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ANALYSIS | Outlook for the Danish economy
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Weaker global trade slows growth in Denmark

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Higher tariffs in the US reduce global trade, which will dampen growth in the Danish economy. This comes at a time when the aftermaths of the pandemic and energy crisis have subsided. The Danish economy is currently assessed to be in a situation of broadly neutral capacity pressure, with an outlook for low, stable inflation over the next few years. There is limited spare capacity to increase output without fuelling inflation. The Danish government's proposed Finance Act includes plans to significantly ease fiscal policy. However, there is considerable uncertainty about how much fiscal policy will increase capacity pressure over the next few years. If capacity pressure increases noteworthy, it should be offset by fiscal measures that reduce it.

Outlook for a balanced business cycle in the Danish economy

Global trade growth is expected to be adversely affected by higher tariffs, even if global demand in isolation is boosted by the phasing out of tight monetary policy and looser fiscal policy in some major foreign economies. The slowdown in global trade is expected to dampen demand in Danish export companies and thus slightly weaken growth in the Danish economy over the next few years.

Capacity pressure in the Danish economy is broadly neutral

Capacity pressure in the Danish economy is currently broadly neutral and inflation is expected to remain low and stable. Over the next few years, growth is expected to be close to potential. There are no signs of significant macroeconomic imbalances in the Danish economy that could amplify a potential recession in the event of unforeseen shocks to the global economy.

If capacity pressure increases noteworthy, it should be offset by fiscal measures that reduce it

The Danish government's proposed 2026 Finance Act includes plans to significantly ease fiscal policy in Denmark. However, there is considerable uncertainty about how much fiscal policy will increase capacity pressure over the next few years, as it depends on such factors as how much and how quickly defence spending is raised and how much of it is covered by imports. If capacity pressure increases noteworthy, it should be offset by fiscal measures that reduce it.

Why is this important?

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

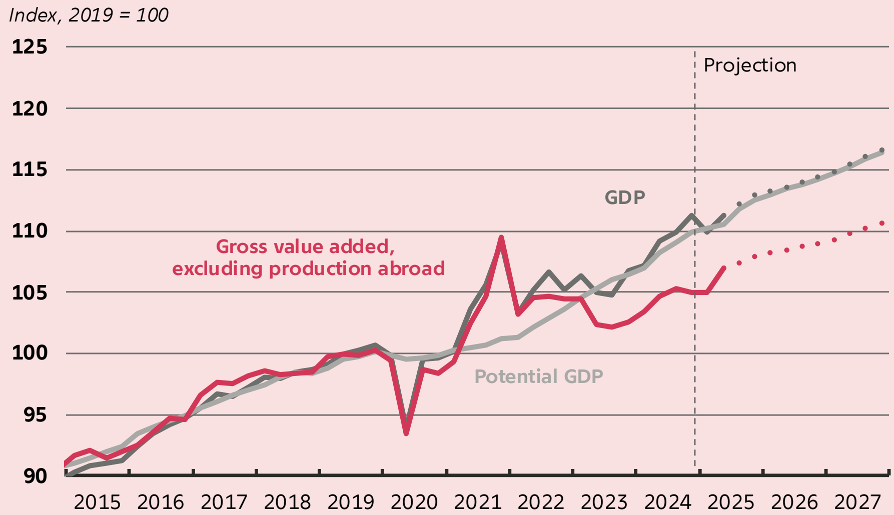
This analysis is supplemented by a thematic analysis and two other analyses. The thematic analysis goes in depth into Danmarks Nationalbank's calculation of the output gap. The output gap is a summary indicator for the assessment of capacity pressure and is used as input in the formulation of the bank's fiscal policy recommendations.

Danmarks Nationalbank has also published an analysis (in English) stating that increased defence spending could moderately increase capacity pressure in the Danish economy. However, the impact on capacity pressure depends on several factors, such as how quickly defence spending increases and how much of the funds are spent abroad.

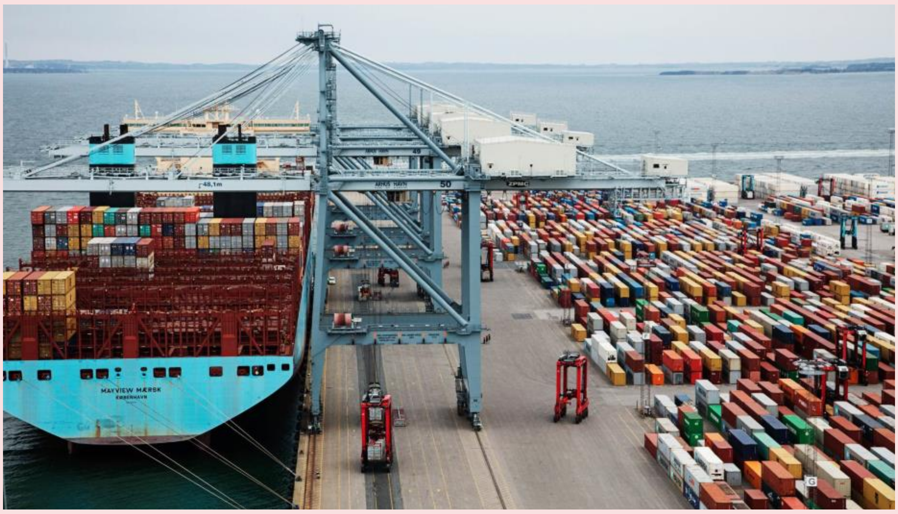
Danmarks Nationalbank also publishes a third analysis on food prices, that have had a substantial impact on inflation recently. Price increases on food to a large extent reflect global food commodity prices, which have been driven by subdued supply that has not been able to keep up with demand. Therefore, price increases on food is not only a Danish phenomenon.

Main chart

Growth in the Danish economy is dampened by weaker growth in global trade



Note: *Potential GDP* is an expression of what the level of output would be if prices and wages had fully adjusted to current economic conditions.
Source: Statistics Denmark and own calculations.



Keywords

Outlook for the Danish economy
Danish economy
Economic policy
Economic activity
International economy

01
Highlights

If capacity pressure in the Danish economy increases noteworthy, it should be offset by fiscal measures that reduce it.

Balanced business cycle

The Danish economy is expected to be in a balanced business cycle with slightly lower growth than in recent years, as weaker global trade subdues the growth in exports.

Moderate growth in the global economy

Higher tariffs dampen global trade, but more expansionary economic policies partially offset the negative impact on global GDP growth.

Growth in private consumption

Consumption is supported by growth in real wages and employment and less tight monetary policy. However, consumers are expected to remain cautious with elevated savings.

Easing pressure on the labour market

Most indicators of pressure on the labour market continue to ease even as employment rises. Going forward, employment is expected to rise at a slightly slower rate.

Low and stable inflation

Wage increases in the Danish economy have come down. Higher food prices have pushed inflation up slightly recently, but inflation is expected to remain low going forward.

Continued risks related to trade policy

The risk outlook for the Danish and international economy is still tilted towards weaker-than-expected growth, for example if the trade conflict flares up again.

TABLE 1

Key economic variables

Real growth relative to the previous year, per cent	2024	2025*	2026*	2027*
GDP (real), per cent	3.5	2.0	2.0	1.7
Employment, 1,000 people	3,218	3,257	3,278	3,292
Gross unemployment, 1,000 people	87	88	90	90
Balance of payments on current account, per cent of GDP	12.2	11.8	10.8	10.6
Government budget balance, per cent of GDP	4.5	2.3	1.4	1.2
House prices[1], per cent year-on-year	3.6	5.4	3.6	3.3
Consumer prices, per cent year-on-year	1.3	1.9	1.1	1.8
Core inflation, per cent year-on-year	1.4	1.8	1.7	1.7
Hourly wages[2] (industry), per cent year-on-year	5.5	3.7	3.4	3.3

Note: * indicates projection.
Source: Statistics Denmark and own calculations.

[1] Nominal prices of single-family houses.
[2] Confederation of Danish Employers' (DA) pay statistics for profits including inconvenience supplements for manufacturing.

02
Overview and recommendations for economic policy

The Danish and international economies are facing a slowdown in global trade over the next few years. This is due to the higher tariffs on exports to the US that have been agreed in a series of bilateral political trade agreements[1] between the US and the rest of the world over the summer. The higher tariffs could lead to further disruptions to global trade and international supply chains, at a time when the aftermaths of the pandemic and energy crisis have subsided.

Growth in the global economy is holding steady...

Growth in the global economy has so far been resilient to higher tariffs. However, the many and changing tariff announcements from the US administration have led to significant fluctuations in US imports and stockpiling, causing fluctuations in GDP growth in both the US and Europe in the 1st half of 2025.

The negative effects of the trade conflict are to some extent being counteracted by less tight fiscal and monetary policy. Especially in the euro area, monetary policy rates have been lowered as inflation has slowed, allowing the European Central Bank, ECB, to phase out its tight monetary policy. This contributes to the outlook for growth picking up in the euro area, despite the higher tariffs, although growth remains moderate. As a result of Denmark's fixed exchange rate policy, interest rates have also been lowered in Denmark, where monetary policy and overall financial conditions are now assessed neutral for economic activity.[2]

...but global trade is slowing down

International organisations expect global economic growth to remain moderate over the next few years, but higher tariffs are expected to dampen trade between countries. Growth in global trade is therefore slowing down more than growth in global GDP. For example, the International Monetary Fund, IMF, expects that economic activity in the US in particular is likely to slow down over the next few years.

In the longer term, higher tariffs hamper economic activity, productivity and prosperity as less trade reduces the ability to exploit specialisation gains and achieve economies of scale. This especially affects a small, open economy like Denmark.

[1] In many cases, the agreements made are effectively framework agreements and do not contain full legal details that are normally included in trade agreements.
[2] See Danmarks Nationalbank, Neutral monetary policy in a time of global uncertainty, *Danmarks Nationalbank Analysis (Monetary and financial trends)*, no. 21, September 2025.

Outlook for balanced growth in the Danish economy

The growth of Danish export companies is expected to be dampened over the next few years by higher tariffs and the weakening of global trade. Danish households are also reluctant to spend. Growth in private consumption is therefore expected to be moderate, even though real wages and employment are expected to continue rising and monetary policy in Denmark has become neutral. Higher military spending is expected to lead to strong growth in public demand, which is expected to cause a sharp increase in imports and only a limited increase in GDP.

