reducing product market regulation particularly in retail trade and some network sectors.

Directors welcomed the new tripartite agreement on integration of migrants, but stressed that implementation will need to be closely monitored. They urged the authorities to consider lifting restrictions on accepting regular work while asylum requests are being processed and starting integration programs earlier for asylum seekers whose requests have a high probability of success.

Denmark: Selected Economic and Social Indicators, 2013–21									
	2013	2014	2015	2016	2017	2018	2019	2020	2021
			est.	proj.	proj.	proj.	proj.	proj.	proj.
Supply and Demand (change in percent)									
Real GDP	-0.2	1.3	1.2	1.3	1.6	1.8	1.8	1.9	1.8
Final domestic demand	0.0	1.0	1.5	1.5	1.8	2.0	2.0	2.0	2.0
Private consumption	-0.1	0.5	2.1	2.1	2.4	2.5	2.5	2.5	2.5
Public consumption	-0.7	0.2	0.9	0.2	0.2	0.2	0.2	0.2	0.2
Gross fixed investment	1.1	3.4	0.8	2.0	2.5	3.0	3.0	3.0	2.8
Net exports 1/	-0.1	0.1	0.1	-0.2	-0.1	-0.1	-0.1	0.0	0.0
Gross national saving (percent of GDP)	26.6	27.6	26.3	26.0	26.0	26.0	26.0	26.1	26.1
Gross domestic investment (percent of GDP)	18.9	19.1	19.0	19.1	19.1	19.3	19.4	19.6	19.7
Potential output	0.6	0.7	1.0	1.0	1.4	1.6	1.5	1.9	1.8
Output gap (percent of potential output)	-1.7	-1.2	-1.0	-0.7	-0.5	-0.3	0.0	0.0	0.1
Labor Market (change in percent) 2/									
Labor force	-0.3	0.5	1.1	0.5	0.6	0.7	0.8	0.8	0.8
Employment	0.2	1.0	1.5	0.7	0.8	0.7	0.9	0.8	0.8
Harmonized unemployment rate (percent)	7.0	6.5	6.2	6.0	5.8	5.8	5.7	5.7	5.7
Prices and Costs (change in percent)									
GDP deflator	1.4	0.8	1.0	0.7	1.8	2.0	2.3	2.4	2.3
CPI (year average)	0.8	0.6	0.5	0.7	1.2	1.4	1.8	2.0	2.0
Public Finance (percent of GDP) 3/									
Total revenues	55.5	57.4	53.6	51.1	50.0	49.7	49.5	49.4	49.4
Total expenditures	56.5	56.0	55.7	53.5	51.9	51.4	51.0	50.6	50.4
Overall balance	-1.1	1.5	-2.1	-2.3	-1.9	-1.7	-1.5	-1.2	-1.0
Primary balance 4/	-0.9	1.6	-1.4	-1.6	-1.3	-1.4	-1.3	-1.0	-0.8
Cyclically-adjusted balance (percent of potential GDP)	0.2	2.4	-1.3	-1.8	-1.5	-1.5	-1.5	-1.2	-1.1
Structural balance (percent of potential GDP) 5/	-0.9	-1.4	-1.1	-0.9	-0.9	-0.8	-0.7	-0.5	-0.4
Gross debt	44.6	44.6	45.8	47.2	47.5	47.5	47.1	46.3	45.5
Money and Interest Rates (percent)									
Domestic credit growth (end of year)	0.6	0.7	0.0	...	...	...	...	...	...
M3 growth (end of year)	-1.7	12.6	11.9	...	...	...	...	...	...
Short-term interbank interest rate (3 month)	0.3	0.3	-0.1	...	...	...	...	...	...
Government bond yield (10 year)	1.8	1.3	0.7	...	...	...	...	...	...
Balance of Payments (percent of GDP)									
Exports of goods & services	53.9	53.4	53.4	52.4	54.2	55.7	57.1	58.3	59.5
Imports of goods & services	47.8	47.3	47.1	46.8	48.8	50.4	51.9	53.2	54.6
Trade balance, goods and services	6.0	6.1	6.3	5.6	5.5	5.3	5.2	5.1	4.9
Oil trade balance	-0.1	-0.2	-0.2	-0.3	-0.5	-0.6	-0.8	-0.9	-1.1
Current account	7.1	7.7	6.9	6.5	6.4	6.2	6.1	6.0	5.8
International reserves, changes	-0.3	-2.1	-1.2	...	...	...	...	...	...
Exchange Rate									
Average DKK per US\$ rate	5.6	5.6	6.7	...	...	...	...	...	...
Nominal effective rate (2010=100, ULC based)	98.7	99.5	96.5	...	...	...	...	...	...
Real effective rate (2010=100, ULC based)	99.1	101.3	99.6	...	...	...	...	...	...
Social indicators (Reference year)									
GDP per capita, USD (2013): \$59,129; At-risk-of-poverty rate (2012): 19.0 percent.									
Sources: Denmark's National bank, Eurostat, IMF <i>World Economic Outlook</i> , Statistics Denmark, World Bank WDI, and Fund staff calculations.									
1/ Contribution to GDP growth.									
2/ Based on Eurostat definition.									
3/ General government.									
4/ Overall balance net of interest.									
5/ Cyclically-adjusted balance net of temporary fluctuations in some revenues (e.g., North Sea revenue, pension yield tax revenue) and one-offs.									



DENMARK

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

May 31, 2016

KEY ISSUES

Context: The economy continues to grow slowly and with a significant output gap. The outlook is for a continued recovery but risks are tilted to the downside. Negative interest rates are boosting house prices which, if sustained, could increase the vulnerability of already highly indebted households. Given moderate public debt, there is fiscal space to support the recovery if needed. Banks remain sound and profitable.

Policy recommendations: Economic policies should sustain the recovery, contain risks, and raise potential growth. In particular:

- **Fiscal policy.** The planned fiscal tightening is appropriate, but the uncertain outlook calls for nimble policies. If downside risks materialize, automatic stabilizers should operate and additional fiscal support will be called for.
- **Housing policies.** Rapid house price increases call for early policy action—including loosening housing supply restrictions, eliminating adverse tax incentives, and developing and timely implementing well-targeted macroprudential tools.
- **Financial sector policy.** Nordea's plan to convert its subsidiaries into branches calls for strong agreements among the Nordic authorities on information sharing, cross-border supervision, depositor protection, and resolution arrangements.
- **Refugees.** Lifting restrictions on accepting regular work while asylum requests are being processed and starting integration programs earlier for asylum applicants with a high probability of success would promote better and faster integration.
- **Productivity.** Closing the regulation gap with the European frontier in retail trade and some network sectors would strengthen competition and raise firm productivity.

Approved By
Mahmood Pradhan
and Steven Barnett

Discussions took place in Copenhagen during April 25–May 4, 2016. The staff team comprised Messrs. Hofman (head) and Chen, and Mmes. Mircheva and Turk. Mr. Scutaru and Mmes. Ho, Ashour, and Licudine (all EUR) provided analysis and support from headquarters. Ms. Marcussen (OED) joined the discussions. The mission met with Messrs. Rohde and Callesen, Governors of Danmarks Nationalbank; Mr. Frederiksen, Minister of Finance; Mr. Berg, Head of the DFSA; other senior officials, and representatives from labor and employer organizations, the financial sector, and the academic community.

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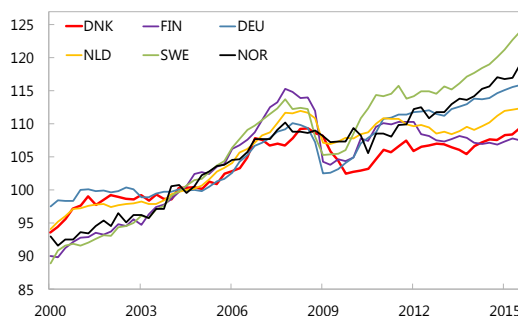
CONTEXT

1. Denmark has a longstanding track-record of sound economic and social policies. It consistently scores high in international comparisons of the business climate and competitiveness, and education levels are high. In addition, the flexible labor market model and extensive active labor market policies have fostered comparatively high employment in recent decades. Meanwhile, income inequality is the lowest in the OECD (Box 1).

2. But economic performance has been relatively weak for an extended period. Denmark has underperformed in recent decades, notably on account of low productivity growth that has lagged peers. Recently, a trend decline in oil and gas production has also started to weigh on output. Moreover, Denmark was hard hit by the 2008/09 global crisis, which coincided with the puncture of a local housing bubble. While a recovery initially took off, it was interrupted by renewed weakness in 2012–13, broadly following the growth pattern in the neighboring euro area to which the Danish economy is closely tied. A moderate recovery resumed from 2014.

Real GDP Levels in Selected Countries

(Index, average 2003-2005 = 100)



Sources: Haver analytics and Fund staff calculations.

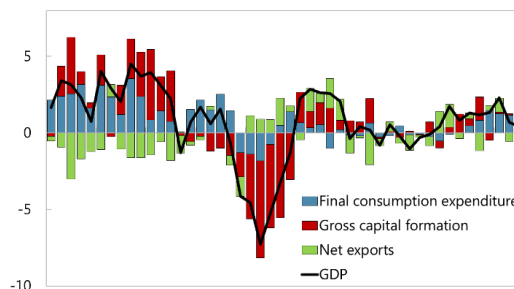
RECENT DEVELOPMENTS

3. The economy continues to grow slowly. After recording 1.3 percent growth in 2014, the economy grew by 1.2 percent in 2015, driven mostly by private consumption on the back of rising employment and real incomes (Figure 1, Table 1). However, relatively strong performance in the first half of the year was partly undone by flagging exports in the second half of the year. Staff estimates that an output gap of about -1 percent of GDP remains, but uncertainty surrounding this assessment is large. Meanwhile, headline inflation has stayed low at 0.5 percent on average in 2015. This reflects partly the impact of falling food and energy prices, with core inflation at 1.2 percent. Unemployment continued its gradual decline, reaching 6.2 percent at end 2015.

4. Fueled partly by negative interest rates, house prices have been on the rise. Following speculative pressures on the exchange rate in early 2015, Danmarks Nationalbank (DN) lowered its deposit policy rate—which first broke through the zero bound in 2012—deeper into negative territory (Box 2). In the resulting environment of

Contributions to Real Growth

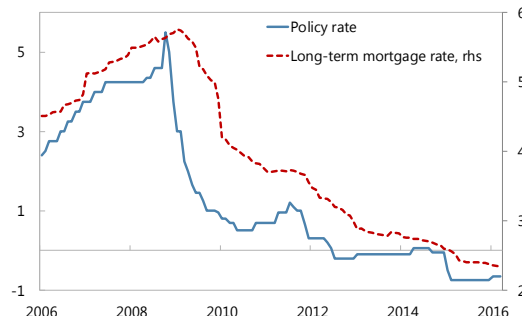
(Percentage points, Y/Y percent change)



Sources: Statistics Denmark and Fund staff calculations.

Policy and Mortgage Rates

(Percent)

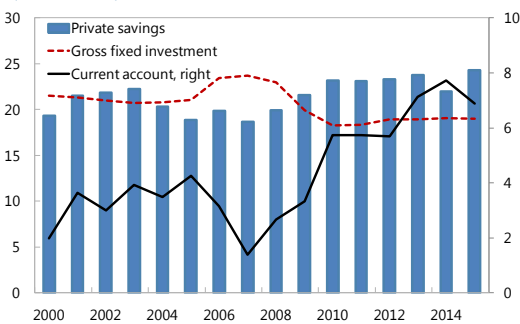


Sources: Danmarks Nationalbank and Fund staff calculations.

historically low mortgage rates, real house prices rose over 6 percent in 2015 (Figure 2). Prices rose particularly rapidly in segments of the market (e.g., flats, which were up 11 percent) and in the big cities (with prices in Copenhagen up 14 percent) where economic activity has been strongest and housing supply most constrained. Continuation of the recent trend would bring prices for flats and in Copenhagen back to the peak of the previous boom in about one year's time. Meanwhile, a 27 percent rise in the stock market in 2015—over six times the gain of the EURO Stoxx index—suggests other assets may have experienced tailwinds from low interest rates as well.

5. The current account surplus has reached a historically high level (Figure 3, Tables 2 and 3). Denmark has consistently run current account surpluses in recent decades, mostly reflecting structurally high retirement savings in the context of its funded pension system. Since the crisis, the surplus has further increased—peaking at 7¾ percent in 2014 before edging down to about 7 percent in 2015—reflecting depressed investment activity and the rebuilding of balance sheets by households. Based on the average estimates of the EBA methodologies as well as key Denmark-specific factors (e.g., the importance of merchanting trade) staff assesses that the exchange rate remains broadly consistent with fundamentals (Box 3).

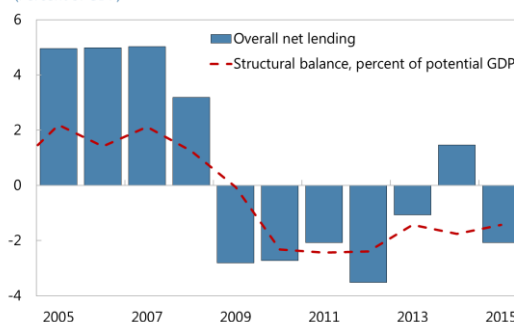
Savings, Investment, and Current Account
(Percent of GDP)



Sources: IMF World Economic Outlook and Fund staff calculations.

6. The underlying fiscal position improved moderately in 2015 (Tables 4 and 5). The headline fiscal balance has seen large swings in recent years and fell to a 2.1 percent of GDP deficit in 2015 as a large share of the impact of massive one-off revenues related to changes in pensions taxation—which had brought the fiscal balance temporarily into surplus in 2014—wore off. Abstracting from the impact of these one-offs, however, the structural balance improved, on staff's estimates, by about ¼ percent to -1.1 percent of potential GDP. The debt-to-GDP ratio, at around 45 percent of GDP, remains well below the Stability and Growth Pact benchmark.

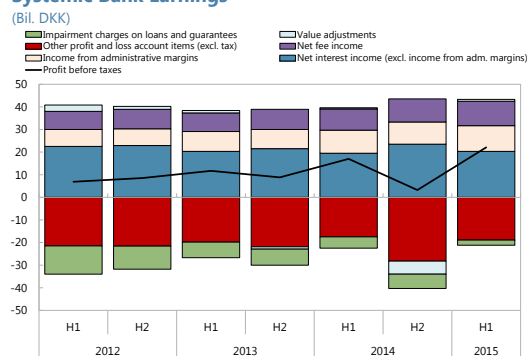
General Gov. Net Lending and Structural Balance
(Percent of GDP)



Sources: IMF World Economic Outlook and Fund staff calculations.

7. Banks remain resilient, despite negative interest rates and low credit demand. Danish banks remain liquid, well-capitalized, and profitable (Box 4, Table 6). Higher fee income—including on account of an increase in the volume of mortgage refinancing—has by and large compensated for slightly reduced interest margins. The ongoing reduction of impairment charges—reflecting both low interest rates and the diminishing impact of last decade's housing bust—has further boosted banks' profits.

Systemic Bank Earnings



Sources: Danmarks Nationalbank and Fund staff calculations.

OUTLOOKS AND RISKS

8. The baseline outlook is for a gradual further recovery. Supported by low interest rates and oil prices, private consumption continues to be the main driver for growth in the short term. However, investment is also projected to pick up, reflecting the diminishing impact of firm deleveraging and the strong recovery in the housing market. Export growth is likely to remain low, in line with the weak external environment. On these trends, the economy is forecast to grow by 1.3 percent in 2016 and 1.6 percent in 2017, and the output gap is expected to close in 2019. Inflation will remain subdued in 2016, reflecting lower oil prices, but is forecast to rise steadily, reaching 2 percent in the outer years reflecting a tightening labor market and closing output gap.

9. But risks are tilted to the downside (Annex 1). A sharper than expected slowdown in Europe or in emerging markets could derail the modest recovery, given Denmark's deep integration in the world economy. Also, in view of exceptionally high household gross debt (260 percent of disposable income) and a high share of adjustable rate mortgages, volatility in global financial conditions leading to a spike in market interest rates could abruptly raise households' debt service and depress consumption. The disruption of trade and financial flows that are likely to accompany a "Brexit" would compound these risks. There is also potential for spillovers from Nordic neighbors (e.g., if Sweden's housing market were to cool), given the interconnectedness of the regional banking system. Domestically, an unchecked continuation of rapid house price increases would heighten the risk of a correction in the medium term, with knock-on effects on consumption.

Authorities' views

10. The authorities broadly agreed with the staff's outlook and risk assessment. On Brexit—in addition to a likely large negative impact on trade—the authorities noted the possibility of sizable capital inflows as Denmark could find itself on the receiving end of safe haven flows, as during the euro crisis. Regarding domestic risks, the authorities agreed that rising housing prices and the high level of household debt bear close watching. However, they believed that for the moment house price developments largely reflected underlying fundamentals, including rising disposable incomes, ongoing urbanization, and low interest rates. They also stressed that, in contrast to past booms, overall household debt levels have recently not been rising. The authorities noted a smaller-than-estimated output gap (i.e., lower potential output) as a key risk factor).

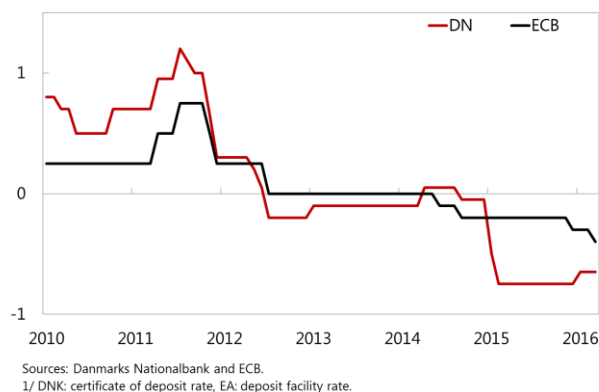
POLICY DISCUSSIONS

11. Policies should sustain the recovery, contain risks, and raise potential growth. Fiscal consolidation should be tuned to minimize short-term risks to the recovery, while product market liberalization and better integration of refugees would help raise potential output over the medium-term. Enhancing the flexibility of housing supply and reducing adverse tax incentives, paired with appropriate and timely macroprudential measures, would reduce medium-term housing risks.

A. Macroeconomic Policy

12. Monetary policy is anchored on a peg to the euro. DN conducts foreign exchange interventions and sets policy interest rates with the objective of maintaining the peg. These policies have taken the DN's certificates of deposit (CD) policy rate into negative territory for most of the period since 2012. Following strong appreciation pressures in early 2015, however, the policy rate was lowered further to an unprecedented -0.75 percent, creating a sizable spread with the ECB policy rate. In recent months, reflecting the substantial easing of pressures, DN has allowed the spread with the ECB to gradually narrow again: in January, it raised the CD rate to -0.65 percent and it left this rate unchanged when the ECB further reduced policy rates in January and March.

Policy Rate Differential with ECB 1/
(Percent)



13. Staff suggested that a normalization of rates should continue as exchange rate pressures allowed. Should a further lowering of ECB policy rates, or a change in market conditions, necessitate a renewed reduction in Danish policy rates, the DN could seek to mitigate the impact on banks by raising the limits for the current account (i.e., tiering) as it did in early 2015.

14. The authorities have planned for a gradual fiscal consolidation. The fiscal stance in Denmark is difficult to assess owing to large one-off measures that have caused wide swings in the headline balance in recent years and continue to impact the balance in 2016. Also, the authorities' estimates of the structural balance differ substantially from staff's, including on account of different assessments of output and employment gaps. On the authorities' estimates, the structural deficit was 0.6 percent of GDP in 2015 (compared to the staff estimate of 1.1 percent and an EC estimate of 1.8 percent). The government's medium-term fiscal plan is to eliminate the structural deficit by 2020. The envisaged consolidation largely reflects the lagged impact of past labor market reforms (¶127), which are expected to yield a gradual reduction in benefits and increases in labor participation. No additional discretionary measures are envisaged except for possible cuts in public consumption as needed to offset higher-than-budgeted costs related to refugee inflows. For 2016, the authorities project a ¼ percent tightening, which, on their count, will bring the structural deficit to 0.4 percent of GDP—thereby complying with the budget law, which mandates that it may not exceed ½ percent of GDP in the budget proposal for any given year. Meanwhile, reflecting the volatile path of one-off revenues, the headline deficit is forecast to peak at 2.3 percent in 2016—well below the SGP deficit limit—and to decline thereafter.

15. The planned fiscal tightening is appropriate, but uncertainties surrounding the outlook call for nimble policies. Considering that Denmark's moderate level of public debt leaves room for maneuver (Annex 2), and in the absence of an independent monetary policy, staff noted

that fiscal policy should continue to act as the main stabilizer of cyclical fluctuations. Thus, if downside risks materialize automatic stabilizers should be allowed to operate. In addition, short-term fiscal support would be called for—for instance via higher productive public investment or by not offsetting further refugee-related spending with cuts elsewhere in the budget. Conversely, a faster fiscal tightening may be needed if the recovery were to gather pace faster than expected.

Authorities' views

16. The authorities believe macroeconomic policies are adequate for the circumstances.

On monetary policy, the DN emphasized that maintaining the peg was the single policy objective. The DN also underscored that it had demonstrated it had both the necessary tools and the resolve to safeguard the peg. Looking forward, the DN noted that in their assessment the lower bound for interest rates had not yet been reached and that policy rates could be lowered further if needed. The overall impact of negative rates on the broader economy had been manageable thus far. On fiscal policy, the authorities emphasized the presence of large automatic stabilizers, but also acknowledged the need for flexible policies if risks to the economic outlook materialized.

B. Financial Sector

17. The financial sector is large and interconnected. Total system assets are over 650 percent of GDP, with the banking sector accounting for two-thirds of this amount. The large size reflects a high degree of domestic interconnectedness. Household assets and liabilities are among the highest in the world, with pension assets amounting to about 140 percent of GDP. Institutional investors, in turn, hold large amounts of covered bonds (150 percent of GDP) which are a key funding source for the banks. Bank lending to households is at 130 percent of GDP. The banking system also has important linkages with Nordic neighbors, with Danske Bank being a large regional player and with Sweden-based Nordea the third-largest bank in the domestic market.

Housing Sector Policies

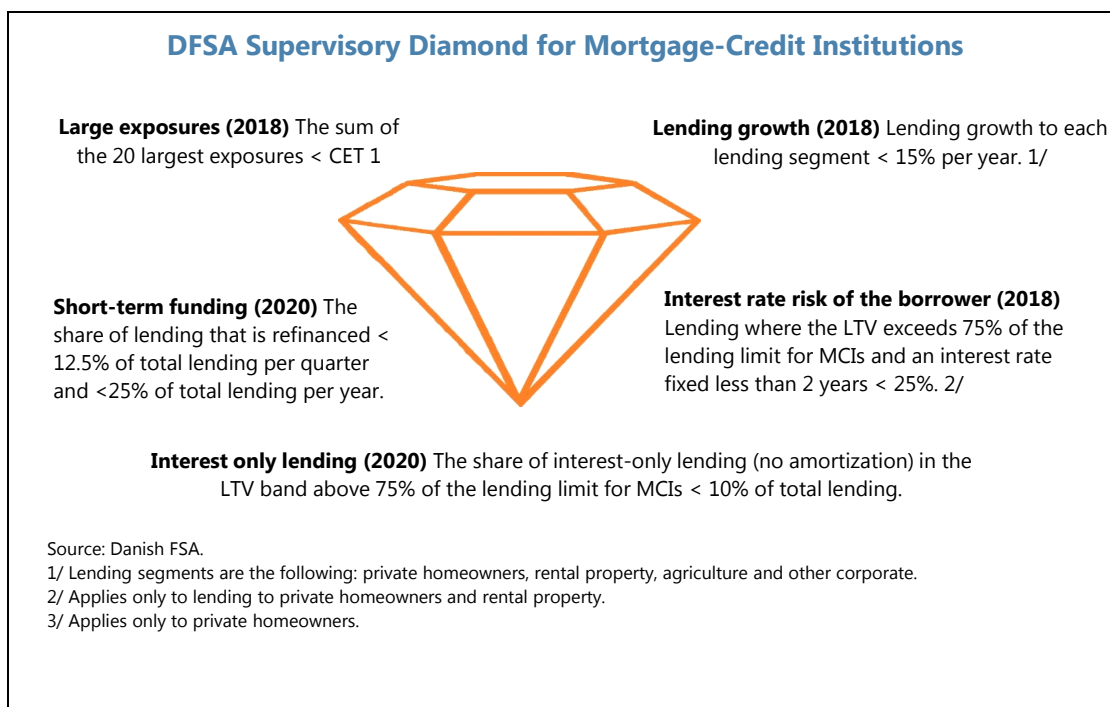
18. The return of tight conditions in segments of the housing market calls for vigilance.

With structural impediments holding back housing supply and procyclical housing taxes and favorable credit conditions pushing up demand, house prices have been rising rapidly. In large cities early signs of overvaluation are starting to reappear.¹ While household debt has not seen commensurate growth, it remains at a high level and household-level data suggests that first-time home buyers take out very sizable loans relative to their income. A potential future bout of renewed house price adjustments could, through its negative effects on household balance sheets, have a substantial impact on the real economy with knock-on effects on banks.

19. The authorities have taken welcome measures to restrain mortgage lending. In particular, in 2015, the financial supervisor (DFSA) introduced a “Supervisory Diamond” for

¹ Selected Issues Chapter “The Great Divergence: Regional House Prices in Denmark.”

mortgage-credit institutions. This includes guidance to limit lending growth, large exposures, reliance on short-term funding, and borrowers' interest rate risk, and to promote loan amortization even though the new measures will come into effect only during 2018–20. A minimum down payment requirement of five percent for new mortgages was also introduced. In addition, the recent establishment of “Seven Best Practices” for lenders in areas with rapid house price increases should strengthen banks' risk management practices.



20. But a new tax measure risks amplifying the house price cycle. A new freeze on land tax valuations for tax purposes was introduced in 2016—analogueous to the freeze on real estate valuations that has been in effect since 2002. The measure will further increase the procyclical impact of taxes on house prices as the freezes imply that the rate of taxation falls when property and land prices rise.

21. More is needed to mitigate medium-term risks. Noting that early action would help the authorities stay ahead of the curve, staff urged coherent action across several policy areas.

- **Supply policies.** More could be done to alleviate regional supply constraints which have a significant impact on price levels in some markets.² For instance zoning regulations and spatial planning could be made more responsive to housing demand conditions—especially in urban areas. Easing the strict regulations in the rental markets could also help alleviate housing pressures by facilitating a more efficient use of the existing housing stock.

² Selected Issues Chapter “House Prices in Denmark’s Cities: the Role of Supply.”

- **Tax policies.** The procyclical valuation freezes for land and property taxes should be ended.
- **Macroprudential policies.** As noted in the 2014 FSAP recommendations, there is scope for additional macroprudential instruments.³ The early preparation of an adequate macroprudential “toolbox” is key to ensure that measures can be implemented without delay when needed. Specifically, staff suggested considering limits on the overall debt-to-income ratio, which would help keep household debt and debt service capacity in check, especially in a context where house prices rise faster than incomes. In addition, it recommended raising the new minimum down payment requirement to at least 10 percent to increase households’ buffer in case of adverse house price shocks. These measures would complement the existing MCI supervisory diamond as they help protect households and the economy more broadly, and address risks from loans by commercial banks. If regional markets continue to diverge, consideration could be given to applying policies with different stringency across regions. Such policies could target high-risk areas—e.g., Copenhagen—without hampering the nascent recovery in other regions.

Authorities’ views

22. The authorities are monitoring the housing market and household debt closely. On the supply side, they concurred that zoning regulations and planning constrained housing supply. However, they noted that these regulations served multiple objectives, including safeguarding the quality of housing and living conditions. The political appetite to loosen restrictions was believed to be low. The authorities acknowledged the procyclical impact of housing tax freezes, but they pointed to flaws and inequities in the current property assessment system, which had necessitated its effective suspension. The government is working on a new valuation system, with new valuations expected to be available in 2019. While additional macroprudential measures were not planned at this juncture, the Danish Systemic Risk Council had urged caution in relation to low interest rates and house price developments, and the DFSA stressed its readiness and the ability of the Danish political system to act swiftly when needed. The DFSA believed that regional differentiation of future measures—similar to its “seven best practices”—could help their acceptability and would avoid criticism that overly strict regulations stifled growth.

Other Financial Sector Issues

23. Good progress has been made on the recommendations of the 2014 FSAP (Annex 3). With the implementation of EU regulations, the DFSA has implemented several changes to regulatory and supervisory practices, including those related to CRD IV/CRR and Solvency II. Also, with the transposition into Danish law of the European Bank Recovery and Resolution Directive, the resolution regime is being strengthened. The DFSA has further indicated it will increase the frequency of on-site inspections for smaller banks and insurance companies. The supervisory diamond for MCIs and the seven best practices also address several FSAP recommendations.