Overall, the Danish economy is set for a balanced growth trajectory. However, growth in Danish GDP over the next few years will be characterised by contributions from the reopening of the Tyra field and from the pharmaceutical industry's output and exports, which are largely produced with labour and capital abroad. Consequently, GDP is expected to increase by 2.0 per cent this year and next year, see chart 1.[3] This is close to estimated potential growth, i.e. what the economy grows by when wages and prices have fully adjusted to economic conditions. Potential growth, in common with actual growth, is expected to be boosted by increased output abroad under Danish ownership. With prospects for growth both with and without output abroad, the Danish economy will not be split in quite the same way as affected growth in 2022 and 2023.

The estimate for GDP growth is lower than in Danmarks Nationalbank's projection from March 2025. This is especially evident this year, where GDP growth has been revised downwards by 1.6 percentage points. The downward revision in 2025 mainly reflects events that have already occurred: Firstly, revised GDP figures provide a weaker carry-over for growth in 2025. Secondly, growth in the 1st half of 2025 was weaker than expected in March, mainly due to lower than expected growth in the pharmaceutical industry.

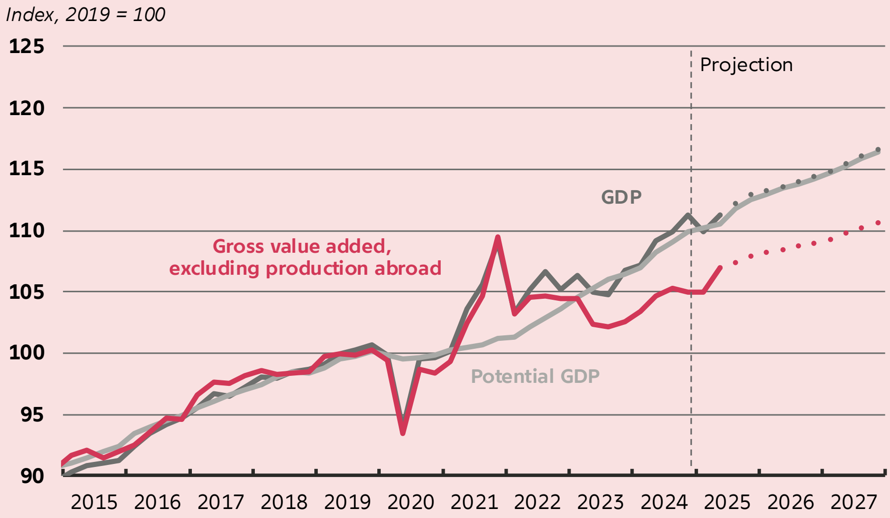
Going forward, the growth outlook has weakened slightly compared to the March projection. This is mainly due to higher tariffs on US imports, which are now incorporated into the main scenarios of international economic forecasts, and more subdued expectations for growth in the pharmaceutical industry. However, much of the downward revision of the pharmaceutical industry sales outlook reflects the weaker-than-expected development in the 1st half of 2025 that has already materialised. For a more detailed description of changes since the last projection, see appendix. However, the downward revisions do not fundamentally change the expectation that growth in the Danish economy will be close to potential over the next few years, as these factors are also assessed to weaken potential productivity growth.

Growth in the Danish economy is expected to be somewhat subdued, but GDP is expected to increase relatively strongly by 2.0 per cent in 2025, partly due to continued high growth in the pharmaceutical industry.

[3] Production abroad under Danish ownership and the reopening of the gas field Tyra is estimated to contribute by 0.3 percentage points in 2025 and 2026.

CHART 1

Growth in the Danish economy is dampened by weaker growth in global trade



Note: *Potential GDP* is an expression of what the level of output would be if prices and wages had fully adjusted to current economic conditions.
Source: Statistics Denmark and own calculations.

Easing labour market pressures with an outlook for low and stable inflation

As a result of the more subdued growth in the Danish economy, employment is expected to grow at a slightly slower rate over the next few years than has been the case in recent years. By the end of 2027, employment is expected to increase by a total of 43,000 people.

Despite the increase in employment, pressure on the labour market is expected to ease a little further, as it has in recent years, with later retirements and the influx of foreign workers significantly increasing the labour force.

Overall, the current pressure on the labour market and the Danish economy is generally assessed to be broadly neutral.[4] Consequently, wage increases of just over 3 per cent are expected over the next few years, which is consistent with stable, low inflation. Core inflation is expected to be around 1.7 per cent for all years, but inflation is expected to be lower in 2026 due to the reduction of e.g. the electricity tax. Overall, the outlook is for a balanced cyclical stance with capacity pressure in the Danish economy remaining broadly neutral and without macroeconomic imbalances, which have previously amplified downturns in response to unforeseen shocks to the global economy.[5]

Overall, Danmarks Nationalbank assesses that capacity pressure in Denmark will not deviate significantly from the ECB's assessment of capacity pressure in the euro area. Most indicators of capacity pressure in Denmark do not show significant differences compared to the euro area, and expectations for wage

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Inflation is expected to remain low and stable at 1.9 per cent in 2025.

[4] See Mikkel Bess, Rasmus Bisgaard Larsen, Filip Rozsypak, Christoffer Jessen Weissert, Theodor Justus Bock and Johannes Poeschl, The output gap in the Danish economy: calculation and assessment, *Danmarks Nationalbank Analysis*, no. 22, September 2025.
[5] Neither are there signs that the macro-financial balances are making the Danish economy more vulnerable. See Danmarks Nationalbank, Neutral monetary policy in a time of global uncertainty, *Danmarks Nationalbank Analysis (Monetary and financial trends)*, no. 21, September 2025.

and price increases in Denmark are broadly in line with the ECB's expectations for the euro area. If the cyclical situation in Denmark differs from that of the euro area, monetary policy in Denmark will typically not be optimally aligned from a macroeconomic perspective.[6]

Continued high risks related to US trade policy and increased defence spending

The risk outlook for the Danish and international economies continues to be tilted towards lower-than-expected growth. This is mainly due to the fact that there is still uncertainty surrounding US trade policy. The many and changing announcements from the US administration imply that there is still a risk that the trade conflict could flare up again, creating renewed uncertainty about the tariffs on which this and international projections are based.

The new NATO defence spending targets are another key risk factor for the projection, linked to how quickly defence spending increases in Denmark and the euro area.[7] On the one hand, capacity pressure could increase in Denmark if, for example, Denmark meets the new NATO targets faster than the rest of the euro area and the costs are largely targeted purchase of Danish production of military equipment or more defence personnel. On the other hand, increased defence spending could lead to less capacity pressure in Denmark compared to the euro area, for example if spending in Denmark is largely targeted equipment purchases abroad.

Increased defence spending may require an adjustment to fiscal policy

The Danish government's proposed 2026 Finance Act includes plans to significantly ease fiscal policy. This is due to the increase in defence spending and new political priorities such as an increase in government consumption in the financial agreements with municipalities and regions and the reduction of a number of excise duties, including electricity tax. However, there is considerable uncertainty about the impact of fiscal policy on capacity pressure over the next few years, as it depends on how much and how quickly defence spending is raised and how much of it is covered by imports.

The easing of fiscal policy comes at a time when Danmarks Nationalbank assesses that capacity pressure in the Danish economy is broadly neutral again and does not deviate significantly from the euro area. Inflation is low and stable, and there are no signs of significant macroeconomic imbalances. There is limited spare capacity to increase output in the Danish economy without increasing wage growth and inflation. If capacity pressure in Denmark increases noteworthy, it should be offset by fiscal measures that reduce it.

[6] See Morten Spange, Monetary and fiscal policy in Denmark, *Danmarks Nationalbank Analysis*, No. 12, October 2022.
[7] See Kim Abildgren, Dominic Cucic, Rasmus Mose Jensen, Emil Holst Partsch and Rasmus Rold Sørensen, Higher defence spending may increase capacity pressures moderately, *Danmarks Nationalbank Analysis*, no. 19, September 2025.

Danmarks Nationalbank's recommendations for economic policy

The Danish government's proposed 2026 Finance Act includes plans to significantly ease fiscal policy. There is considerable uncertainty about how much fiscal policy will increase capacity pressure over the next few years, as it depends on how much and how quickly defence spending is raised and how much of it is covered by imports. If capacity pressure increases noteworthy, it should be offset by fiscal measures that reduce it.

03

Trade conflict dampens the global economy and Danish exports

Denmark is a small, open economy and foreign trade accounts for a large share of total economic activity. The development of the Danish economy is therefore highly dependent on the global business cycle, which have an impact on developments in Denmark.

The global economy showed signs of moderate growth over the summer despite headwinds from higher tariffs and geopolitical tensions. As a result, global growth has so far been resilient to a number of major negative shocks. The global economy is also expected to continue to grow at a moderate pace over the next few years, partly because increased defence spending is supporting a subdued recovery in Europe, while growth is slowing in the US as tariff increases slow down activity.

There are no signs yet that higher tariffs have seriously weakened Danish exports. Higher tariffs and more subdued growth in global trade are expected to dampen the growth of Danish export companies during the projection period.

Global economy showed signs of moderate growth over the summer despite trade conflict and geopolitical tensions

The global economy is currently affected by the ongoing trade conflict, heightened geopolitical uncertainty and waning support for the multilateral economic system framework that has created the conditions for increasing prosperity for decades. Although there is considerable uncertainty about future conditions for international trade, business confidence as measured by the PMI index until August still points to moderate global growth above the historical average over the past ten years, see chart 2. This shows that the global economy has so far been resilient to a number of negative impulses.

High levels of employment, rising real wages and monetary policy rate cuts in the euro area, among other things, help households and businesses withstand the negative consequences of a more volatile global economic policy environment. In addition, fiscal stimuli from increased defence and infrastructure spending are supporting activity in several European countries. By contrast, higher US tariffs hamper global growth, see box 1 for an analysis of the macroeconomic consequences of the trade conflict. Finally, structural factors such as weak productivity growth remain a limiting factor for growth potential, especially in Europe.