³ Selected Issues Chapter “Macroprudential Policy in Denmark.”

24. Staff welcomed the progress and urged follow up on remaining FSAP advice. This includes in particular—in addition to the recommendations for macroprudential policy discussed above—further efforts to strengthen the operational independence of the DFSA, including by lengthening the terms of board members and introducing strict fit and proper appointment criteria. An internal audit function should also be established within the DFSA to ensure integrity and consistency of supervisory work. The DFSA should continue to have adequate resources to execute its expanded set of tasks, including regarding the supervision of the pension and insurance sectors.

25. Regional coordination on financial stability issues should deepen. Given the high interconnectedness of the Nordic banking sector, deeper cooperation with other Nordic supervisors remains critical. The issue is particularly pertinent in the context of advanced plans by Nordea to convert its Nordic subsidiaries into branches—including its commercial banking operations in Denmark (Nordea’s mortgage credit arm will remain a subsidiary to facilitate the local issuance of covered bonds). In response to Nordea’s plans, the regional supervisors and governments have started work on updated agreements to guide the treatment of systemically important branches. Staff welcomed this work and underscored that agreement will be needed on information sharing, cross-border supervision, depositor protection, and resolution arrangements.

Authorities’ views

26. The authorities agreed that strong regional coordination is key. They thought it would be particularly important that a level playing field was secured for all banks operating in the respective national markets and that the oversight of systemically important branches would be closely coordinated with host supervisors. On the operational independence of the DFSA, the authorities underscored that the DFSA Board was strong and independent and that there was no history of political interference. They also believed it was too soon after the establishment of the board to discuss changes to its setup. Work on an internal audit or control function in the DFSA is underway, though the precise modalities are yet to be decided.

C. Structural Reforms

27. Labor market institutions are strong and key reforms were adopted in recent years. In 2010, the maximum duration of unemployment benefits was shortened from four to two years and eligibility requirements were tightened. A large pension reform in 2011 increased the statutory retirement rate from 65 to 67 (effective 2019–22) and indexed the retirement age to life expectancy (effective 2025). And in 2015 more flexible rules were introduced to re-qualify for unemployment benefits, to strengthen incentives to accept work. Under a 2016 reform package, the total amount of benefits that a household can receive has been capped, and the government plans to use related savings to lower taxes for low-income households later this year—a plan that staff fully supports.

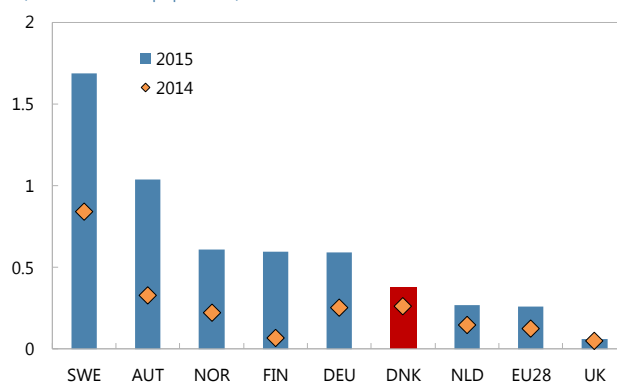
28. The refugee crisis has highlighted the challenges of integration and prompted policy action. Denmark saw a significant uptick in asylum requests in 2015—though more modest than in

neighbors. Denmark's elaborate active labor market policies should in principle help integration, but the average employment rate for nonwestern immigrants after the first three years remains low at 30 percent. The government aims to raise this rate to 50 percent and has recently reached agreement with social partners on a reform package to improve the labor market integration of refugees. The package contains many promising elements. In particular, asylum seekers whose request has been granted will have the opportunity to enter the labor market on

"apprentice terms" at a reduced wage for a limited two-year period, qualify for subsidized employment, and receive 20 weeks of vocational and language training. The package also provides incentives for companies to provide employment under the new schemes.

Asylum Seekers, 2014-2015

(Percent of 2014 population)



Sources: Eurostat and Fund staff calculations.

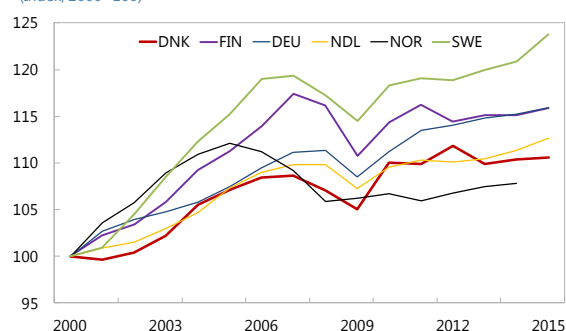
29. The new integration agreement marks important progress, but more measures should be considered. Staff strongly welcomed the new reforms and noted that implementation needs to be closely monitored to ensure effectiveness. It also encouraged the authorities to consider additional measures, including lifting restrictions on accepting regular work while asylum requests are being processed and starting the new integration program earlier for asylum seekers whose requests have a high probability of success. Such measures would help limit the loss of skills and employability associated with prolonged spells of inactivity.

30. Labor productivity growth has been lagging peers for an extended period. Growth in total factor productivity (TFP) has been particularly weak. Slow productivity growth has presented a bit of a puzzle as the business environment in Denmark appears more favorable than in many other

OECD countries, with Denmark performing well on indicators such as burdens on start-ups, access to finance, and barriers to entry. But limited competition and regulatory constraints in some sectors have held back growth. In 2014, a government appointed Productivity Commission released a report with over a hundred recommendations to accelerate productivity growth including by strengthening the institutional framework for competition, streamlining business regulations, and lowering corporate income taxes. Various recommendations were adopted in the government's 2014 Growth Plan.

Labor Productivity in Selected Countries

(Index, 2000=100)



Sources: OECD and Fund staff calculations.

Note: Labor productivity is GDP per hour worked in 2005 international US\$.

31. Easing regulation in network and retail sectors could raise productivity. Staff presented new firm-level evidence that suggests that closing the product market regulation gap between Denmark and the European frontier in some network sectors such as passenger rail and postal services could strengthen competition and significantly increase firm TFP, including through its downstream effects on the broader economy.⁴ There would be similar substantial productivity gains from relaxing regulation of retail services—including by lifting strict store size restrictions, especially for very large stores (so called hypermarkets).

Authorities' views

32. Integrating refugees and raising productivity are high on the authorities' agenda, but subject to constraints. The authorities agreed that allowing asylum seekers to take up work earlier would limit skills losses and could improve their success on the labor market. However, they noted that uncertainty about the composition and level of skills of asylum seekers made the 50 percent employment goal a challenge. Authorities generally agreed that enhanced competition in some network sectors and retail trade would generate productivity gains. The government was preparing proposals for revisions to the Planning Act, which would, among other things, relax store-size and location restrictions albeit not for hypermarkets, which were seen as a potential threat to commercial activity in the inner cities. The government is also developing a new strategy to improve efficiency in selected network sectors.

STAFF APPRAISAL

33. Chronically slow growth challenges longstanding achievements. A strong track record of sound policies notwithstanding, economic performance has been weak for an extended period with productivity growth lagging that of peers. A moderate recovery is continuing and a gradual further strengthening of the economy is expected. However, this baseline outlook is subject to considerable downside risks, including from house prices which are fueled by negative interest rates. Strong policies are needed to help sustain the recovery, contain risks, and raise potential growth.

34. The envisaged fiscal tightening is appropriate, but the uncertain outlook calls for flexibility. Considering Denmark's still moderate level of public debt and the absence of an independent monetary policy, fiscal policy should continue to act as the main stabilizer of cyclical fluctuations. Thus, if downside risks materialize automatic stabilizers should be allowed to operate and short-term fiscal support would be called for. Conversely, a faster fiscal tightening may be needed if the recovery were to gather pace faster than expected.

35. Monetary policy should continue to focus on maintaining the peg. A normalization of rates should continue if market conditions and exchange rate pressures allow.

⁴ Selected Issues Chapter "Product Market Reform and Firm Productivity in Denmark."

36. Rapid price increases in segments of the housing market call for vigilance and action.

The introduction of the Supervisory Diamond for mortgage banks and the five percent cash down payment requirement for house purchases, as well as the new risk management guidance for mortgage lenders are welcome steps. However, more should be done to stay ahead of the curve. Development of an adequate macroprudential toolbox is key and the authorities should for instance consider debt-to-income limits to keep household debt and debt service capacity in check. More fundamentally, improving zoning regulations would help alleviate supply constraints, while easing tight rental market regulations would facilitate more efficient use of the existing housing stock. The procyclical valuation freezes for land and property taxes should be ended.

37. Follow up on the 2014 FSAP advice has been good, though further work remains.

The operational independence of the DFSA should be bolstered by lengthening board members' terms and introducing strict fit and proper appointment criteria. Given the close links in the Nordic banking system and the issues raised by Nordea branchification, the efforts to strengthen regional cooperation on financial stability issues are welcome. Reaching strong agreements on information sharing, cross-border supervision, depositor protection, and resolution arrangements will be critical.

38. The refugee crisis highlights the challenge of better integrating migrants.

The new tripartite agreement on integration is welcome, though implementation will need to be closely monitored. To avoid the loss of skills and employability associated with long periods of inactivity, the authorities should also consider lifting restrictions on accepting regular work while asylum requests are being processed and starting the new integration program earlier for asylum seekers whose requests have a high probability of success.

39. Reducing product market regulation could raise productivity and potential growth.

Closing the regulation gap with the European frontier in retail trade and some network sectors would strengthen competition and increase firm productivity, including through downstream effects on the broader economy. The government's plans to devise a new strategy for selected network sectors and liberalize the Planning Act are thus welcome and a bold approach is recommended.

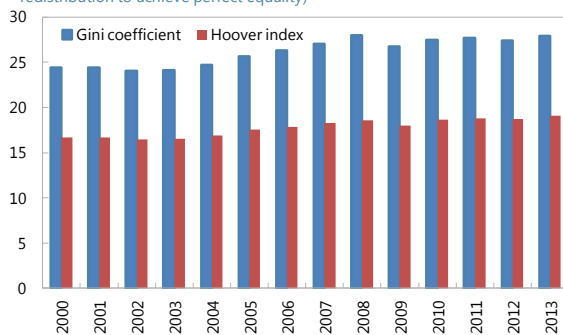
40. It is recommended that the next Article IV consultation with Denmark be held on the standard 12-month cycle.

Box 1. Income Inequality in Denmark

Income inequality in Denmark is the lowest in the OECD. The commonly used Gini coefficient measure, at around 0.25, indicates a very high level of equality in the country, which has been fairly consistent over the years. The Hoover Index, an alternative measure, also indicates a high level of income equality. This measure, also known as the Robin Hood Index, calculates the portion of the total income of the community that would have to be redistributed (i.e. taken from the richer half of the population and given to the poorer half) in order to achieve income uniformity.

Inequality Indicators

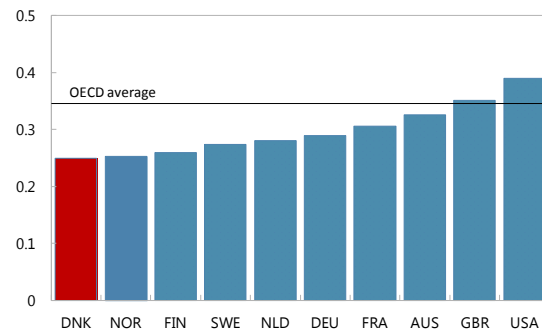
(Gini: 0-100, where 0 is perfect equality; Hoover: percent of income needing redistribution to achieve perfect equality)



Sources: Statistics Denmark and Fund staff calculations.

Gini Coefficient, Disposable Income

(0=complete equality, 1=complete inequality; 2012)



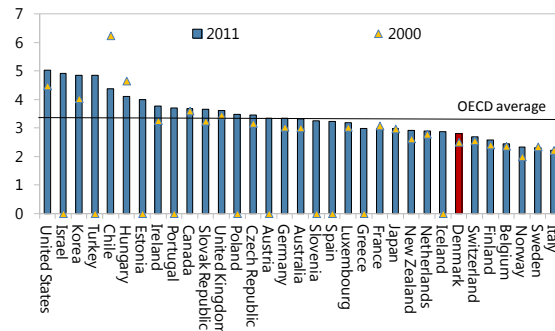
Sources: OECD and Fund Staff calculations.

Low inequality is partly driven by wage compression.

Denmark has relatively low dispersion of wages across sectors and industries, an outcome that is influenced by the collective bargaining system. Furthermore, the wage bargaining system, in the absence of a statutory minimum wage, implies a high effective minimum wage which further contributes to high compression.

Wage Dispersion

(Ratios of gross earning, decile 9/decile 1)



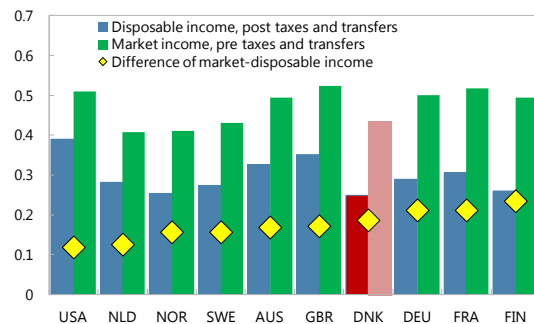
Sources: OECD and Fund staff calculations.

Substantial income redistribution is also key.

Specifically, the tax system (with total tax revenues at 50 percent of GDP in 2014, also the highest in OECD) and expansive social safety net (including free education and health care as well as subsidized child care) have been effective in redistributing income. To illustrate, the Gini coefficient measured at the disposable income level after taxes and benefits (referenced above) is much lower than the market-level income coefficient measured before taxes and transfers. This gap suggests a relatively strong redistribution, which is considerable also compared to other OECD peers.

Gini Coefficient, Disposable and Market Income

(0=complete equality, 1=complete inequality; 2012)



Sources: OECD and Fund Staff calculations.

Box 1. Income Inequality in Denmark (continued)

A high degree of gender equality may also contribute. A recent IMF study finds that gender inequality is associated strongly with income inequality (Gonzales and others, 2015). The study indicates that for advanced economies income inequality arises mainly through gender gaps in economic participation. An OECD study argues that a higher share of women working full-time and higher wages for women contribute to income equality (OECD, 2015). About 75 percent of women in Denmark work full time and the gender wage gap is one of the smallest in the OECD.

High income equality may have large benefits for the economy and society, but can also entail

costs. Recent cross-country studies have linked high equality to better economic performance (e.g., Ostry and others, 2014). And Pickett and Wilkinson (2009) argue that more equal societies tend to do better in terms of social wealth and health. They are also likely to have higher education levels, which is a key beneficial factor for long-term growth performance. On the downside, low wage dispersion can hamper employment, especially at the lower-skills end of the labor market. Wage compression across regions and industries can also disincentivize labor mobility and efficient resource reallocation.

In Denmark income equality is considered an intrinsic value. The Danish authorities generally do not see equality as primarily conducive to economic growth (they hypothesized that the empirical relationship found in recent studies breaks down at high levels of equality). Rather they note the challenge of boosting growth while preserving the achieved high level of equality. With equality being highly valued by society, in Denmark new policy proposals are routinely tested for their expected impact on inequality, with estimated sizable negative impacts often substantially reducing the political feasibility of proposed measures. There is a sense that this entails efficiency losses, but it is seen as price often worth paying for an equal society. The authorities also believe that the extensive social safety net allows for Denmark's relatively flexible hiring and firing rules (the so called flexicurity model) and thereby contributes to a strong labor market performance.

References:

Gonzales, C., S. Jain-Chandra, K. Kochhar, M. Newiak, and T. Zeinullayev, 2015, "Catalyst for Change: Empowering Women and Tackling Income Inequality," IMF Staff Discussion Note 15/20 (Washington: International Monetary Fund).

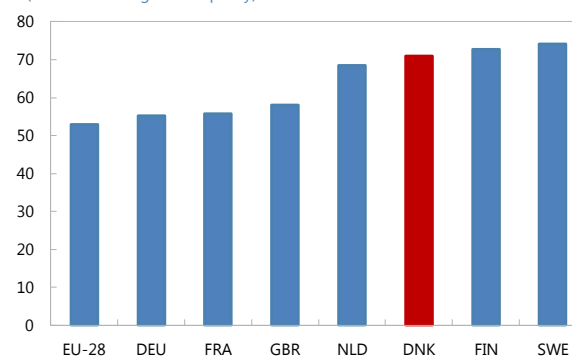
OECD, 2015, "In It Together: Why Less Inequality Benefits All," OECD Publishing (Paris: OECD).

Ostry, J., A. Berg, and C. Tsangarides, 2014, "Redistribution, Inequality, and Growth," IMF SDN 14/02 (Washington: International Monetary Fund).

Pickett, K., and R. G. Wilkinson, 2009, "The Spirit Level: Why More Equal Societies Almost Always Do Better," Bloomsbury Press.

Gender Equality Index, 2012

(Index: 100=full gender equality)



Sources: UNDP and Fund staff calculations.

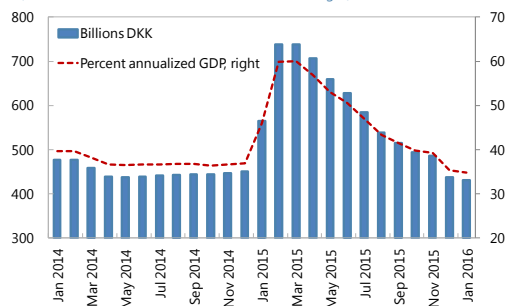
Box 2. Market Pressures in Early 2015

Demand for krone rose sharply in January 2015 after Switzerland lifted its euro ceiling. To maintain the peg to the euro DN cut its deposit interest rate in several steps from -0.05 percent to -0.75 percent. It also purchased foreign exchange to the tune of EUR 36 billion. Government debt issuance was suspended.

DN's defense of the exchange rate was successful and pressures have eased. Investors speculating on krone appreciation—curiously, mostly Danish pension funds—gradually unwound their positions from March onward. As pressures subsided, the issuance of government bonds resumed in October 2015 and the earlier foreign exchange purchases were fully reversed. Policy rates, however, have so far remained deep in negative territory though the DN raised the marginal deposit by 10 basis points in early 2016. The FX interventions and lower interest rates boosted DN's earnings by \$300 million in 2015.

International Reserves

(Billions of DKK, left; Percent of annualized GDP, right)



Sources: Danmarks Nationalbank and Fund staff calculations.

Box 3. External Sector Assessment

Denmark's current account remains in surplus. Over the past decade, the surplus has averaged 5 percent of GDP. Reflecting this, the net international investment position (NIIP) has continued to improve, reaching 47 percent of GDP in 2014 (Table 3). The financial account reflects mostly large net foreign investments from the banking sector (about 9 percent of GDP in 2015). Portfolio investment has been volatile, but on net averages around zero in recent years. As appreciation pressures have eased, international reserves have returned broadly to the 2014 level.

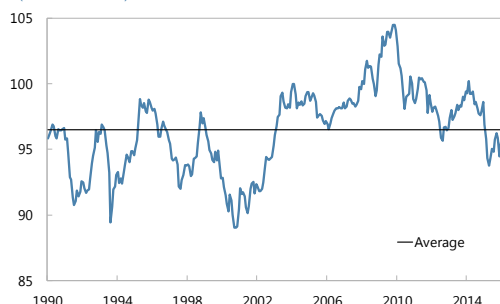
Staff assesses that the external position and the krone are broadly consistent with fundamentals and desirable policies. The Danish krone is pegged to the euro. In 2015, it depreciated by about 3.5 percent in real effective terms to a level that is broadly in line with the average over the past 25 years. The staff's assessment is informed by EBA estimates and Denmark-specific factors.

External Balance Assessment (EBA) estimates are mixed. The current account (CA) model suggest the krone is substantially undervalued implied by the large current account gap, while the REER index and level models indicate the krone is close to the norm and only moderately undervalued. Taking the EBA analyses together, the average REER gap is assessed to be less than 10 percent in 2015.

Some factors contributing to Denmark's strong external position are not fully captured in EBA. Denmark's persistent current account surpluses have been mostly driven by large savings for retirement. Merchanting trade (trade in goods that do not physically cross the border of the merchant's resident country) is also important and has been shown to cause persistently larger current account balances. Finally, the specialization of Danish firms in sectors such as design and pharmaceuticals, which have benefited from high price increases, contributes to export performance. Staff assesses that these structural factors would significantly raise the current account norm in the EBA CA approach, implying a smaller CA gap.

Real Effective Exchange Rate, CPI-Based

(Index: 2010=100)



Sources: IMF Information Notice System and Fund staff calculations.

External Balance Assessment (EBA) 2015 1/

	CA Gap (Percent of GDP)	REER Gap (Percent)
CA Analysis	7.1	-16.6
REER (index) Analysis	..	-6.9
REER (level) Analysis	..	-1.5

Sources: Fund staff calculations.

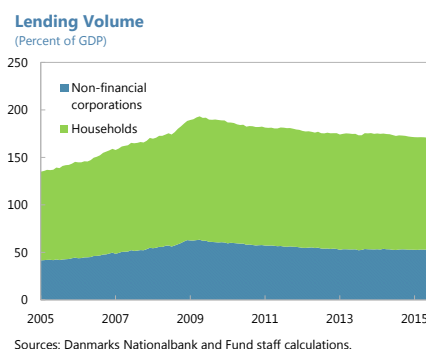
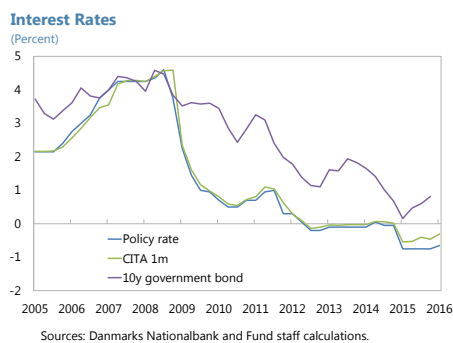
1/ REER gaps: negative indicates undervaluation.

Note: Estimates are based on data available as of April 2016.

Box 4. Four Years Into Negative Interest Rates

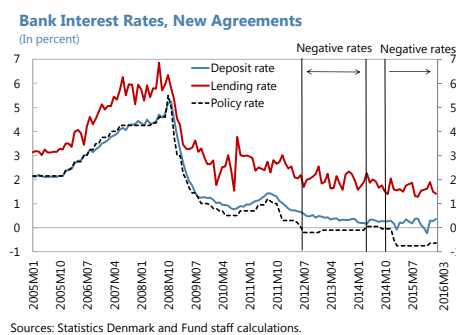
Negative rates were introduced in Denmark in 2012 to discourage capital inflows and hold the peg. In July 2012, the Danmarks Nationalbank (DN) entered uncharted waters as it steered one of its policy rates into negative territory, after facing sizeable capital inflows related to strains in the euro area. It thus became the first among European central banks to break through the “zero lower bound.” The DN’s certificates of deposit (CD) rate was initially set at -0.2 percent and raised to -0.1 percent in early 2013. After briefly exiting negative rates in April 2014, the DN broke through the zero bound again in September (-0.05 percent) when the European Central Bank (ECB) introduced a negative rate on its deposit facility. In early 2015, the DN implemented a series of deeper cuts, bringing the CD rate to a low of -0.75 percent (see Box 2).

Almost four years into negative rates, credit institutions in Denmark remain resilient. The earnings of banks have increased since negative rates were first introduced, despite persistently subdued demand for new loans. The strong profitability owes to rising fee income and historically low impairment charges which partly reflect improved debt-servicing capacity in the low interest rate environment. Meanwhile, there has been no evidence of cash hoarding among corporates or households.



Given their different funding structures, the impact on banks and mortgage credit institutions (MCIs) can be expected to differ somewhat. MCIs—which provide 65 percent of all lending to households in Denmark—have a different business model compared to banks. While banks raise funding through deposits and wholesale instruments, and invest in loans and securities, MCIs operate under the balance principle—funding their mortgage loans with issuance of covered bonds—and do not accept deposits.

Despite downward stickiness of deposit rates, bank margins have remained remarkably steady. Whereas interest rates on new deposits used to decline in line with the policy rate before the negative rate era, they have remained around zero since, with only large corporates and institutional clients facing negative rates. Pass-through to lending rates has been similarly incomplete. As a result, overall bank lending–deposit margins have remained broadly stable at 1.5 percent since 2012—about the historical average. The impact on the overall bank net interest margin was further reduced by lower costs of market funding (representing about 30 percent of bank liabilities).



Box 4. Four Years Into Negative Interest Rates (continued)

The impact on MCIs has been even more limited and demand for covered bonds remains strong. Because of their business model that relies on covered bond issuance to finance mortgage loans, MCIs realize a set fee over yields in the covered bond market. Additional income from raised fees and stronger refinancing activity has also contributed to solid margins.

Mortgage Interest Rates, New Agreements

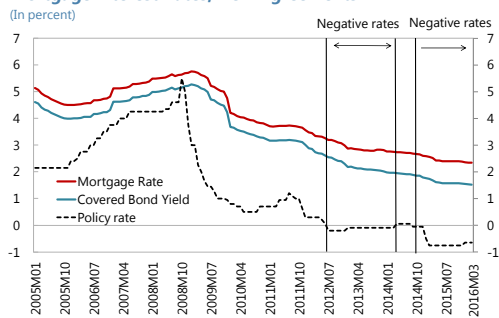
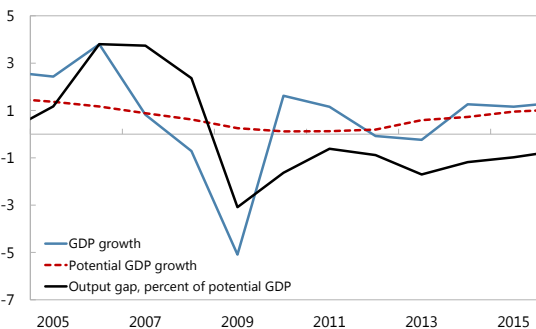


Figure 1. Denmark: Real Economy

The economy is recovering slowly...

Growth of Real and Potential GDP

(Percent)

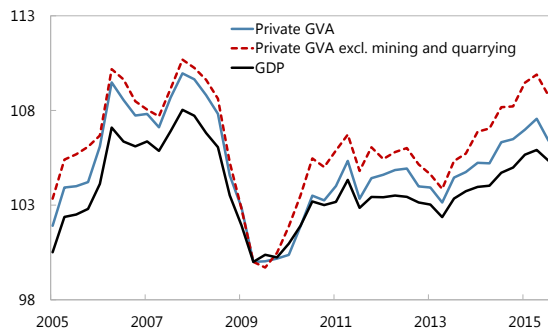


Sources: IMF World Economic Outlook and Fund staff calculations.

...though growth excluding the oil sector is stronger

Real GDP and Private Gross Value Added

(Index, 2009Q1=100; last observation: 2015Q4)

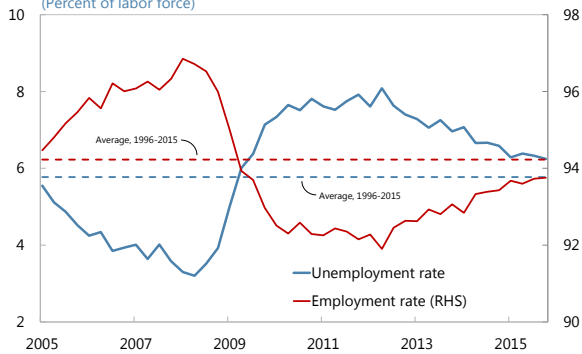


Sources: Statistics Denmark and Fund staff calculations.

Employment continues to increase steadily...

Unemployment and Employment Rates

(Percent of labor force)

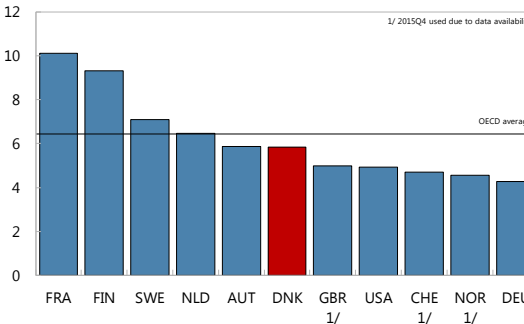


Sources: Statistics Denmark and Fund staff calculations.

...and the unemployment rate is low compared to peers.

Unemployment Rate, 2016Q1

(Percent of labor force)

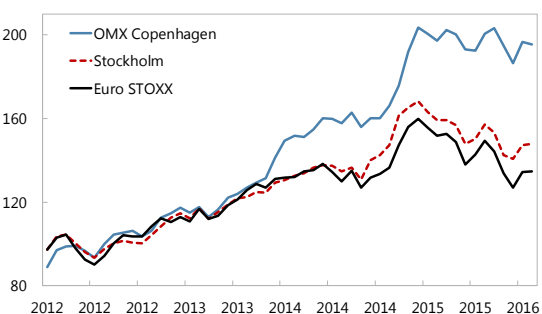


Sources: OECD and Fund staff calculations.