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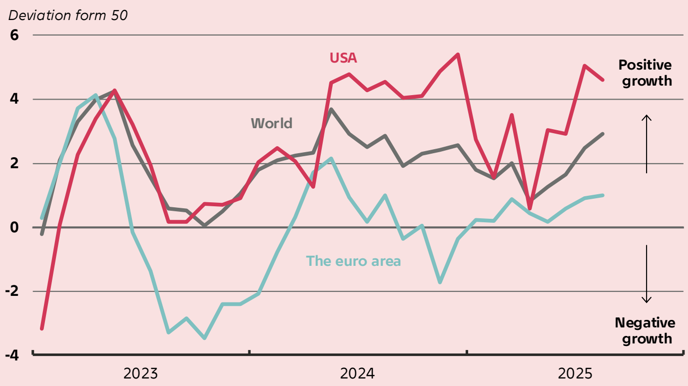
Globally PMI index points to moderate growth in the global economy.

CHART 2

Business confidence points to moderate global growth over the summer despite trade conflict and geopolitical uncertainty

PMI index

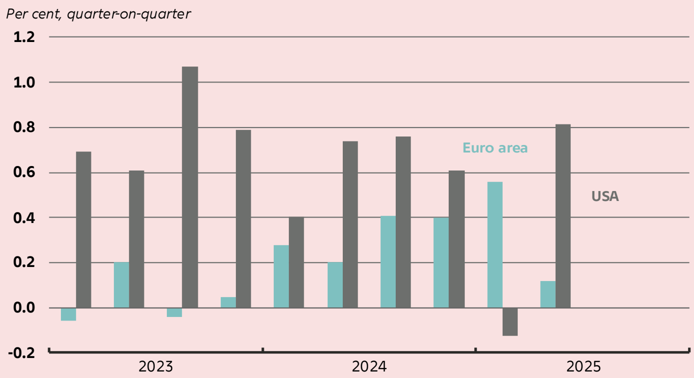


Note: The chart shows the PMI index for the whole economy.
Source: Macrobond.

CHART 3

Shifting announcements on tariffs have caused large fluctuations in US and euro area GDP growth in the first half of 2025

GDP growth



Source: Macrobond.

The trade dispute has caused fluctuations in US and euro area GDP growth in the first half of 2025

The global growth picture masks regional differences, with the US economy growing faster than the euro area in recent years. Currently, international organisations[8] estimate that the output gap, i.e. the difference between actual

[8] The output gap for the US and the euro area is based on an average of estimates from the IMF, OECD and the European Commission.

and potential output, will be -0.6 per cent of potential GDP in the euro area in 2025, while it is almost closed in the US.

In the euro area, GDP growth slowed down in the second quarter of 2025 after relatively strong growth at the beginning of the year, see chart 3. The slowdown in growth reflects fluctuations in investments, inventories and exports linked to the trade dispute and movements in Irish multinationals. Private consumption has also weakened in recent quarters and GDP in Germany fell in the second quarter of 2025 after several years of limited growth.

GDP growth in the US has also been affected by fluctuations in the first half of 2025 due to the trade conflict. In particular, the front-loading of imports leading up to the tariff increases in the spring and a subsequent decline in imports caused fluctuations in GDP growth in the first half of 2025. Economic activity remains solid, although growth in private domestic demand has slowed. After several years of strong growth, private consumption growth in particular has slowed as household savings rates have increased and consumer confidence has deteriorated.

Trade conflict and high uncertainty will dampen global growth over the next few years

Over the next few years, the main scenario from international organisations is that the global economy will achieve moderate growth despite headwinds from trade barriers and high political uncertainty. For example, the International Monetary Fund, IMF, estimates that global GDP will grow by around 3 per cent in 2025-26, which is broadly in line with potential, see chart 4.

In the euro area, GDP growth is expected to increase slightly towards 2026, as the growth-limiting effect of the trade conflict is gradually offset by stimuli from increased defence and infrastructure spending and the phasing out of tight monetary policy.

Unlike in the euro area, growth in the US is expected to slow down, partly due to higher tariffs on imports and an expected decline in immigration. In turn, extensive fiscal stimuli will boost US demand. For example, the IMF estimates that fiscal policy measures in the so-called One Big Beautiful Bill legislation will increase US GDP by an average of around 0.5 per cent up until 2030.

GDP growth is also predicted to slow down in China over the next few years, due to the trade conflict with the US, continued weakness in the property sector and declining growth potential, among other factors.

Global trade increased significantly leading up to the tariff increases in the spring, but has since levelled off and indicators for new export orders point to subdued global trade, see chart 5. Looking ahead, the IMF expects world trade to grow by 2.6 per cent in 2025, falling to 1.9 per cent in 2026.

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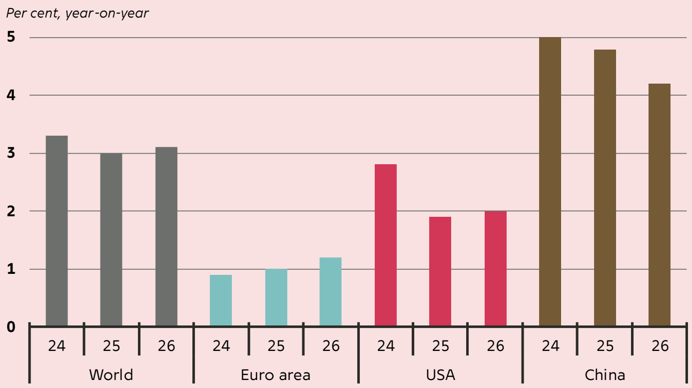
The global economy is expected to grow by approximately 3 per cent in 2025-26.

CHART 4

A subdued recovery is expected in the euro area, while GDP growth slows in the US and China in 2025-26

GDP growth

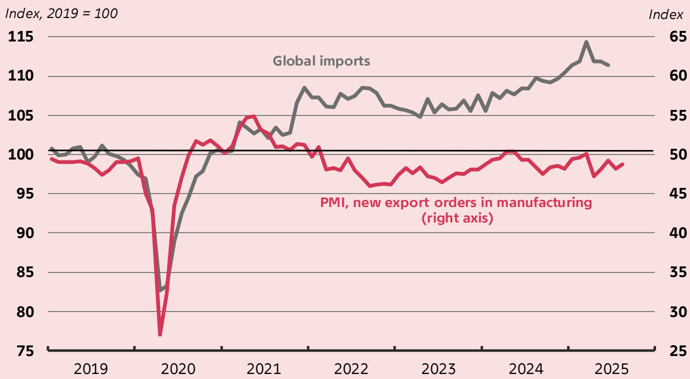


Source: IMF.

CHART 5

Global trade has levelled off after a sharp increase leading up to the US tariff hikes in the spring

Global trade and export orders



Note: The chart shows global goods imports in volumes and new export orders in manufacturing measured by the PMI index.
Source: Macrobond and CPB Netherlands Bureau for Economic Policy Analysis.

BOX 1

Tariff increases in the US could dampen activity in the Danish economy

Since February 2025, the US administration has continuously announced tariff increases on goods to a number of trading partners. The latest and most comprehensive update was published on 31 July and came into effect on 7 August. The new rates include country-specific and sector-specific tariff increases, including a general tariff of 15 per cent on goods from the EU and increases on selected product groups – for example, 50 per cent on steel and aluminium and 25 per cent on cars and car parts.[1] The average tariff on US imports has thus increased to around 18 per cent from around 2 per cent in 2024. However, this is lower than the level that would apply if the announced rates from April had been fully implemented.[2]

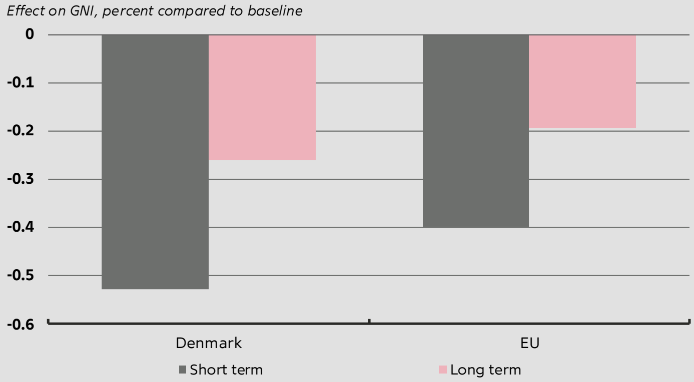
Reactions to US trade policy measures have varied considerably between countries. China has imposed its own tariff increases in response, while Canada initially launched retaliatory measures that have since been lifted. Other countries, including the EU, have instead entered into political trade agreements with the US to reduce tariffs in exchange for improved US access to their markets. However, uncertainty about future developments in the trade sector is still considered to be significant. This is also reflected in the trade policy uncertainty index, which remains at a very high level.

Updated model calculations from a trade model based on tariffs applicable as of 7 August 2025 show that the new measures will have negative macroeconomic consequences for Denmark and the EU.[3] The model behind the calculations is a static general equilibrium model based on input-output data that describes the global economy as a network of sectors and countries connected through trade.[4] The model makes it possible to analyse the effects of trade policy changes on welfare and trade by taking into account both direct and indirect connections through global value chains. Calculations show that the higher tariffs will dampen demand from the US in the short term, resulting in a drop in welfare in Denmark of around 0.5 per cent compared to a baseline without tariff increases, see chart A.[5] In the long term, the effect will be reduced to around 0.3 per cent as the economy adjusts. Denmark will be hit relatively harder than the EU average, partly due to a higher degree of openness and closer integration in global value chains.

Continues ...

CHART A

Denmark may be more affected by new US tariffs than the EU average



Note: *The EU* is represented by a GNI weighted average of the member states. The model calculations are based on tariffs applicable as of 7 August 2025. The tariff increases include country-specific tariffs on goods, including 15 per cent on imports from the EU, and sector-specific tariffs of 25 per cent on cars and 50 per cent on steel and aluminium. In the model, the sector-specific rates are assumed to affect the entire transport and metal sectors respectively. As Canada and China had countered with their own tariffs at this time, both their responses are included in the calculations. Short-term equilibrium can be seen as occurring within a year after a shock, while long-term equilibrium only appears at least six years later.
Source: David Baqaee and Emmanuel Farhi, Networks, barriers, and trade, *Econometrica*, vol. 92(2), 2024, pp. 505-541, *Asian Development Bank Multiregional Input-Output Tables* (2023) and own calculations.

... continued

The estimated effects are discretionary and are already indirectly included in the projection, which is based on international organisations' assessments of the impact of tariffs on the global economy and trade. The calculations are also subject to considerable uncertainty and should be interpreted with caution.[6] Changes in global trade patterns affect the economy through a number of direct and indirect channels, not all of which are necessarily captured in the modelling.

[1] Lists of country-specific tariffs can be found in Presidential Executive Orders 14257 and 14326, available on the White House website.
[2] The average tariff on US imports is calculated at 26 per cent based on the tariffs announced on 2 April.
[3] Unlike the calculations in box 4 in Danmarks Nationalbank, The outlook is for lower wage increases and stable inflation despite uncertain times, *Danmarks Nationalbank Analysis (Outlook for the Danish Economy), no. 9, March 2025*, which was based on some of the many tariffs announced by the US administration, with tariffs on both goods and services, the calculations in this box are based on tariffs applicable as of 7 August 2025 and only on goods.
[4] See Victoria Branner and Madeleine van Deurs, Globale værdikæder og told: Indsigter fra teori og modelbaseret analyse, forthcoming, for an elaboration of the model's mechanisms and assumptions, as well as a review of methodological caveats in the model calculations.
[5] Gross National Income, GNI, is used as an indicator of economic prosperity. Danish GNI measures the total income accruing to Danish economic players, regardless of whether the income is generated in Denmark or abroad, and is therefore suitable for analysing the effects on prosperity in an open economy like Denmark.
[6] For example, the modelling does not take into account Danish output abroad, as multi-regional input-output databases generally classify output as domestic in the country where it physically takes place, regardless of ownership. In this context, however, it may give a true picture, as such output is not immediately expected to be subject to tariffs.

Continued growth in most areas of Danish goods exports

There are still signs of growth in most parts of Danish exports. The continued strength of exports contrasts with global trade, for example, which has stalled since the spring in the wake of tariff increases on US imports.

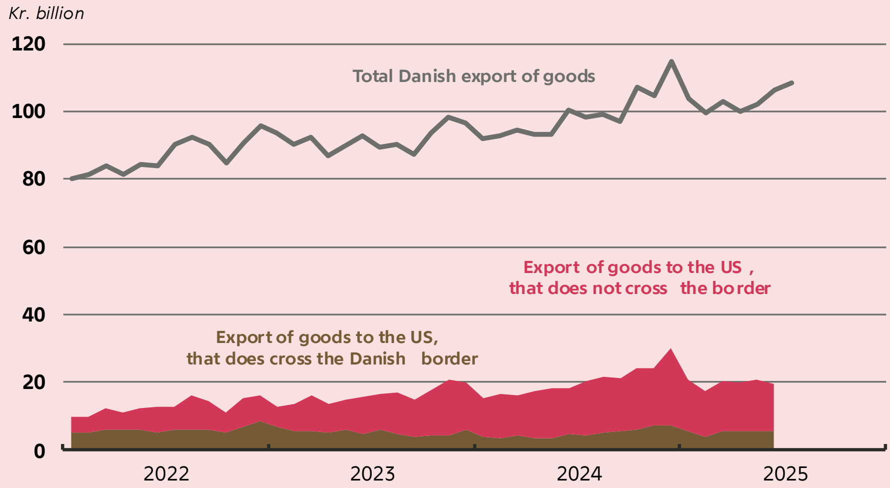
Goods exports showed large fluctuations over the turn of the year, partly due to pharmaceutical exports. Pharmaceutical exports were extraordinarily high in Q4 2024 but have fallen back this year. Total exports of goods in the national accounts are therefore currently on a par with the end of last year, but this masks underlying growth in exports other than pharmaceuticals. The underlying growth is mainly due to exports of goods produced within Denmark's borders. This is in contrast to the development of the export of goods in recent years, where it was Danish-owned production abroad, especially pharmaceuticals, that drove most of the growth. Service exports, on the other hand, have decreased over the past year, mainly due to a decline in sea transportion.

There are no clear signs yet that higher tariffs on Danish goods sold to the US are affecting Danish exports. In nominal terms, exports to the US have slowed down, but the slowdown is mainly driven by exports that do not cross the Danish border, where a large portion is already produced in the US, see chart 6. However, according to a survey by Statistics Denmark, the majority of Danish manufacturing companies do expect to be affected by the higher tariffs on exports to the US.[9]

[9] See Statistics Denmark, Mere end 70 pct. af industrien påvirkes af toldkrig (more than 70 per cent of industry affected by tariff war, in Danish only), *News from Statistics Denmark*, no. 113, April 2025.

CHART 6

Exports of goods to the US slowed down in early 2025



Note: Statistics for foreign trade. Current prices.
Source: Statistics Denmark and own calculations.

Higher tariffs weaken Danish exports

Higher tariffs are expected to affect Danish exporters in the future: Firstly, higher tariffs will have a direct negative impact on Danish exports to the US, as Danish companies are in a weaker competitive position in the US market. Secondly, higher tariffs will indirectly affect Danish exporters due to weaker growth in several other export markets.

Danish exporters are directly affected by higher tariffs on exports to the US...

The higher tariffs on exports to the US mean that Danish exporters are at a competitive disadvantage against American manufacturers in the US market. However, the vast majority of countries are also facing higher tariffs on exports to the US, which means that the competitive position of Danish exporters is largely unchanged compared to other exporters to the US.

The direct effect of higher tariffs is only expected to have a minor impact on the Danish economy. This is partly due to the fact that the higher tariffs only directly affect a small proportion of total Danish exports. Exports of goods to the US account for 12 per cent of total exports. Furthermore, Danish exports to the US are characterised by the fact that only 25 per cent of exports are produced in Denmark. A large part of the exports are probably already produced in the US[10] and will generally not be subject to tariffs. However, production in the US may be affected by price increases on intermediate goods due to higher tariffs. The portion of exports to the US that are produced in third countries will also be subject to tariffs. In addition, service exports are exempt from tariffs in the EU's political trade agreement with the US.

The effective tariff in 2025 on Danish exports to the US is estimated to be around 11 per cent, as part of the exports are produced outside Denmark's borders. For

[10] The Economic Council found that 65 per cent of merchanting and processing exports to the US in 2022 were produced by companies with a manufacturing subsidiary in the US. See The Economic Council, Charimanship, *Danish Economy, Spring 2025*.

total exports, calculations on detailed export figures for Danish companies show that the trade-weighted tariff rate against Danish exports was 1.5 per cent in 2021. If trade patterns and other tariffs are maintained, the recent increase in tariffs on exports to the US is estimated to increase the total tariff rate by 0.6 percentage points to 2.1 per cent in 2025.

... and indirectly through lower growth in several Danish export markets

Danish export companies will also be indirectly affected by the ongoing trade conflict through lower growth in Danish export markets over the next few years. This will limit their sales opportunities for Danish-produced goods to countries other than the US. It is also expected to affect Danish service exports through lower activity in sea transportation as a result of fewer goods being shipped worldwide.

Based on international forecasts, export market growth in Denmark is expected to be between 2 and 3 per cent over the next few years. This is relatively subdued and slightly lower than the average increase since 2012. In addition to the effects of higher tariffs in the US, export market growth is also affected by other drivers that influence the international growth picture, cf. description earlier in the chapter.

Growth in Danish exports is expected to be more subdued

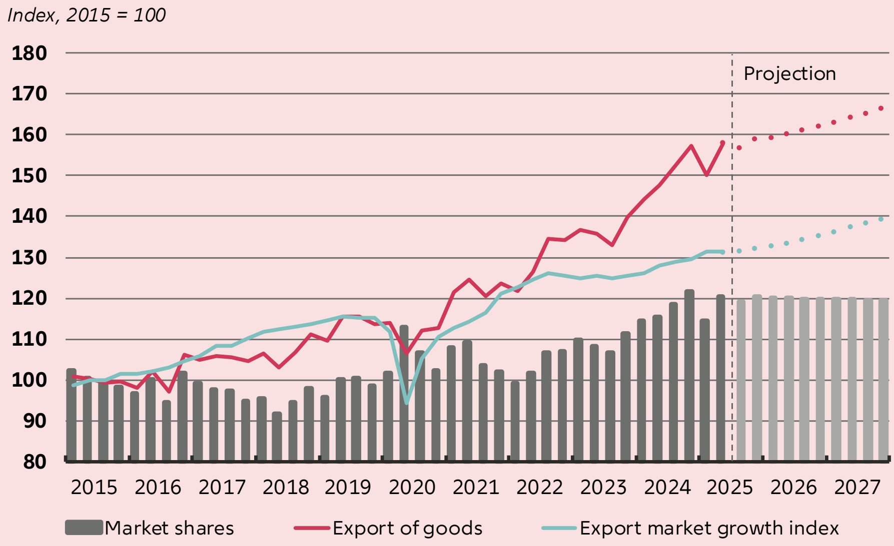
Based on higher tariffs and weaker growth in global trade, growth in Danish exports is expected to be slightly lower than in previous years. Exports are expected to grow by 1.4 per cent this year, 4.1 per cent in 2026 and 2.2 per cent in 2027, which is higher than export market growth, see chart 7. This is largely due to the prospect of continued high growth in production and exports from the Danish pharmaceutical industry, even though expectations among equity analysts for sales growth in the largest Danish pharmaceutical companies are lower than in Danmarks Nationalbank's latest projection in March.

Growth in other areas of Danish exports is expected to be more subdued in line with export market growth. This corresponds to broadly unchanged market shares for other exports. Danish manufacturing companies are underpinned by their overall competitiveness, which puts them in a favourable position to take advantage of the expected growth in export markets, despite higher tariffs.[11] The growth in Danish service exports is also expected to slow down over the next few years, with sea transportation in particular affected by lower global trade.

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

CHART 7

Export growth continues at a slightly slower rate than previous years



Source: Statistics Denmark and own calculations.

04
Growth in domestic demand

Private consumption has picked up over the past year, but is still marked by the restraint that has dampened consumption since the sharp increases in energy prices in 2022. Over the next few years, growth in real wages and employment is expected to support consumption along with less tight monetary policy. However, consumption is dampened by the fact that households are being cautious and households are expected to continue saving a lot.