Equity prices have risen much faster than the real economy and international comparators.

Equity Prices

(Index: 2012=100)

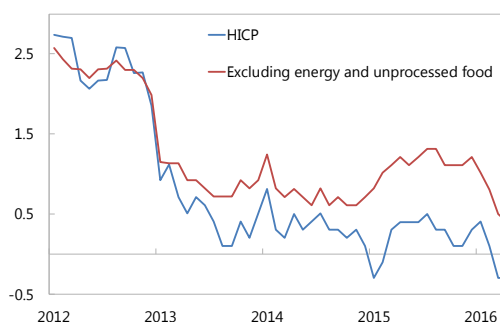


Sources: Danmarks Nationalbank, European Central Bank, Financial Times, and Fund staff calculations.

Inflation remains very low.

Inflation

(Y/Y percent change)



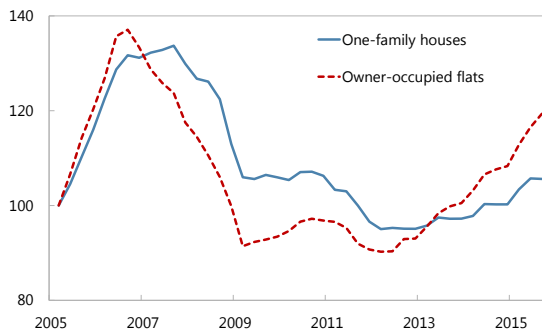
Sources: Statistics Denmark and Fund staff calculations.

Figure 2. Denmark: Housing Sector

House prices continue to rise, especially for flats....

Real House Prices

(Index, 2005Q1 = 100)

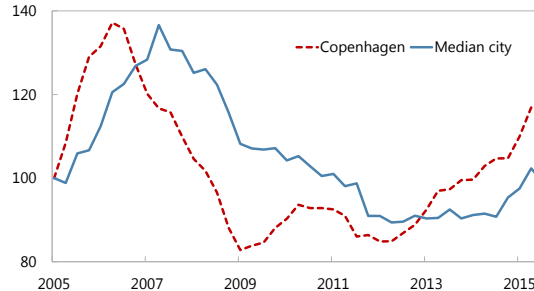


Sources: Statistics Denmark and Fund staff calculations.

.... and in the large cities such as Copenhagen.

Real Property Prices in Copenhagen and Median City

(Index, 2005Q1 = 100)



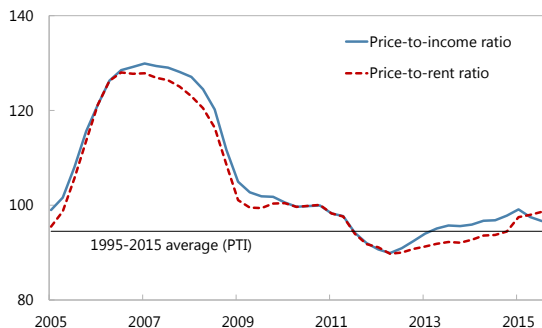
Sources: Statistics Denmark and Fund staff calculations.

Note: Prices refer to the weighted average of prices (per square feet) of single-family houses and flats (weight is share of housing stock), deflated by CPI.

But average affordability ratios remain below the levels of the last housing boom.

Price-to-Income and Price-to-Rent Ratios

(Index, 2010=100)

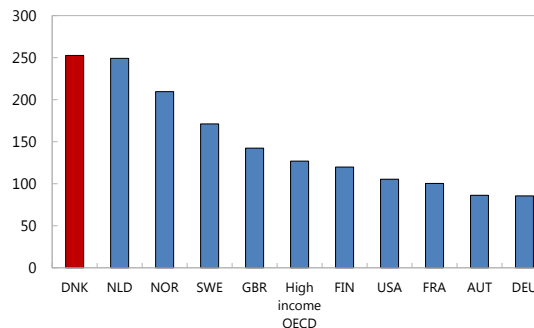


Sources: OECD and Fund staff calculations.

Danish households are among the most indebted in the world.

Household Debt, 2015Q3

(Percent of gross disposable income)

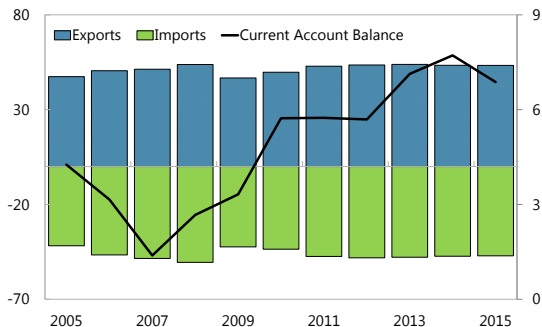


Sources: OECD and Fund staff calculations.

Figure 3. Denmark: External Sector

The current account surplus has reached a high level as households restore balance sheets...

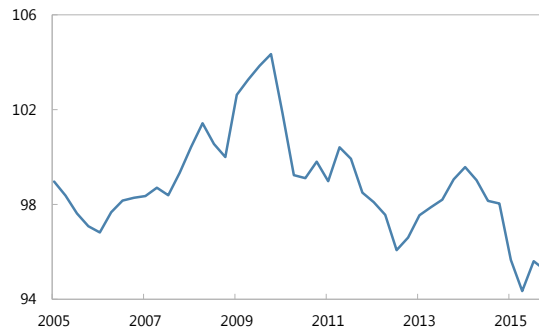
Current Account and Trade in Goods and Services
(Percent of GDP)



Sources: IMF World Economic Outlook and Fund staff calculations.

.... and the exchange rate has depreciated.

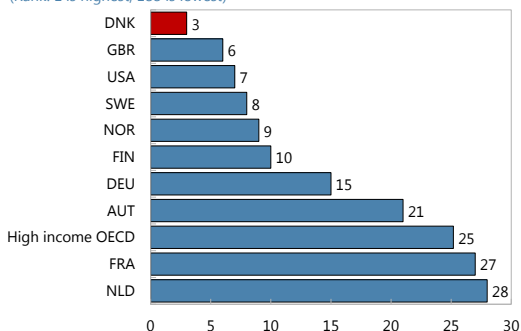
Real Effective Exchange Rate
(Index: 2010=100)



Sources: IMF Information Notice System and Fund staff calculations.

Denmark continues to score high in business...

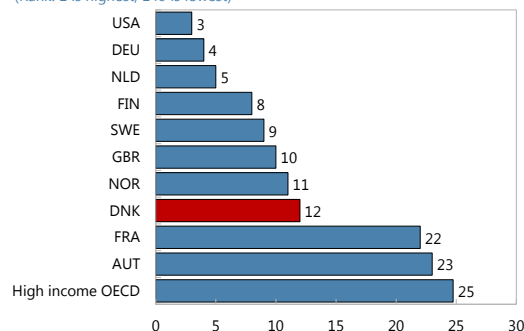
Doing Business Overall, 2016
(Rank: 1 is highest, 188 is lowest)



Sources: World Bank Doing Business 2016 and Fund staff calculations.

.... and competitiveness rankings.

Global Competitiveness Index, 2015-16
(Rank: 1 is highest, 140 is lowest)



Sources: World Economic Forum and Fund staff calculations.

Table 1. Denmark: Selected Economic and Social Indicators, 2013–21

	2013	2014	2015 est.	2016 proj.	2017 proj.	2018 proj.	2019 proj.	2020 proj.	2021 proj.
Supply and Demand (change in percent)									
Real GDP	-0.2	1.3	1.2	1.3	1.6	1.8	1.8	1.9	1.8
Final domestic demand	0.0	1.0	1.5	1.5	1.8	2.0	2.0	2.0	2.0
Private consumption	-0.1	0.5	2.1	2.1	2.4	2.5	2.5	2.5	2.5
Public consumption	-0.7	0.2	0.9	0.2	0.2	0.2	0.2	0.2	0.2
Gross fixed investment	1.1	3.4	0.8	2.0	2.5	3.0	3.0	3.0	2.8
Net exports 1/	-0.1	0.1	0.1	-0.2	-0.1	-0.1	-0.1	0.0	0.0
Gross national saving (percent of GDP)	26.6	27.6	26.3	26.0	26.0	26.0	26.0	26.1	26.1
Gross domestic investment (percent of GDP)	18.9	19.1	19.0	19.1	19.1	19.3	19.4	19.6	19.7
Potential output	0.6	0.7	1.0	1.0	1.4	1.6	1.5	1.9	1.8
Output gap (percent of potential output)	-1.7	-1.2	-1.0	-0.7	-0.5	-0.3	0.0	0.0	0.1
Labor Market (change in percent) 2/									
Labor force	-0.3	0.5	1.1	0.5	0.6	0.7	0.8	0.8	0.8
Employment	0.2	1.0	1.5	0.7	0.8	0.7	0.9	0.8	0.8
Harmonized unemployment rate (percent)	7.0	6.5	6.2	6.0	5.8	5.8	5.7	5.7	5.7
Prices and Costs (change in percent)									
GDP deflator	1.4	0.8	1.0	0.7	1.8	2.0	2.3	2.4	2.3
CPI (year average)	0.8	0.6	0.5	0.7	1.2	1.4	1.8	2.0	2.0
Public Finance (percent of GDP) 3/									
Total revenues	55.5	57.4	53.6	51.1	50.0	49.7	49.5	49.4	49.4
Total expenditures	56.5	56.0	55.7	53.5	51.9	51.4	51.0	50.6	50.4
Overall balance	-1.1	1.5	-2.1	-2.3	-1.9	-1.7	-1.5	-1.2	-1.0
Primary balance 4/	-0.9	1.6	-1.4	-1.6	-1.3	-1.4	-1.3	-1.0	-0.8
Cyclically-adjusted balance (percent of potential GDP)	0.2	2.4	-1.3	-1.8	-1.5	-1.5	-1.5	-1.2	-1.1
Structural balance (percent of potential GDP) 5/	-0.9	-1.4	-1.1	-0.9	-0.9	-0.8	-0.7	-0.5	-0.4
Gross debt	44.6	44.6	45.8	47.2	47.5	47.5	47.1	46.3	45.5
Money and Interest Rates (percent)									
Domestic credit growth (end of year)	0.6	0.7	0.0	...	...	...	...	...	...
M3 growth (end of year)	-1.7	12.6	11.9	...	...	...	...	...	...
Short-term interbank interest rate (3 month)	0.3	0.3	-0.1	...	...	...	...	...	...
Government bond yield (10 year)	1.8	1.3	0.7	...	...	...	...	...	...
Balance of Payments (percent of GDP)									
Exports of goods & services	53.9	53.4	53.4	52.4	54.2	55.7	57.1	58.3	59.5
Imports of goods & services	47.8	47.3	47.1	46.8	48.8	50.4	51.9	53.2	54.6
Trade balance, goods and services	6.0	6.1	6.3	5.6	5.5	5.3	5.2	5.1	4.9
Oil trade balance	-0.1	-0.2	-0.2	-0.3	-0.5	-0.6	-0.8	-0.9	-1.1
Current account	7.1	7.7	6.9	6.5	6.4	6.2	6.1	6.0	5.8
International reserves, changes	-0.3	-2.1	-1.2	...	...	...	...	...	...
Exchange Rate									
Average DKK per US\$ rate	5.6	5.6	6.7	...	...	...	...	...	...
Nominal effective rate (2010=100, ULC based)	98.7	99.5	96.5	...	...	...	...	...	...
Real effective rate (2010=100, ULC based)	99.1	101.3	99.6	...	...	...	...	...	...

Social indicators (Reference year)

GDP per capita, USD (2013): \$59,129; At-risk-of-poverty rate (2012): 19.0 percent.

Sources: Danmarks Nationalbank, Eurostat, IMF *World Economic Outlook*, Statistics Denmark, World Bank WDI, and Fund staff calculations.

1/ Contribution to GDP growth.

2/ Based on Eurostat definition.

3/ General government.

4/ Overall balance net of interest.

5/ Cyclically-adjusted balance net of temporary fluctuations in some revenues (e.g., North Sea revenue, pension yield tax revenue) and one-offs.

Table 2. Denmark: Balance of Payments, 2013–21

	2013	2014	2015	2016	2017	2018	2019	2020	2021
			est.	proj.	proj.	proj.	proj.	proj.	proj.
<i>(Bil. Danish Kroner)</i>									
Current Account	135.8	149.9	136.4	131.9	133.9	135.7	137.2	140.3	142.6
Balance on Goods	65.8	58.5	74.8	64.7	64.8	64.8	64.3	65.5	65.9
Merchandise exports f.o.b.	625.9	627.8	645.7	625.9	672.2	716.7	763.8	813.5	863.1
Merchandise imports f.o.b.	560.1	569.3	570.9	561.2	607.4	651.9	699.5	748.0	797.2
Balance on Services	49.3	59.3	50.1	49.0	50.2	51.4	52.5	53.6	54.5
Exports of services, total	400.1	409.3	413.4	434.3	463.0	493.5	526.0	560.6	597.6
Imports of services, total	350.8	349.9	363.3	385.4	412.7	442.1	473.4	507.1	543.1
Balance on Income	20.6	32.1	11.5	18.2	18.8	19.5	20.3	21.2	22.1
Capital and Financial Account	75.5	130.9	153.8	131.9	133.9	135.7	137.2	140.3	142.6
Capital transfer, net	0.1	-0.3	0.6	0.6	0.6	0.6	0.7	0.7	0.7
Financial Account	75.4	131.2	153.2	131.3	133.3	135.1	136.6	139.6	141.9
Direct investment, net	35.5	30.5	61.2	33.1	34.2	35.5	36.9	38.5	40.2
Abroad	39.4	51.4	73.1	36.1	37.3	38.8	40.3	42.1	43.8
In Denmark	3.9	20.9	11.9	3.0	3.1	3.3	3.4	3.5	3.7
Portfolio investment, net	-66.1	31.5	-101.6	-11.3	-11.7	-12.2	-12.7	-13.2	-13.8
Assets	23.3	173.6	-57.9	58.9	60.9	63.2	65.7	68.6	71.4
Liabilities	89.4	142.1	43.6	70.2	72.6	75.3	78.4	81.8	85.2
Financial derivatives, net	-52.8	-4.1	32.7	-15.0	-15.5	-16.1	-16.7	-17.4	-18.2
Other investment, net	165.0	114.0	183.8	124.5	126.2	127.8	129.0	131.7	133.7
Reserve assets	-6.1	-40.8	-22.9	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	60.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
<i>(in percent of GDP)</i>									
Current Account	7.1	7.7	6.9	6.5	6.4	6.2	6.1	6.0	5.8
Balance on Goods	3.5	3.0	3.8	3.2	3.1	3.0	2.8	2.8	2.7
Merchandise exports f.o.b.	32.9	32.3	32.5	30.9	32.1	33.0	33.8	34.5	35.1
Merchandise imports f.o.b.	29.4	29.3	28.8	27.7	29.0	30.0	30.9	31.7	32.4
Balance on Services	2.6	3.1	2.5	2.4	2.4	2.4	2.3	2.3	2.2
Exports of services, total	21.0	21.1	20.8	21.5	22.1	22.7	23.3	23.8	24.3
Imports of services, total	18.4	18.0	18.3	19.0	19.7	20.4	20.9	21.5	22.1
Balance on Income	1.1	1.7	0.6	0.9	0.9	0.9	0.9	0.9	0.9
Capital and Financial Account	4.0	6.7	7.7	6.5	6.4	6.2	6.1	6.0	5.8
Capital transfer, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account	4.0	6.8	7.7	6.5	6.4	6.2	6.0	5.9	5.8
Direct investment, net	1.9	1.6	3.1	1.6	1.6	1.6	1.6	1.6	1.6
Abroad	2.1	2.6	3.7	1.8	1.8	1.8	1.8	1.8	1.8
In Denmark	0.2	1.1	0.6	0.2	0.2	0.2	0.2	0.2	0.2
Portfolio investment, net	-3.5	1.6	-5.1	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Assets	1.2	8.9	-2.9	2.9	2.9	2.9	2.9	2.9	2.9
Liabilities	4.7	7.3	2.2	3.5	3.5	3.5	3.5	3.5	3.5
Financial derivatives, net	-2.8	-0.2	1.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Other investment, net	8.7	5.9	9.3	6.1	6.0	5.9	5.7	5.6	5.4
Reserve assets	-0.3	-2.1	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>									
Net oil and oil-related exports	-0.1	-0.2	...	...	...	...	...	...	...
Net sea transportation receipts	3.1	3.4	...	...	...	...	...	...	...
Current Account net of items above	4.1	4.6	...	...	...	...	...	...	...
Gross External Debt	171.5	...	...	...	...	...	...	...	...
Gross Domestic Product	1,904	1,943	1,984	2,024	2,093	2,172	2,260	2,357	2,457

Sources: National Bank of Denmark, Statistics Denmark, and Fund staff calculations.

Table 3. Denmark: Net International Investment Position, 2010–14
(percent of GDP)

	2010	2011	2012	2013	2014
ASSETS	256.7	259.2	272.5	279.1	297.1
Direct investment	69.4	72.5	74.9	74.9	78.8
Equity & investment fund shares	46.3	46.2	51.4	52.6	56.3
Debt instruments	23.0	26.3	23.5	22.3	22.5
Portfolio investment	101.3	97.6	110.5	114.5	134.7
Equity & investment fund shares	42.5	40.5	48.9	58.0	68.2
Debt securities	58.8	57.0	61.6	56.5	66.5
Fin. deriv. (other than reserves)	2.1	6.5	5.6	3.6	4.8
Other investment	60.0	56.0	54.5	60.9	55.3
Reserve assets	23.9	26.7	27.1	25.2	23.6
LIABILITIES	243.7	231.9	236.6	240.9	250.1
Direct investment	43.8	43.9	43.8	41.6	45.9
Equity & investment fund shares	27.5	27.4	27.3	26.1	29.3
Debt instruments	16.2	16.5	16.6	15.5	16.7
Portfolio investment	109.0	104.7	112.7	120.6	137.0
Equity & investment fund shares	28.9	24.6	32.3	41.3	52.3
Debt securities	80.0	80.1	80.4	79.2	84.7
Other investment	91.0	83.3	80.1	78.7	67.2
NET INVESTMENT POSITION	13.0	27.3	35.9	38.2	47.1
Direct Investment	25.6	28.6	31.1	33.3	32.9
Portfolio Investment	-7.7	-7.2	-2.2	-6.1	-2.3
Other Investment	-30.9	-27.3	-25.6	-17.8	-11.9

Sources: International Financial Statistics and Fund staff calculations.

Table 4. Denmark: Public Finances, 2013–21
(in percent of GDP)

	2013	2014	2015 est.	2016 proj.	2017 proj.	2018 proj.	2019 proj.	2020 proj.	2021 proj.
General Government									
Total Revenues	55.5	57.4	53.6	51.1	50.0	49.7	49.5	49.4	49.4
Personal Income Taxes	25.3	26.6	25.0	21.6	20.9	20.4	20.1	19.9	19.9
Pension Return Taxes	1.0	2.8	1.1	0.8	0.8	0.8	0.8	0.8	0.8
Company Taxes	2.8	2.7	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Taxes on Goods and Services	14.6	14.5	14.5	14.8	14.8	14.8	14.8	14.8	14.8
Social Contributions	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Interest and Dividends	1.3	1.1	0.8	0.7	0.7	1.0	1.0	1.0	1.0
Other revenues	10.0	9.4	9.4	10.5	10.0	9.9	10.0	10.1	10.1
Total Expenditures	56.5	56.0	55.7	53.5	51.9	51.4	51.0	50.6	50.4
Public Consumption	26.0	25.8	25.7	25.9	25.8	25.7	25.6	25.4	25.2
Public Subsidies	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Interest Expenditures	1.7	1.5	1.6	1.4	1.3	1.3	1.2	1.2	1.2
Social Expenditures	19.5	19.4	19.3	18.2	16.8	16.5	16.3	16.1	16.1
Other Expenditures	7.1	7.1	7.1	6.0	6.0	5.9	5.9	5.9	5.9
Balance	-1.1	1.5	-2.1	-2.3	-1.9	-1.7	-1.5	-1.2	-1.0
Primary Balance 1/	-0.9	1.6	-1.4	-1.6	-1.3	-1.4	-1.3	-1.0	-0.8
Structural Balance 2/	-0.9	-1.4	-1.1	-0.9	-0.9	-0.8	-0.7	-0.5	-0.4
One-off Measures 2/ 3/	1.2	3.8	-0.2	-0.9	-0.5	-0.6	-0.8	-0.7	-0.7
Cyclically Adjusted Balance 2/	0.2	2.4	-1.3	-1.8	-1.5	-1.5	-1.5	-1.2	-1.1
Gross Debt	44.6	44.6	45.8	47.2	47.5	47.5	47.1	46.3	45.5
Memorandum Item									
Gross Domestic Product	1904	1943	1984	2024	2093	2172	2260	2357	2457

Sources: Statistics Denmark and Fund staff calculations.

1/ Overall balance net of interest.

2/ In percent of potential GDP.

3/ One-off items relate to vehicle registration tax, pension yield tax, North Sea oil and gas revenue, net interest payments, and other special items.

Table 5. Denmark: GFSM 2001 Statement of General Government Operations, 2013–21
(Bil. Danish Kroner)

	2013	2014	2015 est.	2016 proj.	2017 proj.	2018 proj.	2019 proj.	2020 proj.	2021 proj.
General Government									
Total Revenues	1055.9	1115.7	1064.2	1035.3	1046.7	1079.4	1118.7	1164.1	1213.3
Personal Income Taxes	482.3	516.7	495.5	437.3	437.3	443.0	454.3	469.1	488.9
Pension Return Taxes	20.0	54.4	22.5	16.2	16.7	17.4	18.1	18.9	19.7
Company Taxes	53.1	51.9	50.1	50.6	52.3	54.3	56.5	58.9	61.4
Taxes on Goods and Services	278.9	282.6	288.3	299.6	309.7	321.4	334.5	348.9	363.6
Social Contributions	6.7	6.1	5.7	5.8	6.0	6.2	6.5	6.8	7.1
Interest and Dividends	24.3	21.9	16.6	14.2	14.6	21.7	22.6	23.6	24.6
Other revenues	190.8	182.2	185.6	211.6	209.9	215.3	226.1	238.0	248.1
Total Expenditures	1076.3	1087.2	1105.3	1082.2	1085.5	1116.3	1152.0	1192.5	1238.9
Expense	704.2	709.4	722.0	713.8	733.9	758.0	783.6	813.0	843.3
Public Consumption	495.1	501.2	509.7	523.5	539.3	558.2	577.9	598.5	619.8
Public Subsidies	41.1	40.5	39.9	40.5	41.9	43.4	45.2	47.1	49.1
Interest Expenditures	32.1	29.2	31.6	28.3	27.2	28.2	27.1	28.3	29.5
Social Benefits	372.0	377.8	383.3	368.4	351.6	358.3	368.4	379.5	395.5
Other Expenditures	-236.1	-239.3	-242.5	-247.0	-226.0	-230.2	-235.1	-240.4	-250.6
Net Acquisition of Nonfinancial Assets	372.0	377.8	383.3	368.4	351.6	358.3	368.4	379.5	395.5
Gross operating balance	351.7	406.3	342.2	321.6	312.8	321.4	335.1	351.1	370.0
Net lending/borrowing	-20.4	28.5	-41.1	-46.9	-38.8	-36.9	-33.4	-28.4	-25.6
Net financial transactions	-20.4	28.5	-41.1	..	..	..	..	..	..
Net acquisition of financial assets	-13.6	50.0	-118.2	..	..	..	..	..	..
Currency and deposits	-1.4	51.8	-51.0	..	..	..	..	..	..
Securities other than shares	-12.5	-35.2	-0.7	..	..	..	..	..	..
Loans	12.4	4.5	6.6	..	..	..	..	..	..
Shares and other equity	3.5	2.4	7.5	..	..	..	..	..	..
Insurance technical reserves	0.1	0.1	0.1	..	..	..	..	..	..
Financial derivatives and employee stock options	-3.5	-3.4	-3.1	..	..	..	..	..	..
Other financial assets	-12.3	29.8	-77.6	..	..	..	..	..	..
Net incurrence of liabilities	6.8	21.5	-77.2	..	..	..	..	..	..
Currency and deposits	-0.1	0.5	0.4	..	..	..	..	..	..
Securities other than shares	-11.6	15.1	-81.4	..	..	..	..	..	..
Loans	10.2	1.9	2.4	..	..	..	..	..	..
Shares and Other Equity	0.0	0.0	0.0	..	..	..	..	..	..
Insurance Technical Reserves	0.0	0.0	0.0	..	..	..	..	..	..
Other liabilities	8.3	4.0	1.3	..	..	..	..	..	..

Sources: Statistics Denmark and Fund staff calculations.

Table 6. Denmark: Financial Soundness Indicators, 2010–15

(In percent)

	2010	2011	2012	2013	2014	2015
Deposit-taking institutions: Total						
Regulatory capital to risk-weighted assets	17.9	20.1	22.1	22.3	21.0	21.8
Regulatory Tier I capital to risk-weighted assets	15.1	17.2	19.2	19.5	18.5	19.5
Core / Common Equity Tier 1 capital to risk-weighted assets	12.2	14.4	16.3	16.7	17.3	17.8
Nonperforming loans net of provisions to capital	22.9	22	22.9	22.4	22.00	17.8
Bank provisions to Nonperforming loans	55.2	50.2	50.8	51	50.3	50.5
Nonperforming loans to total gross loans	7.9	7.9	8.3	8.7	8.2	6.9
Sectoral distribution of loans to total loans, <i>of which</i>						
Nonfinancial corporation	41.8	43.5	39.1	37	37.3	39.5
Households (including individual firms)	31.1	32.5	33.1	32	32.5	32.8
ROA (aggregated data on a parent-company basis) 2/	0.1	0.1	0.2	0.4	0.4	0.8
ROA (main groups on a consolidated basis) 3/	0.1	0.1	0.2	0.4	0.3	0.5
ROE (aggregated data on a parent-company basis) 2/	1.7	1.3	2.7	5.7	5.6	9.1
ROE (main groups on a consolidated basis) 3/	2.2	2.1	3.4	6.9	6.4	10.2
Interest margin to gross income	70.1	73.4	67	64.2	60.0	54.4
Noninterest expenses to gross income	42.7	43.8	44.9	47.2	55.5	55.2
Liquid assets to total assets	27.8	23.6	27	30.9	27.3	31.4
Liquid assets to short-term liabilities	45.6	37.3	45.4	49.8	42.0	50.3
Foreign currency position	3.4	2.8	1.4	1.2	1.7	1.5
1/ These may be grouped in different peer groups based on control, business lines, or group structure.						
2/ All credit institutions' aggregated data on a parent-compa						
3/ Consolidated data for the five main banking groups (IFRS).						

Annex I. Risk Assessment Matrix¹

Potential Deviations from Baseline

Source of Risks and Relative Likelihood (High, medium, or low)	Expected Impact if Risk is Realized (High, medium, or low)	Policy response
Medium Tighter or more volatile global financial conditions:	Medium Higher interest rates would burden households—as the majority of mortgages have variable interest rates—and dampen consumption, thereby slowing or reversing the recovery.	Allow automatic stabilizers to operate and delay further fiscal consolidation. Reduce vulnerabilities of the financial sector by expanding the macroprudential toolkit.
Medium/ High Structurally weak growth in key advanced and emerging economies	Medium Given Denmark’s geographically dispersed exports, slower growth in advanced economies or emerging markets for an extended period would weaken exports and lower domestic demand, which in turn would have a negative effect on growth.	Allow automatic stabilizers to operate and delay further fiscal consolidation. Move ahead with structural reforms to improve competitiveness.
Low A drop in confidence in covered bonds	High This risk could lead to a reassessment of household credit quality and depress consumption through higher interest rates and lower house prices.	Use regulatory policies to encourage longer bond maturities and increase buffers in loans with interest-only periods, e.g., by reducing the loan-to-value ceiling.
Medium Failure to effectively address housing risks	High A new boom/bust cycle in the housing market would compromise the balance sheets of highly-indebted Danish households, with severe knock-on effects on consumption and the economy.	Continue vigilant financial supervisory oversight and use macroprudential and tax policies in a consistent manner to discourage further build-up of housing debt. Address bottlenecks in rental market and zoning policies.
High British voters elect to leave the EU	High British voters elect to leave the EU in their June 23rd referendum, with subsequent renegotiation of cross-border trade, financial, and migration relationships. A period of elevated financial volatility and heightened uncertainty could ensue, with potential contagion. The economic performance of affected countries could also diminish in the long run due to increased barriers. Support for eurosceptic parties and resistance to economic integration may also increase.	Ensure robust contingency planning for operational risks that may arise in the event of heightened market volatility. Re-double efforts to secure the benefits of economic integration and cooperation across Europe.