But this restrained consumer behaviour has not manifested itself in the same way in the housing market, where prices have risen steadily. They are expected to continue to rise over the next few years. Prices on owner-occupied flats in Copenhagen have risen markedly over the past year, and if recent developments continue, the risk of an expectation-driven price development increases, and thus the risk of an inexpedient spillover to other parts of the country.

Despite the higher tariffs, companies remain optimistic about the future and business investment has remained high in recent years despite the tight monetary policy. Business investment will be supported by the phasing out of tight monetary policy over the next few years, but will be dampened by the outlook for slightly more subdued growth in the export sector.

Public demand is expected to be quite high over the next few years as the Danish defence forces are built up. The high public demand is expected to be covered to a significant extent by high imports linked to the purchase of defence equipment.

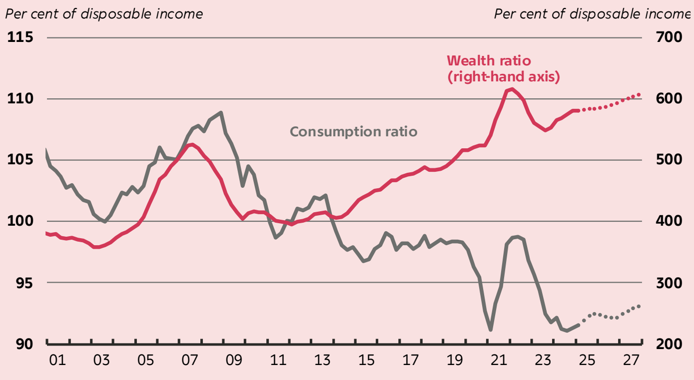
Strong labour market and rising incomes expected to drive private consumption from low levels

Households have been remarkably reluctant to spend for several years, see box 2. This is reflected in the consumption ratio, i.e. the proportion of households' disposable income spent on consumption. Over the past few years, the overall consumption ratio has decreased, meaning that households are saving more than before. The consumption ratio is close to its lowest level ever and significantly lower than in the years leading up to the coronavirus pandemic, see chart 8.

The subdued development in private consumption in recent years is in line with consumer confidence, which has been low since inflation started to rise in late 2021, see chart 9. One of several possible explanations for the increase in household saving could be that increased uncertainty on the back of a period of inflationary crisis and pandemic has increased the need for additional buffers. During the inflation crisis, there was evidence that precautionary savings due to expectations of unemployment contributed to the overall savings rate. However, this far from explains all household saving, see box 3.

CHART 8

Consumption ratio is very low



Note: Four-quarter moving averages. *The wealth ratio* is calculated as the sum of households' equity, housing and pension wealth less tax and other wealth less gross debt as a share of disposable income. Latest actual observation is Q1 2025.
Source: Statistics Denmark and own calculations.

CHART 9

Consumer confidence has fallen significantly since mid-2024

Note: The latest observation is August 2025.

Source: Statistics Denmark.

Private consumption has started to show signs of recovery and has increased since the end of 2023, see chart 10. Over the past year, total private consumption has increased by 2.1 per cent, which is a higher growth rate compared to previous years since the coronavirus pandemic. However, growth is still subdued when viewed in light of a low level of private consumption and a strong labour market with continued employment growth, rising real wages and falling interest rates.[12]

In the euro area, private consumption has also been subdued over a number of years since 2019, see chart 10. But the increase in real wages and employment has been less pronounced in the euro area than in Denmark, proving that Danish

[12] See Danmarks Nationalbank, Neutral monetary policy in a time of global uncertainty, *Danmarks Nationalbank Analysis (Monetary and financial trends)*, no. 21, September 2025.

households have been more cautious than in the euro area. In comparison, consumption has increased significantly in the US in recent years, fuelled by loose fiscal policy.

Since the end of 2022, durable goods and services have driven Danish private consumption, see chart 11. Apart from car sales, growth has been subdued. During the coronavirus pandemic, consumption of durable goods increased significantly due to lack of spending opportunities, but has since fallen below pre-pandemic trends. This is especially true for consumption in e.g. furnishings, where households now consume less than before the pandemic. This could be a sign that households brought forward some consumption, thus reducing their need for further consumption. Non-durable goods, such as food, have declined in recent years, which may be related to the fact that food prices have increased more than prices of other goods in recent years.

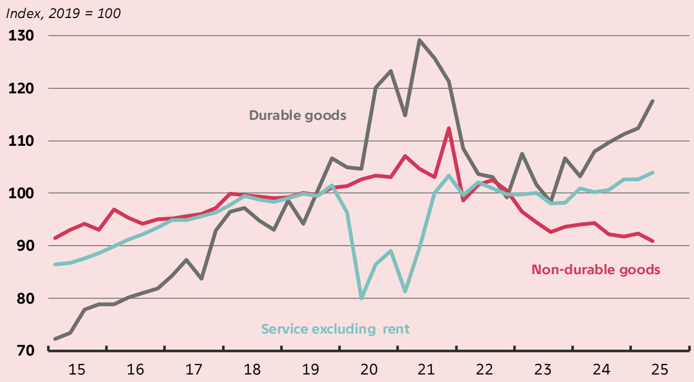
CHART 10

Subdued consumption growth in Denmark and the euro area

Source: Statistics Denmark and Macrobond.

CHART 11

Durable goods and services drive consumption growth



Note: Latest observation is Q2 2025.
Source: Statistics Denmark.

BOX 2

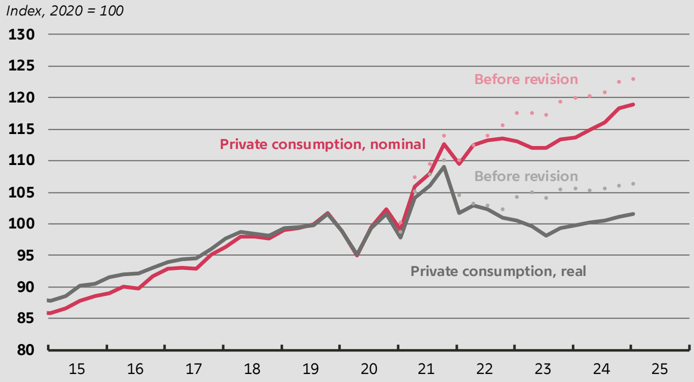
The consumption ratio has been revised significantly downwards and savings significantly upwards

Household consumption was revised significantly downwards with the revision of the national accounts on 30 June 2025. Consumption has been revised downwards in nominal and real terms, see chart A. Price developments have only been revised to a lesser extent. According to Statistics Denmark, the downward revision is largely based on nominal consumption, which is now better aligned with VAT revenues. In particular, the consumption of food, clothing and transport services has been revised downwards.

Household disposable income, on the other hand, has been revised slightly upwards, meaning that the consumption ratio has been revised markedly downwards. In addition to private consumption, households' investments, which mainly consist of housing investment, have also been revised markedly downwards. Investments further contribute to the fact that households have saved around 2 per cent of GDP over the past two years, measured by net lending, which is the total financial savings surplus of households, see chart B. This is significantly higher than before the revision and in the period from the financial crisis until 2022, when net lending was generally close to 0 and on average moderately negative.

CHART A

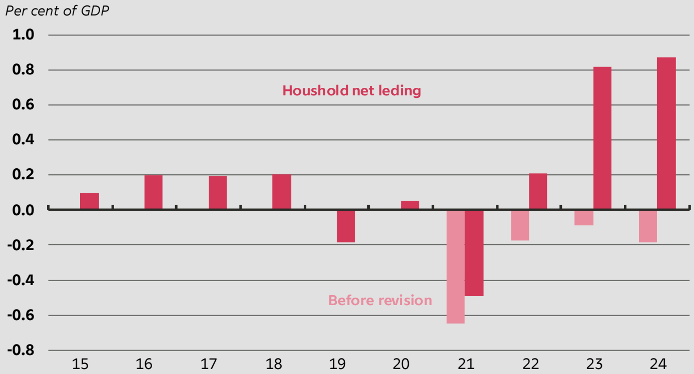
Private consumption has been revised significantly downwards in the latest revision in July



Note: The chart shows private consumption after the revision on 30 June 2025 compared to before. Latest observation is Q1 2025.
Source: Statistics Denmark.

CHART B

Household net lending has been revised significantly upwards



Note: The chart shows (financial) net lending of households and non-profit institutions serving households at annual frequency.
Source: Statistics Denmark.

BOX 3

Precautionary savings increased during the inflation crisis

The household savings ratio has increased in recent years, especially since the period of high inflation in 2022 and 2023. To shed light on savings behaviour, an econometric model is used to decompose trends in the savings ratio during the inflation crisis.[1] The model is a quarterly panel data model for Denmark, the Netherlands and Belgium, estimated for the period 2000-24.

$$S_{it}=\alpha_0+\alpha_1 UE_{it}+\alpha^2 \Delta lnDI_{it+1}+\alpha_3 W_{it-1}+\alpha_4 CC_{it}+\text{country}_i+\text{quarter}_t+\varepsilon_{it},$$

where S_{it} is the household savings ratio in country *i* during period *t*, UE_{it} is unemployment expectations, $\Delta lnDI_{it+1}$ is the log change in realised income in the subsequent period, W_{it-1} is the net financial wealth of households in the previous period relative to disposable income, CC_{it} is a measure of credit standards, country_i and quarter_t are a collection of dummies for country and time period respectively, and ε_{it} is an error item. The model uses households' expectations of unemployment as a proxy for household caution. Other variables for uncertainty or expectations can also be used, which means this measures just one type of precautionary saving among households.

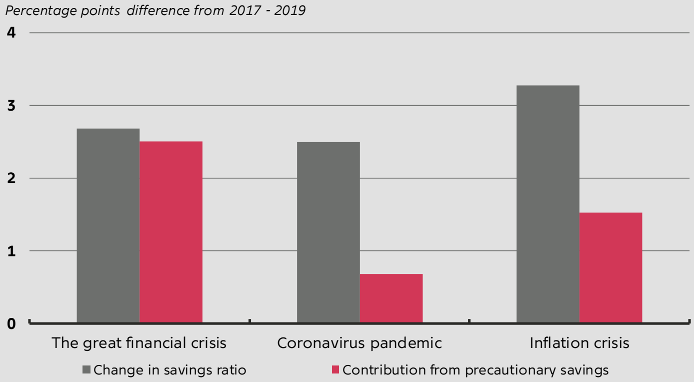
The model compares the inflation crisis period with the years 2017-19, which was a period without major shocks to the economy. The modelling results indicate that changes in household precautionary savings contributed to a higher savings ratio during the inflation crisis than in the years before the coronavirus pandemic, see chart A. However, not all of the increase in the savings ratio can be explained by increased precautionary savings, which should be seen in light of the fact that unemployment expectations are used as a proxy for precautionary savings. Although household unemployment expectations increased during the inflation crisis, the labour market remained strong throughout the period.