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff’s subjective assessment of the risks surrounding the baseline (“low” is meant to indicate a probability below 10 percent, “medium” a probability between 10 and 30 percent, and “high” a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. “Short term” and “medium term” are meant to indicate that the risk could materialize within one year and three years, respectively.

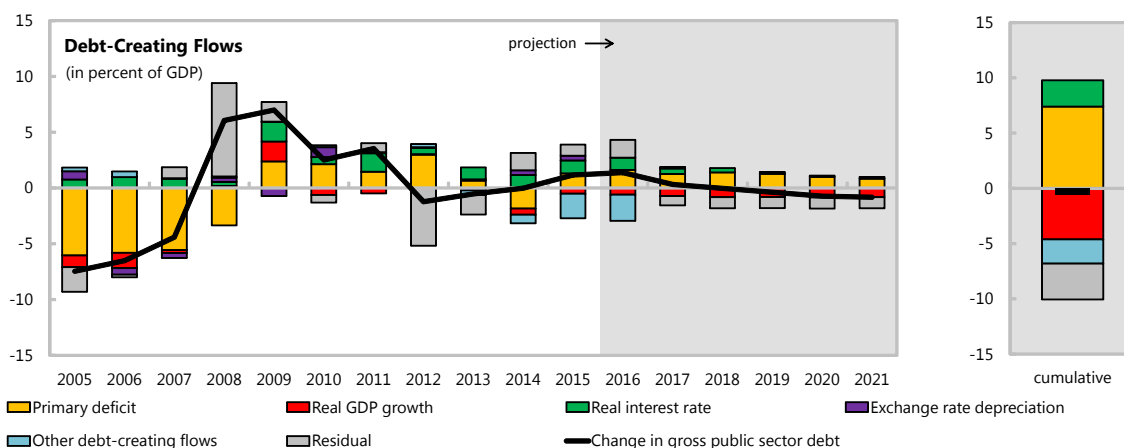
Annex II. Public Sector Debt Sustainability Analysis— Baseline Scenario

Debt, Economic and Market Indicators ^{1/}

	Actual			Projections						As of May 12, 2016		
	2005-2013 ^{2/}	2014	2015	2016	2017	2018	2019	2020	2021	Sovereign Spreads		
Nominal gross public debt	38.9	44.6	45.8	47.2	47.5	47.5	47.1	46.3	45.5	EMBIG (bp) ^{3/}		29
Public gross financing needs	-2.5	1.5	9.3	7.9	6.6	6.8	8.0	5.9	6.4	5Y CDS (bp)		22
Real GDP growth (in percent)	0.4	1.3	1.2	1.3	1.6	1.8	1.8	1.9	1.8	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	2.3	0.8	1.0	0.7	1.8	2.0	2.3	2.4	2.3	Moody's	Aaa	Aaa
Nominal GDP growth (in percent)	2.7	2.1	2.2	2.0	3.4	3.8	4.1	4.3	4.2	S&Ps	AAA	AAA
Effective interest rate (in percent) ^{4/}	4.8	3.4	3.6	3.1	2.8	2.8	2.6	2.7	2.7	Fitch	AAA	AAA

Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing primary balance ^{9/}
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021		
Change in gross public sector debt	-0.1	0.0	1.2	1.4	0.3	0.0	-0.4	-0.7	-0.8	-0.3	
Identified debt-creating flows	-0.3	-1.6	0.2	-0.2	1.2	1.0	0.6	0.3	0.2	3.0	
Primary deficit	-1.2	-1.8	1.3	1.6	1.3	1.4	1.3	1.0	0.8	7.4	
Primary (noninterest) revenue and grants	53.5	56.3	52.8	50.4	49.3	48.7	48.5	48.4	48.4	293.7	
Primary (noninterest) expenditure	52.3	54.5	54.1	52.1	50.6	50.1	49.8	49.4	49.2	301.1	
Automatic debt dynamics ^{5/}	0.8	1.0	1.1	0.5	-0.2	-0.4	-0.7	-0.7	-0.7	-2.2	
Interest rate/growth differential ^{6/}	0.8	0.6	0.7	0.5	-0.2	-0.4	-0.7	-0.7	-0.7	-2.2	
Of which: real interest rate	1.0	1.2	1.2	1.1	0.5	0.4	0.2	0.1	0.1	2.4	
Of which: real GDP growth	-0.2	-0.6	-0.5	-0.6	-0.7	-0.8	-0.8	-0.8	-0.8	-4.6	
Exchange rate depreciation ^{7/}	0.0	0.4	0.4	...	...	...	...	...	...	...
Other identified debt-creating flows	0.1	-0.8	-2.2	-2.3	0.1	0.0	0.0	0.0	0.0	-2.2	
Fiscal, General Government, Memorandum	0.0	-1.1	-2.5	-2.6	0.0	0.0	0.0	0.0	0.0	-2.6	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroarea)	0.2	0.3	0.3	0.3	0.1	0.0	0.0	0.0	0.0	0.4	
Residual, including asset changes ^{8/}	0.2	1.6	1.0	1.6	-0.8	-1.0	-1.0	-1.0	-1.0	-3.2	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+gn)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

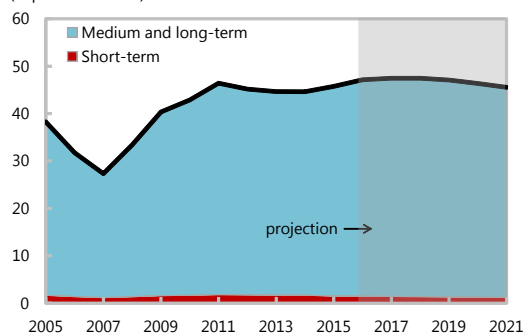
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Annex II. Public Sector Debt Sustainability Analysis—Baseline Scenario (continued)

Composition of Public Debt

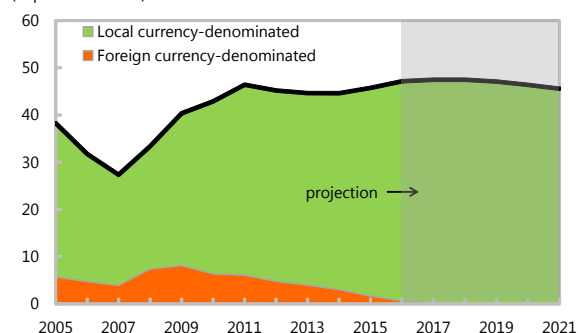
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

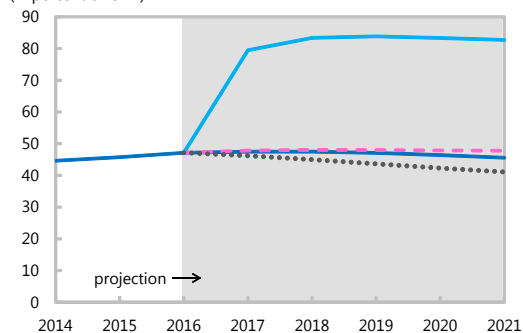


Alternative Scenarios

— Baseline Historical - - - - Constant Primary Balance
 — Contingent Liability Shock

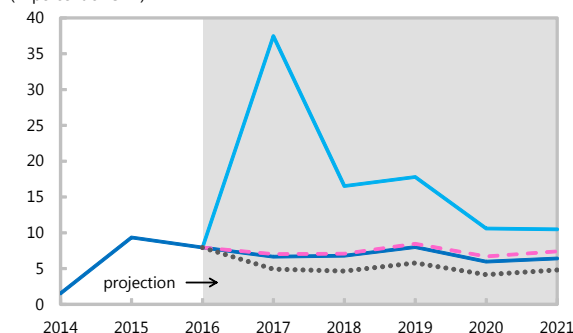
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Scenario	2016	2017	2018	2019	2020	2021
Baseline Scenario						
Real GDP growth	1.3	1.6	1.8	1.8	1.9	1.8
Inflation	0.7	1.8	2.0	2.3	2.4	2.3
Primary Balance	-1.6	-1.3	-1.4	-1.3	-1.0	-0.8
Effective interest rate	3.1	2.9	2.9	2.7	2.7	2.8
Constant Primary Balance Scenario						
Real GDP growth	1.3	1.6	1.8	1.8	1.9	1.8
Inflation	0.7	1.8	2.0	2.3	2.4	2.3
Primary Balance	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6
Effective interest rate	3.1	2.9	2.9	2.6	2.7	2.7
Historical Scenario						
Real GDP growth	1.3	0.4	0.4	0.4	0.4	0.4
Inflation	0.7	1.8	2.0	2.3	2.4	2.3
Primary Balance	-1.6	0.6	0.6	0.6	0.6	0.6
Effective interest rate	3.1	2.9	3.2	3.2	3.4	3.7
Contingent Liability Shock						
Real GDP growth	1.3	-0.7	-0.5	1.8	1.9	1.8
Inflation	0.7	1.2	1.4	2.3	2.4	2.3
Primary Balance	-1.6	-31.8	-1.4	-1.3	-1.0	-0.8
Effective interest rate	3.1	3.2	5.4	4.4	3.7	3.7

Source: IMF staff.

Annex III. FSAP Update: Status of Main Recommendations

The authorities have made progress in implementing the recommendations of the 2014 FSAP.

Specifically, the DFSA has introduced new guidance in the form of a “Supervisory Diamond for mortgage credit institutions” (MCIs), which will become effective between 2018 and 2020 and consists of 5 indicators with corresponding limits on the risks of the institutions. Also, home buyers are now required to make a down payment of at least five percent when purchasing a home, while commercial properties need to generate a positive cash flow to be eligible for bank financing. The DFSA also issued a separate guideline of “seven best practices” for banks and MCIs to ensure caution in housing lending in areas with large price increases (e.g., Copenhagen and Aarhus). The best practices entered into effect in January 2016 and institutions are expected to follow them according to a “comply or explain” mechanism.

Recommendations and Authority Responsible for Implementation	Priority ^{1/}	Status
Mortgage finance		
Reduce refinancing risk by putting into place regulatory policies to encourage longer bond maturities.	Short term	One indicator from the new Supervisory Diamond for MCIs introduces a limit on short term funding and will enter into force from 2020: The share of lending that is refinanced should be less than 12.5 percent of total lending per quarter and lower than 25 percent of total lending per year. Earlier legislation in March 2014 also requires contingent maturity extension for new mortgage bonds in stress situations. The extension takes effect if a refinancing auction fails, or if the interest rate on mortgage bonds with an original maturity of less than two years rises by more than five percentage points within one year.
Limit impact of the eventual normalization of interest rates by ensuring that the credit risk is adequately taken into account in loan pricing and approvals.	Short term	One indicator from the Supervisory Diamond for MCIs, coming into force from 2018, limits the share of loans where the LTV exceeds 75 percent of the lending limit for MCIs and where interest rate is fixed for less than two years to less than 25 percent of the total loan portfolio. Further, two of the seven best practices for banks and MCIs address the eventual normalization of interest rates. First, when granting adjustable rate loans for housing, banks must assess clients’ payment ability under a scenario of higher interest rates. Second, when granting loans for buying shares in cooperative housing associations, banks should stress test the relevant association’s debt under a scenario of higher interest rates.
Increase buffers in loans with interest-only (IO) periods by lowering LTV caps for such loans, requiring amortization to a lower ceiling, and/or by imposing higher capital charges or credit loss provisions until IO periods expire.	Short term	One indicator from the Supervisory Diamond for MCIs, entering into force from 2020, caps the share of IO lending (no amortization) in the LTV band above 75 percent of the lending limit for MCIs at 10 percent of total lending.
Prudential supervision		
Reduce the length of examination cycles for banks and insurance companies, which will require additional supervisory resources.	Short term	The DFSA has been granted additional resources from 2016 to increase the number of on-site inspections of banks and insurance companies. The examination cycles for the 18 smallest and least risky banks will be shortened from a maximum interval of six years to a maximum of four years, with the annual cycles for systemically important institutions unchanged. For insurance companies, the examination cycles will be reduced from a maximum interval of six years to a maximum of four years, except for the largest eight companies for which cycles will be reduced to a maximum of two years. The DFSA is also planning to introduce short focused on-site inspections for banks to complement the existing full scale on-site inspections.

Annex III. FSAP Update: Status of Main Recommendations (continued)

Ensure operational independence of the DFSA by establishing a set of supervisory imperatives wholly within the authority of the Director General and by lengthening the terms of the Board members and establishing a formal vetting process.	Medium term	No action has been taken.
Bank supervision		
Broaden reporting of information on operational and market risk.	Short term	The DFSA has compiled new reporting templates for market risk and operational risk, which will complement existing routine reporting.
Ensure systematic review of Pillar III disclosures.	Medium term	Starting in 2016, the DFSA has introduced an obligation for supervisors to review the banks' Pillar III disclosures annually.
Insurance supervision		
Enhance the supervision of conduct of business, fraud, and AML/CFT.	Short term	A report, published by the public prosecutor in 2015 and compiled together with the DFSA and the Danish Insurance Association assesses the risk of money laundering, including in life insurance companies and pension funds. The report will serve as a guideline for the life insurance and pensions sector. In 2016 the DFSA will carry out an off-site inspection of all institutions in the form of a self-assessment scheme. Based on the self assessments the DFSA will decide on appropriate on-site and off-site follow-up.
Establish a solvency level below which companies may not operate.	Short term	The Financial Business Act has been amended, effective January 1, 2016, such that the largest Danish insurance companies must meet new solvency levels.
Require risk, compliance, internal audit, and actuarial functions in all insurers and better integrate qualitative assessments of governance and management with off-site analysis.	Medium term	This recommendation was addressed with the implementation of the Solvency II Directive.
Macroprudential policy		
Develop new instruments capable of addressing time-varying systemic risk, such as limits on loan-to-value (LTV) and debt service to income (DSTI) ratios.	Short term	DFSA has launched various initiatives including (i) a 5 percent down payment requirement for housing purchase from November 2015; (ii) new benchmarks for interest rate risk and the share of IO lending in the LTV band above 75 percent of the lending limit for MCIs as part of the Supervisory Diamond for MCIs; and (iii) stress tests to assess payment capacity under the assumption of interest rate hikes, potential price corrections, or decreasing sales activities in the housing market as part of the credit granting process.
Expand the range of analytical tools used to identify and monitor systemic risk.	Medium term	The DN has developed several new tools for identifying and monitoring of systemic risks, which are published in its "Financial Stability Reports." The Systemic Risk Council has also developed composite indicators to monitor the build-up of systemic risk from different angles in six monitoring areas.
Crisis management and bank resolution		
Establish early resolution triggers and strengthen funding arrangements and the resolution toolkit.	Short term	The transposition of the Bank Recovery and Resolution Directive (BRRD) into Danish Law and adoption of special legislation for mortgage banks in June 2015 set early resolution triggers and an ex-ante financed resolution fund. The Financial Stability Company (the resolution authority together with the DFSA) has now new resolution tools and early intervention powers to manage SIFIs without adverse impact on financial stability or need for public funds.

Annex III. FSAP Update: Status of Main Recommendations (concluded)		
Prepare resolution plans and resolvability assessments.	Short term	Work on resolution plans and resolvability assessments is in progress and expected to be finished by end-2016. Resolution plans will be updated yearly.
Enhance the deposit guarantee scheme by removing mandatory offsetting, strengthening back-stop arrangements, and introducing depositor preference.	Medium term	The Deposit Guarantee Schemes Directive (DGSD) has been implemented in Denmark since June 2015, including the requirement to set up a Deposit Guarantee Fund. In accordance with minimum requirements, the target level of the Danish Fund is 0.8 percent of covered deposits. There is now only offsetting in specific circumstances in accordance with the DGSD. The DGS can also only contribute to the resolution of an institution in accordance with the No Creditor Worse Off principle. With the implementation of the BRRD in June 2015, depositor preference has been introduced in Denmark.
Stress testing		
Further exploit synergies between micro- and macroprudential stress testing via intensified cooperation.	Medium term	The DFSA and DN have an ongoing dialogue on stress testing, including via DN participation in the DFSA's annual stress test meetings with banks. DN and DFSA also collaborate on the scenarios for stress-testing purposes.
Develop a macroprudential stress test framework for the insurance sector.	Medium term	The DFSA is developing a macro prudential stress testing framework for the Danish insurance sector, which is expected to be finalized in 2016.
Expand financial stability analyses to include insurance and pension funds.	Medium term	Analyses were conducted as part of DN's Financial Stability Report (2 nd half 2014) and at the Systemic Risk Council (March 2016). A work program for further analysis of the pension and insurance sector is being developed in the DN. The focus will be on ways in which the large insurance and pension sectors can amplify or give rise to systemic risks, consequences of the low interest rate environment, and the increasing share of alternative investments and direct lending, and the increase in household indebtedness.

Annex IV. Authorities' Response to Past IMF Policy Recommendations

Fund Policy Advice from 2014 Consultation	Authorities' Actions
<p>Fiscal Policy: The Executive Board agreed that the fiscal stance for 2015 was broadly appropriate and consistent with the medium-term goal of achieving structural budget balance. Directors supported the authorities' intention to start rebuilding fiscal buffers, taking due account of cyclical developments.</p>	<p>While the headline fiscal balance saw large swings due to large one-off revenues related to changes in pension taxation, the structural balance improved by ¼ percent of potential GDP in 2015 in line with the authorities planned gradual consolidation. The government's medium-term fiscal plan continues to envisage eliminating the structural deficit by 2020.</p>
<p>Financial Sector: The Board noted that, while financial stability risks are generally contained, further efforts are needed to enhance the resilience of the financial system, in view of its large size and risks in mortgage finance. Directors looked forward to continued close regional cooperation and full implementation of the recommendations of the updated Financial System Stability Assessment.</p>	<p>The newly introduced supervisory diamond for MCIs and the seven best practices address several FSAP recommendations related to mortgage finance. With the implementation of EU regulations, the DFSA has implemented several changes to regulatory and supervisory practices, including those related to CRD IV/CRR and Solvency II. Also, with the transposition into Danish law of the European Bank Recovery and Resolution Directive, the resolution regime is being strengthened. Furthermore, the DFSA has indicated it will increase the frequency of on-site inspections for smaller banks and insurance companies.</p>
<p>Productivity growth: Directors encouraged the authorities to pursue additional reforms to enhance productivity growth and competitiveness. In this regard, they considered that many recommendations from the recent Productivity Commission warrant further consideration. Directors also called for continued efforts to increase labor market participation and improve the functioning of the labor market more broadly.</p>	<p>The Growth Plan 2014 comprised various measures addressing the Productivity Commission's recommendations to accelerate productivity growth, including by strengthening the institutional framework for competition, streamlining business regulations, and lowering corporate income taxes. In 2015 more flexible rules were introduced to re-qualify for unemployment benefits, strengthening incentives to accept work. Under a 2016 reform package, the total amount of benefits that a household can receive has been capped, and the government plans to use related savings to lower taxes for low-income households later this year.</p>



DENMARK

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 31, 2016

Prepared By

European Department

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FUND RELATIONS

As of April 30, 2016

Membership Status: Joined: March 30, 1946; Article VIII

General Resources Account:	SDR Million	Percent Quota
Quota	3,439.40	100.00
Fund holdings of currency (Exchange Rate)	3,373.50	98.08
Reserve Tranche Position	65.91	1.92
Lending to the Fund		
New Arrangements to Borrow	287.88	

SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	1,531.47	100.00
Holdings	1,450.62	94.72

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to Fund¹

(SDR Million; based on existing use of resources and present holdings of SDRs):

		Forthcoming			
	2016	2017	2018	2019	2020
Principal	...	...	...	...	...
Charges/Interest	0.03	0.09	0.09	0.09	0.09
Total	0.03	0.09	0.09	0.09	0.09

¹ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Arrangements: Denmark participates in the European Exchange Rate Mechanism II (ERMII) with a central rate at DKr 746.038 per 100 euro. The standard width of the fluctuation band in ERM II is +/-15 percent. However, due to its high degree of convergence, Denmark has entered into an agreement with the European Central Bank (ECB) and the euro area member states on a narrower fluctuation band of +/- 2.25 percent. This means that the krone can only fluctuate between DKr 762.824 per 100 euro and DKr 729.252 per 100 euro.

Denmark has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 and maintains an exchange system free of restrictions on payments and transfers for current international transactions, apart from those imposed solely for the preservation of national or international security, as notified to the Fund by the National Bank of Denmark in accordance with Executive Board Decision No. 144-(52/51).

Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on December 5, 2014. The staff report (IMF Country Report No. 14/331) was published with Press Release No. 14/558 (December 9, 2014).

Outreach: The team met with representatives of the private sector, labor and financial institutions.

Press conference: The mission held a press conference after the concluding meeting on May 4, 2016.

Publication: The staff report will be published.

Technical Assistance: None.

Resident Representative: None.

STATISTICAL ISSUES

Data provision is adequate for surveillance. The country has a full range of statistical publications, many of which are on the internet. The quality and timeliness of the economic database are generally very good. The country subscribes to the Fund's Special Data Dissemination Standard. Metadata are posted on the Dissemination Standards Bulletin Board.

National Accounts: Denmark adopted the *European System of Accounts 2010 (ESA 2010)* in September 2014. The transition from the *ESA 1995 (ESA95)* requires a revision of national accounts data. New data sources are also incorporated in the new estimates which were published in mid-September 2014. Historical data are revised going back to 1966.

Government Finance Statistics: Starting from September 2014, government finance statistics data is based on the *ESA 2010* methodology, which includes revisions of the general government deficit and debt levels from 1995 onwards. Revised data series was published in October 2014.

External Statistics: Starting in 2014, external sector statistics are compiled according to the *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)* and in accordance with legal requirements of the ECB and Eurostat.

Monetary and Financial Statistics: Monetary data reported for International Financial Statistics are based on the European Central Bank's (ECB) framework for collecting, compiling, and reporting monetary data.

Table 1. Denmark: Common Indicators Required for Surveillance
(As of May 16, 2016)

	Date of latest observation	Date received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷
Exchange Rates	5/16	5/16	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	3/16	5/16	M	M	M
Reserve/Base Money	3/16	5/16	M	M	M
Broad Money	3/16	5/16	M	M	M
Central Bank Balance Sheet	3/16	5/16	M	M	M
Consolidated Balance Sheet of the Banking System	3/16	5/16	M	M	M
Interest Rates ²	3/16	5/16	D	D	D
Consumer Price Index	4/16	5/16	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	2015	2016	A	A	A
Revenue, Expenditure, Balance, and Composition of Financing ³ —Central Government	2015	2016	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	2015	2016	A	A	A
External Current Account Balance ⁸	3/16	5/16	M	M	M
Exports and Imports of Goods and Services	3/14	5/16	M	M	M
GDP/GNP	Q4 2015	5/16	Q	Q	Q
Gross External Debt	12/15	5/16	Q	Q	Q
International Investment Position ^{6,8}	12/14	4/16	A	A	A

1/ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

2/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

3/ Foreign, domestic bank, and domestic nonbank financing.

4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

5/ Including currency and maturity composition.

6/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

7/ Daily (D), weekly (W), monthly (M), quarterly (Q), annual (A), irregular (I); and not available (NA).

8/ Starting with data for 2014, external sector statistics are compiled according to the the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* and in accordance with legal requirements of the ECB and Eurostat.

**Statement by Thomas Ostros, Executive Director for Denmark,
and Anne Marcussen, Senior Advisor to Executive Director
June 22, 2016**

On behalf of the Danish authorities, we would like to thank staff for candid and constructive policy discussions in Copenhagen during the Article IV mission. The authorities appreciate staff's high quality report and analytical work, addressing topical issues for the Danish economy. They broadly concur with staff's assessment and will carefully consider the recommendations.

The output gap continues to narrow and employment is strengthening

The Danish economy is now in its third year of recovery. Measured by GDP growth, the pace is not high, but employment is growing quite strongly, along with nominal gross value added in manufacturing, business services, and the construction sector. For the first time in several years, growth last year was mainly driven by domestic demand. Looking ahead, the conditions for continued growth in domestic demand are in place, in particular owing to rising real wages, employment, and housing prices. Export growth is also expected to accelerate in 2016 and 2017, supported by a gradually improving external environment.

The relatively moderate pace of GDP growth partly reflects a drag from declining North Sea oil and gas production. However, as in many other countries, productivity growth seems very low for this stage of the cycle, whereas employment growth has been robust. While unemployment is already low, there is still some room for a further increase in employment in the coming years, due to a substantial increase in structural employment owing to recent years' reform efforts. Nevertheless, the continuation of robust employment growth will result in a gradual closing of the output gap and the employment gap, and labor market conditions are expected to tighten over the next couple of years.

As noted by staff, the risks to the growth outlook are tilted to the downside. Denmark is a small open economy and an unexpected slowing of the global economy would lower growth in Denmark, not only directly through weaker exports, but also through the impact on the spending of consumers and businesses. However, the risks related to global financial conditions and a possible spike in the interest-rate burden facing Danish households are perhaps less clear than suggested by staff. In our assessment, large increases in interest rates are unlikely in the near term in view of the outlook for still-accommodative monetary policy, in particular in the euro area, as well as the significant current account surplus and increasing net international wealth of the Danish economy. Furthermore, overall household debt levels have not been rising lately and balance sheets are generally assessed to be robust, with households also holding substantial assets.

Gradual tightening of the fiscal policy will lead to structural balance in 2020

The narrowing of the output gap implies that accommodative fiscal policy should be gradually rolled back. Since the monetary policy stance is expected to remain very

supportive throughout the forecast period, this in itself increases the need for tightening fiscal policy to support a sustained recovery.

Fiscal policy is planned mainly on the basis of the structural budget balance, with a planned adjustment from a structural deficit of 0.6 per cent of GDP in 2015 to a deficit of 0.4 per cent of GDP in 2016 and 2017. With the planned fiscal policy for 2016, there is a small margin to the deficit limit of 0.5 percent of GDP in the Budget Law. The medium-term target is still to achieve at least structural balance by 2020, which is aligned with the overall objective of fiscal sustainability.

Fiscal space will therefore be tight in the coming years, both in a historical context and relative to population trends. In part, this is due to the marked decline in Denmark's oil and gas-related revenues. Furthermore, support, training programs, welfare services, etc. for newly-arrived refugees increase spending pressures. Meanwhile, public investments remain close to the historically high levels during the economic crisis. On both the public consumption and investment side, the current expenditure levels remain higher than before the financial crisis, despite some downward adjustment in recent years.

After the summer, the Danish Government will present a new medium-term economic plan ("2025 plan"), which will provide the framework for fiscal policy towards 2025.

Continued structural reforms supporting growth potential are key

Significant structural reforms have been implemented since 2008, raising productive potential by more than 5 percent by 2020. We are now seeing clear effects of reform efforts. As an example, a reform from 2011, which increases the age of eligibility for early retirement from 60 years to 62, is now clearly increasing the labor market participation rate of each cohort.

With respect to productivity growth, several initiatives have been implemented and the Government has put forward a growth package with over one hundred initiatives that focuses on both productivity and on strengthening growth in all parts of Denmark. The package includes initiatives to liberalise the Planning Act, and the Government has recently reached political agreement in Parliament to ease restrictions, in particular to increase the upper boundaries on shop sizes. Furthermore, there is ongoing work in relation to increasing productivity in the utility sector where the staff report has identified potential.

Increasing the growth potential of the Danish economy remains a clear priority for economic policy. The Government's forthcoming 2025 plan to deal with the challenges facing the Danish economy will lay out further reform proposals to increase both labor market participation and productivity.

Increasing house prices reflect fundamentals, but are closely monitored by the authorities

The authorities assess that the recent developments in the housing market, including the rapid price increases in the largest cities, should be seen in light of developments in fundamentals, e.g. low mortgage rates, rising disposable incomes, and urbanization. However, price developments in the Copenhagen area need to be monitored closely. The freeze of housing taxes, in place since 2002, and the recent freeze of land taxes in 2016 are acknowledged by the authorities to increase the procyclicality of house price fluctuations.

The Danish Financial Supervisory Authority (FSA) has recently introduced a 5 percent down payment requirement, as well as 7 best practices for mortgaging of homes in geographical areas with high price levels and high price increases compared with the rest of the country. At present, the 7 best practices apply to the two largest cities and are expected to mitigate further price increases in these geographical areas.

The authorities would like to stress that the aim of recent measures is not to restrain mortgage lending, as stated in the staff report, but to ensure robustness of borrowers and credit institutions. The supervisory diamond addresses what the Danish FSA considers to be mortgage-credit activities with a higher risk profile. The benchmarks in the diamond have been set so they, on the one hand, counteract excessive risk assumption and, on the other hand, make it possible for resilient institutions to carry out profitable activities within the benchmarks and offer the credit required to undertakings and households.

The Danish authorities are not currently planning to introduce new macroprudential measures. However, developments in the housing markets will be monitored closely, especially in Copenhagen. The suggestion from the IMF regarding an early preparation of an adequate macroprudential "toolbox", in order to ensure that measures can be implemented without delay when needed, is relevant to consider. Macroprudential measures such as limits on loan-to-value and debt-to-income may contribute to dampening a build-up of systemic financial risks.