According to the modelling, precautionary savings contributed more to household savings during the inflation crisis than during the coronavirus pandemic, see chart A. During the first lockdown in the coronavirus pandemic, a previous analysis from Danmarks Nationalbank shows that household savings were driven more by forced savings as a result of lockdowns and thus limited spending opportunities rather than precautionary savings.[1] During the financial crisis, the modelling shows higher precautionary savings than during the inflation crisis. This difference should be seen in light of a significant drop in employment and rising unemployment during the financial crisis, while the opposite was true during the inflation crisis.

In addition to precautionary savings, exogenous shocks to net financial wealth have also contributed to a higher savings ratio, see chart B. Household net financial wealth was boosted by share price increases in 2020 and 2021, after which it has remained largely unchanged.

CHART A

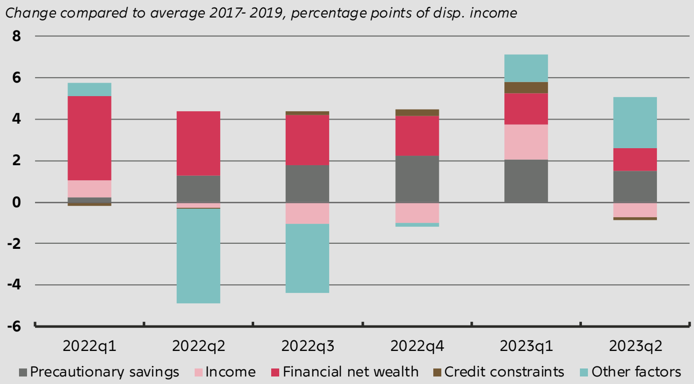
Precautionary savings contributed more to the savings ratio during the inflation crisis than during the coronavirus pandemic



Note: *The financial crisis* is defined as the period Q3 2008 to Q4 2009. *The coronavirus pandemic* is defined as the period Q2 2020 to Q4 2021. *The inflation crisis* is defined as Q1 2022 to Q4 2023.
Source: Macrobond, Statistics Denmark and own calculations.

CHART B

Net financial wealth and precautionary savings help drive the savings ratio



Source: Macrobond, Statistics Denmark and own calculations.

[1] The model follows the methodology from Svend Greniman Andersen, Rasmus Mose Jensen and Nicolai Risager Christensen, Høj opsparing under corona var drevet af restriktioner snarere end forsigtige forbrugere (High savings during the coronavirus pandemic were driven by restrictions rather than precautionary consumers, in Danish only) *Danmarks Nationalbank Economic Memo*, no. 2, February 2021.

Consumption will be supported by continued growth in real wages and employment, along with high savings and lower interest rates. On the other hand, weak consumer confidence indicates a rather subdued appetite for consumption and there are no immediate signs that the consumption ratio will really increase in the short term. Consumers are consequently expected to remain cautious and save over the coming years, but they are expected to gradually consume an increasing share of their income. Consumption is expected to increase 2.2 per cent in 2025 and 2.0 per cent in both 2026 and 2027.

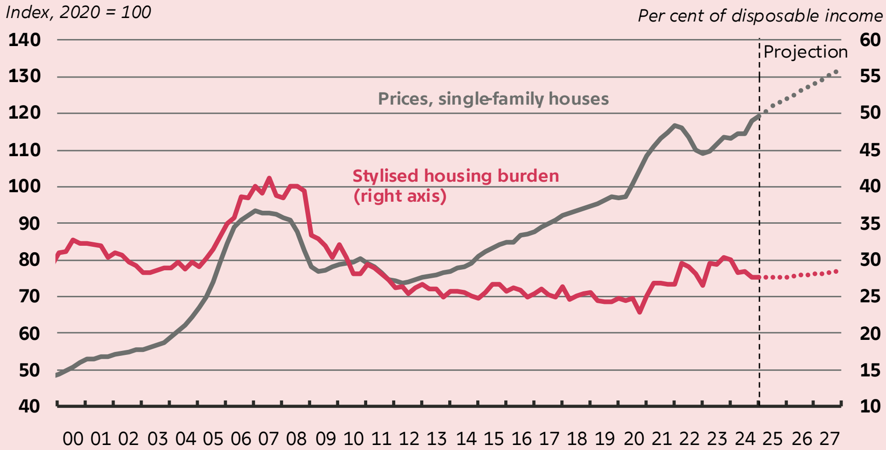
House prices expected to rise in line with incomes

Low consumer confidence and restrained consumer spending have not been reflected in the housing market in recent years, with trading activity and prices rising steadily since early 2023. The trends in house prices nationwide can largely be explained by underlying drivers such as interest rates and income, and are generally more in line with economic trends than private consumption. This is seen in the stylised housing burden, which shows the cost of a fully financed home purchase as a share of the average income of Danish households. The housing burden has decreased in recent quarters, but overall it is on par with recent years, see chart 12.

Single-family house prices have increased by around 5 per cent between Q2 2024 and Q2 2025 and by almost 10 per cent over the past two years. Prices of owner-occupied flats have increased even more, by almost 11 per cent between Q2 2024 and Q2 2025. At the same time, trading activity for both single-family homes and owner-occupied flats has increased and is at a higher level than in the years before the coronavirus pandemic.

CHART 12

House prices are expected to rise in the coming years



Note: Nominal house prices of single-family houses nationwide. The housing burden for Denmark is a stylised calculation of the financing costs, including property taxes, of buying a single-family house as a share of average disposable income. The financing costs are calculated on a 30-year fixed rate loan with amortisation, including administration margins, plus a bank loan for the share that cannot be financed by a mortgage loan. From 2024, housing taxes in the housing burden are expected to follow the development of house prices. The projection is Danmarks Nationalbank's projection from September 2025 and covers expectations for house prices, income and interest rates. The projection is based on Statistics Denmark's price statistics, where the latest observation is Q1 2025.

Source: Statistics Denmark, Finance Denmark and own calculations.

The housing market has been affected by a series of shocks in recent years: During the coronavirus pandemic, housing demand increased, while the subsequent period of high inflation caused house prices to fall. Several of these effects are not unique to Denmark. In comparable European countries and in the

US, house prices have increased at the same or higher rate than in Denmark over the past five years. The introduction of the new housing tax system in 2024 has also affected the housing market. It is estimated that the shocks to the housing market in recent years have been reflected in house prices.[13]

Prices for single-family homes nationwide are expected to rise 5.4 per cent this year, 3.6 per cent in 2026 and 3.3 per cent in 2027. Growth in house prices is expected to be driven mainly by rising real household incomes and interest rates, while previous shocks to housing market demand during the coronavirus pandemic and the inflation crisis are not expected to affect the housing market further going forward. Housing investment is projected to decrease by 0.9 per cent in 2025 and then increase by 1.9 per cent and 2.4 per cent in 2026 and 2027 respectively. House prices have risen more than housing investment prices in recent quarters, which means that building new homes has become more attractive. Increased housing investment from next year will eventually increase the supply of housing and keep the rate of increase in house prices down in the projection at around the historical level.

Copenhagen flats prices can spill over to neighbouring areas

There are significant geographical differences in house price developments, and in Copenhagen in particular, prices on owner-occupied flats have increased significantly in recent years.[14] Between Q2 2024 and Q2 2025, prices of owner-occupied flats in Copenhagen increased by approximately 17 per cent, see chart 13. The significant demand for flats in Copenhagen is reflected in a high number of transactions, a very low number of owner-occupied flats currently for sale and low time-on-market. In recent decades, prices on owner-occupied flats in Copenhagen have risen at a higher rate than prices on single-family house nationwide, driven in part by an increasing population. However, the current rate of increase is significantly higher than the average annual trend.

Despite high price increases in the Copenhagen market for owner-occupied flats, buyers have not increased the share of income spent on housing. This can be seen in the actual housing burden for Copenhagen, which indicates how much of each home buyer's income is actually spent on housing loans and taxes when buying a home.[15] The actual housing burden has remained largely unchanged over the past two years despite high price increases, which reflect falling interest rates and higher incomes. This flat trend comes after a significant increase in 2022 when mortgage rates rose, see chart 14. The same picture can be seen overall in the stylised housing burden.

There may be risks associated with the significant house price increases in Copenhagen, even though Copenhagen represents a relatively small part of the total Danish housing market and lending. For example, there may be a risk that the price developments in Copenhagen becomes expectation-driven, i.e. the expectation of higher prices in the future increases prices today.[16] If such expectation-driven price increases spread to other parts of the country, similar

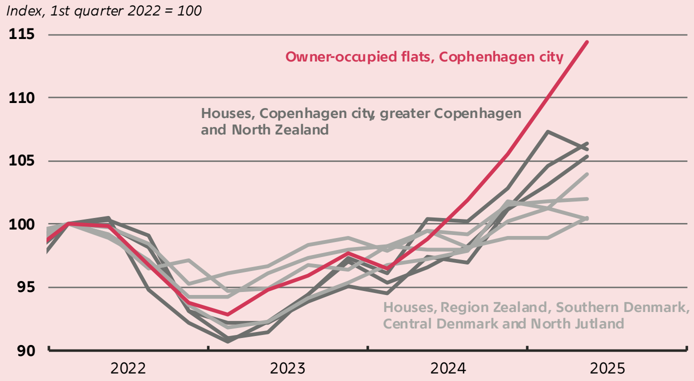
[13] See Kim Abildgren, Simon Juul Hviid, Asbjørn Westmose Klein, Thomas Krause, Andreas Kuchler, Stine Louise von Rüden and Amy Yuan Zhuang, Big shocks to the economy have fuelled house prices, *Danmarks Nationalbank Analysis*, no. 14, September 2024.
[14] In the following, *Copenhagen* is defined as the City of Copenhagen, i.e. the municipalities Dragør, Frederiksberg, Copenhagen and Tårnby.
[15] The actual housing burden differs from the usual stylised housing burden in that it is calculated on actual purchases using micro data, whereby the housing burden is calculated individually for each home buyer in each quarter. The stylised housing burden is calculated based on developments in income, interest rates and house prices at the macro level. See more in box 2 in Kim Abildgren, Simon Juul Hviid, Asbjørn Westmose Klein, Thomas Krause, Andreas Kuchler, Stine Louise von Rüden and Amy Yuan Zhuang, Big shocks to the economy have fuelled house prices, *Danmarks Nationalbank Analysis*, no. 14, September 2024.
[16] See Simon Juul Hviid, Tina Saaby Hvolbøl and Erik Haller Pedersen, Pedersen, Regionale aspekter på boligmarkedet (Regional aspects of the housing market, in Danish only), *Danmarks Nationalbank Quarterly Review*, Q4, 2016.

to the years leading up to the financial crisis, they can lead to a subsequent price correction in the housing market, that in turn dampens the economy.

House prices in the regions around Copenhagen have increased more than in other parts of the country since 2022, see chart 13. However, the price increases around Copenhagen are still considerably lower than those for owner-occupied flats in Copenhagen in recent years. Furthermore, the development in both Copenhagen and other parts of the country is significantly more subdued than in the years leading up to the financial crisis. If the current price developments for owner-occupied flats in Copenhagen continues, the risk of expectation-driven price growth increases and with it the risk of inexpedient spillovers to other parts of the country.

CHART 13

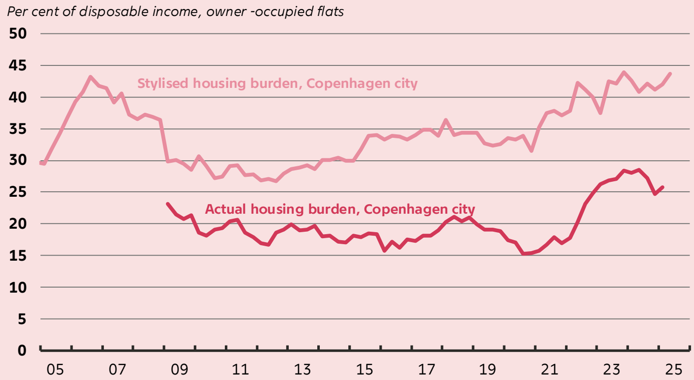
Prices of owner-occupied flats in Copenhagen have risen significantly



Note: Statistics Denmark's price index is the basis for the series up to and including Q1 2025, after which Q2 2025 is calculated based on Boligsidens price statistics. *The Copenhagen area* consists of the municipalities Albertslund, Ballerup, Brøndby, Gentofte, Gladsaxe, Glostrup, Herlev, Hvidovre, Høje-Taastrup, Ishøj, Lyngby-Taarbæk, Rødovre and Vallensbæk. *North Zealand* consists of the municipalities Allerød, Egedal, Fredensborg, Frederikssund, Furesø, Gribskov, Halsnæs, Helsingør, Hillerød, Hørsholm and Rudersdal.
Source: Statistics Denmark, Boligsiden and own calculations.

CHART 14

The actual housing burden for owner-occupied flats in Copenhagen has decreased slightly over the past two years



Note: The chart shows the stylised housing burden and the median of the quarterly actual housing burden for owner-occupied flats purchases. The actual housing burden is calculated for each home purchase during the quarter as the sum of bank and mortgage payments and housing taxes as a percentage of disposable income. See the note in chart 12 for a description of the stylised housing burden. The difference in level in the stylised and actual housing burden is due to actual home buyers having higher incomes than the average household and that they do not necessarily borrow up to the borrowing limit of 95 per cent to finance home purchases.
Source: Own calculations based on Statistics Denmark's register data and Danmarks Nationalbank's Credit Register.

Business investment is expected to continue to rise

Business investment has been high in recent years, but has weakened slightly in the 1st half of 2025. Business investments are subject to large fluctuations, which makes it difficult to interpret whether the weakening over the past six months is linked to, for example, uncertainty about trade policy conditions in the US market. Increased uncertainty has previously subdued business investment,[17] but business confidence remains high. Although many Danish manufacturing companies expect to be affected by the higher tariffs on exports to the US, few

[17] See Mikkel Bess, Erik Grenestam, Alessandro Tang-Andersen Martinello and Jesper Pedersen, Uncertainty and the real economy: Evidence from Denmark, *Danmarks Nationalbank Working Paper*, no. 165, November 2020.

companies have indicated that the trade conflict has caused them to change strategy with respect to sales, production and investment.[18]

In recent years, business investments have been supported by strong growth in Danish manufacturing companies. At the same time, the phasing out of tight monetary policy over the past year means that monetary policy and financial conditions no longer contribute to dampening business investment and are now assessed to be neutral for activity.[19]

On the back of the phasing out of tight monetary policy, business investment is expected to increase further over the next few years,[20] and interest rates are assumed to remain largely unchanged. However, the growth in business investment is expected to slow down as expectations of weaker growth in export markets are expected to dampen the investment appetite of export companies somewhat. The political trade agreement between the EU and the US is expected to subdue activity in Danish companies somewhat, but conversely contribute to reducing uncertainty about trade policy conditions.

Increased defence spending boosts public demand significantly, but a large part is covered by increased imports

This year and over the next few years, significant increases in public demand are expected. This reflects that a broad majority in the Danish parliament have agreed to increase public spending on defence to just over 3 per cent of GDP this year and the next. For example, an increase in defence spending of 0.8 per cent of GDP is planned with the so-called Acceleration Fund. The vast majority of increased defence spending is assumed to be attributable to imported goods,[21] and there is also considerable uncertainty about the investment spending in individual years, which is affected by factors such as shifts in the exact delivery dates.[22] This is evident in the recent procurement of the kr. 58 billion ground-based air defence system, which is largely procured abroad and where deliveries run over a number of years with effect from 2026 to 2032. In addition to increased defence spending, public demand is boosted by the fact that the financial agreements with municipalities and regions include funds to increase government spending, while the draft budget includes funds to lower a number of excise duties and reduce the electricity tax.

The increase in public demand implies a significant easing of fiscal policy over the next few years. This is seen in the structural budget balance, which according to the Ministry of Finance deteriorates from 1.8 per cent of GDP in 2024 to -0.1 per cent in 2026. Measured by the Ministry of Finance's one-year fiscal effect, fiscal policy overall will increase capacity pressure by 1 per cent of GDP in 2025 and 2026 (measured by the output gap). This comes after fiscal policy dampened capacity pressure by 1.3 per cent of GDP in total during 2023 and 2024.

The sharp increase in public spending also means that the government balance in this projection is expected to weaken from 4.5 per cent of GDP in 2024 to

[18] See Statistics Denmark, Mere end 70 pct. af industrien påvirkes af toldkrig (more than 70 per cent of industry affected by tariff war, in Danish only), *News from Statistics Denmark*, no. 113, April 2025.
[19] See Danmarks Nationalbank, Neutral monetary policy in a time of global uncertainty, *Danmarks Nationalbank Analysis (Monetary and financial trends)*, no. 21, September 2025.
[20] Changes in monetary policy interest rates affect investments with a certain delay, partly because companies often have a longer decision-making horizon and because it can take some time from decision to implementation of the investment. See e.g. Bonin, Cucic, Kuchler and Otte, The corporate investment channel of monetary policy in Denmark, *Danmarks Nationalbank Economic Memo,* no. 4, June 2024.
[21] The Ministry of Finance states that major purchases of military equipment have a higher import content than other public consumption and investments, which, in isolation, suggests that the calculated fiscal effects are an overestimate. See Ministry of Economic Affairs, Economic Survey, *August 2025*.
[22] Estimates for public investment are subject to considerable uncertainty as expenditure is affected by shifts in activity etc. between the individual years and shifts in delivery dates for equipment investments (e.g. for defence). See Ministry of Economic Affairs, Economic Survey, *August 2025*.

around 2.3 per cent of GDP this year, 1.4 per cent of GDP in 2026 and 1.2 per cent in 2027. However, the surplus is still high from an international perspective.

So far, there are only concrete political agreements made to increase defence spending to 2 per cent of GDP by 2030. From 2035, Denmark has committed to spending 3.5 per cent of GDP on defence spending from 2035 through NATO (the so-called the core target), as well as 1.5 per cent of GDP on a number of expenses related to defence in a broader sense.[23]

Denmark's healthy public finances mean that looking ahead to 2030 there is room in the budget under the so-called fiscal space for a significant increase in public spending, which e.g. can be used to meet NATO's new core target of 3.5 per cent of GDP, see table 2. The large surpluses in the public balance in recent years have largely reflected structural factors. Meanwhile, public debt is low, and long-term developments currently indicate that public debt is sustainable in the long term, even with a deficit of 0.5 per cent of GDP in 2030. To reach a deficit of 0.5 per cent of GDP in 2030, which is currently the medium-term target for fiscal policy, the Ministry of Finance assumes that public consumption will increase by 2.9 per cent annually until 2030. In the short term, however, it is important that the activity effect of fiscal policy is aligned with capacity pressure in the Danish economy.

TABLE 2

NATO's core target of 3.5 per cent can be financed within the fiscal space from 2029

Billion kr. 2026	2027	2028	2029	2030
Fiscal space	10.5	23.3	61.5	83.3
... excluding priorities and demographic traits	7.0	15.8	52.5	72.0
Additional defence spending with an increase to 3.5 per cent of GDP	40.0	47.0	48.1	48.4

Source: Ministry of Finance, *Basis for expenditure ceilings 2029* and own calculations.

A permanent increase in defence spending to 3.5 per cent of GDP can increase capacity pressure moderately. The impact on capacity pressures will depend on several factors including how quickly defence spending is increased and how much of the funds will be spent abroad. Calculations based on Danmarks Nationalbank's macroeconomic model, MONA, show that increased defence spending could, in isolation, increase capacity pressure by around 1 per cent of GDP (measured by the output gap) between 2025 and 2029, compared with a scenario, where defence spending is kept at 2022-levels, when it is assumed that defence spending has the same import content as other types of government consumption and investment, see box 4.[24] Consumer prices will be around 1 per cent higher in 2029. In a scenario where a larger share of expenditure is spent on purchasing equipment abroad, the capacity pressure only increases by 0.7 per cent of GDP.

[23] No agreement has yet been reached on what costs are included in the supplementary NATO target. However, the supplementary target is likely to cover costs that most countries already incur to some extent. Nor has there been a Danish agreement on the specific increase in defence spending under the NATO agreement.
[24] See Kim Abildgren, Dominic Cucic, Rasmus Mose Jensen, Emil Holst Partsch and Rasmus Rold Sørensen, Higher defence spending may increase capacity pressures moderately, *Danmarks Nationalbank Analysis*, no. 3, September 2025.

The calculations reflect estimates of the total isolated impact of increased defence spending, with some of the increase already incurred in 2024 and some of the increase factored into the fiscal assumptions in Danmarks Nationalbank's projection. The calculations also assume that the increased defence funds would not otherwise have been spent.

Insofar as the increase in defence spending is financed within the fiscal space, it will not give rise to additional activity effects than already estimated in the Ministry of Finance's medium-term projections, as the fiscal space is already assumed to be spent on increased public consumption towards 2030.

BOX 4

Increased defence spending could lead to a moderate increase in capacity pressure

The war in Ukraine has raised concerns about Europe's defence. This has prompted the NATO alliance to increase the current target for direct defence spending from 2 to 3.5 per cent of GDP by 2035 and introduce an additional target of spending 1.5 per cent of GDP on a range of expenditures related to wider security in addition to the current target.

The short-term macroeconomic effects of increased defence spending depend on a range of factors
The short-term effects of increased defence spending are subject to considerable uncertainty and depend on a range of factors. This includes the composition of defence spending and the extent to which defence equipment is procured abroad. To calculate the macroeconomic effects, it is necessary to set out scenarios with explicit assumptions about some of these factors. Most crucial are the assumptions about how fast defence spending increases and how much of it is covered by imports. The analysis therefore contrasts two different scenarios for the additional Danish defence expenditures that differ with respect to their assumed import content.

In those scenarios, it is assumed that defence spending will increase permanently to 3.5 per cent of GDP from 2026. They therefore describe an increase in defence spending for NATO's core target, but there may be additional effects associated with any increase in spending related to defence in a broader sense. The scenarios are compared to a baseline in which defence spending is maintained at 1.3 per cent of GDP as in 2022. This describes the overall effect of the increases in defence spending since Russia's invasion of Ukraine in 2022.

The scenarios reflect current political plans, including agreed donations to Ukraine, the Acceleration Fund and the latest defence agreement from 2023. For the remaining increase in expenditure, a range of technical assumptions have been made about the composition of defence spending, including intermediate consumption, compensation of employees, investments and transfers abroad, reflecting Denmark’s committed donations to Ukraine. The assumed composition of expenditure implies that the number of government employees – part of compensation of employees – is assumed to increase more gradually than total defence spending, which is initially tilted towards investments, intermediate consumption and transfers abroad.

To illustrate the importance of the import content, two scenarios have been created that vary the import content of defence spending.

In the first scenario, higher defence spending has the same import content as other public consumption and investments in the macroeconomic model, MONA. These assumptions are likely to be an underestimate for investments in defence equipment.

In an alternative scenario, it is assumed that the import content accounts for 50 per cent of both the intermediate consumption and investments in defence equipment.

Both scenarios assume that investments under the Acceleration Fund in 2025 and 2026 will mainly consist of purchases of defence equipment with an import content of 80 per cent, that the expenditure is debt-financed, and that defence spending will only increase in Denmark.

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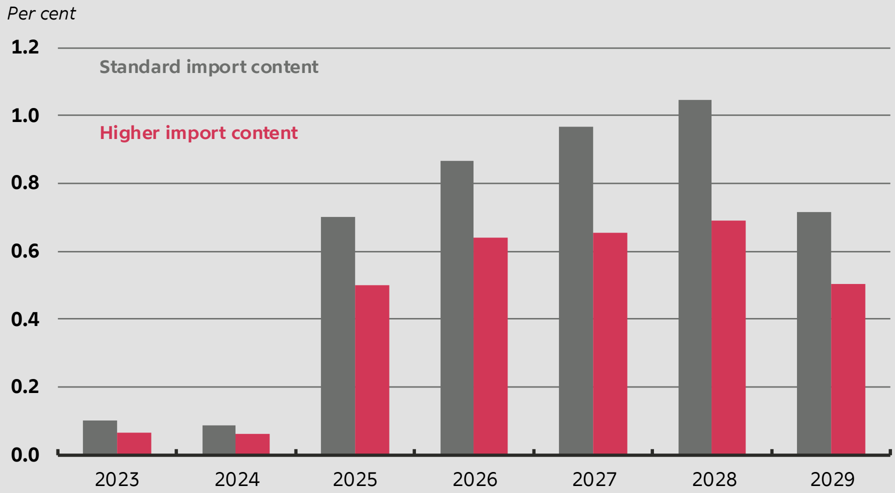
Capacity pressure will increase by around 1 per cent for a number of years as a result of meeting the new NATO targets
Calculations using Danmarks Nationalbank's macroeconomic model, MONA, show that increased defence spending will boost GDP by around 1 per cent in the years 2025-29 in the first scenario with the usual import content, see chart A. Assuming that defence spending does not affect potential GDP, the capacity pressure (measured by the output gap) increases accordingly. The impact on GDP is greatest in 2028 and diminishes thereafter as higher capacity pressure increases wage growth in Denmark, weakening the competitiveness of Danish export companies. Increased defence spending will drive up consumer prices by around 1 per cent in 2029.

In the second scenario, where a greater proportion of defence spending is directed towards procuring defence equipment abroad, the effects on capacity pressure and consumer prices will be less significant. In the higher import content scenario, the impact on GDP (and capacity pressure) is reduced to 0.7 per cent in 2028. It also has less of an impact on Danish industrial wages and consumer prices in Denmark. The scenario thus illustrates how a larger import content reduces the impact on capacity pressure and inflation.

Increased defence spending in the euro area may also affect Denmark
Capacity pressure in Denmark also depends on how much military spending increases in the euro area and how higher defence spending is financed there. So far, only limited agreements have been made to increase defence spending in the euro area, which is included in international forecasts. Initially, military spending boosts growth in the euro area, which spills over to demand among Danish export companies. However, increased inflationary pressures in the euro area could be countered by monetary tightening by the ECB. It will also dampen the effect on Danish export companies and domestic demand in Denmark as a result of the fixed exchange rate policy. There are no indications that the effect of monetary policy on inflation differs significantly between Denmark and the euro area,[1] so the effect in Denmark of increased military spending in the euro area is expected to be limited if capacity pressure is affected equally in Denmark and the euro area.

CHART A

Increased defence spending will moderately increase capacity pressure over the next few years



Source: Statistics Denmark and own calculations.

[1] Due to the fixed exchange rate policy, Danmarks Nationalbank usually follows interest rate changes by the ECB. Empirical evidence suggests that monetary policy rate hikes have a slightly faster impact on interest rates for households and businesses in Denmark compared to the euro area, but that the effect on inflation and unemployment does not differ significantly. See Henrik Yde Andersen, Mia Renee Herlev Jørgensen, Andreas Kuchler, Rasmus Bisgaard Larsen, Marcus Bjerregaard Læssøe, Alexander Meldgaard Otte, Morten Spange and Christoffer Weissert Jessen, Effects of increases in monetary policy rates, *Danmarks Nationalbank Analysis*, no. 5, March 2024.

05
Pressure in the Danish economy and labour market continues to ease

Most indicators of capacity pressure in the economy have eased significantly over the past three years. At the same time, inflation is low and stable, and based on these factors Danmarks Nationalbank assesses that capacity pressure in the Danish economy is currently broadly neutral.

Over the next few years, demand in the Danish economy is expected to grow at a slightly slower rate due to more subdued growth in global trade, while Danish consumers remain cautious despite significant real wage growth and rising employment, see also chapters 3 and 4. The high growth in public demand is expected to be covered to some extent by imports, related in particular to investments in defence equipment, which in itself gives rise to a modest contribution to Danish GDP.

Growth in the Danish economy is expected to be slightly weaker over the next few years. Overall, this is a balanced economic cycle with growth that is close to the potential of the Danish economy. Against this backdrop, employment growth is expected to be slightly weaker than in recent years. Capacity pressure in the Danish economy is therefore expected to remain broadly neutral.

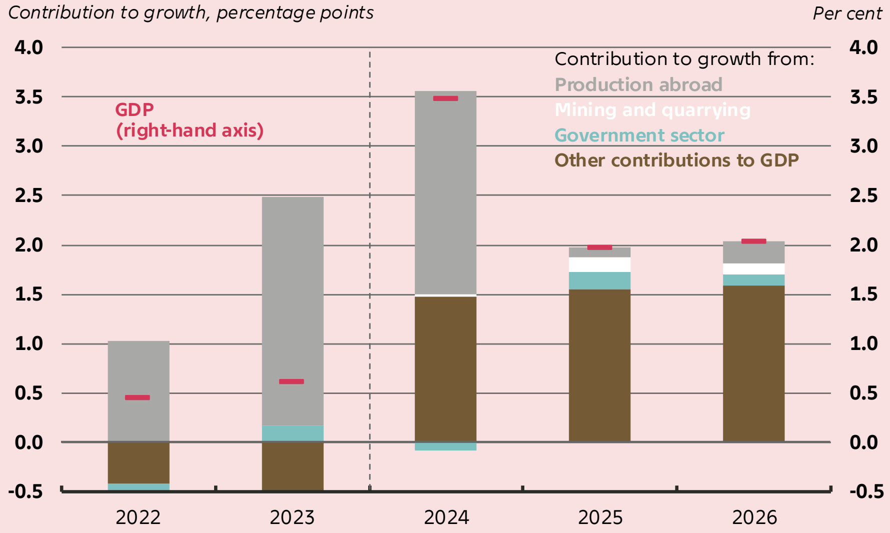
Prospects for balanced growth in the domestic economy

Growth in the Danish economy has been fairly high since the end of 2023. The past 18 months have also seen growth in domestic output, and although there are still large contributions from Danish-owned pharmaceutical companies' output abroad, growth in the Danish economy is less affected by the dichotomy that characterised the previous years.

A balanced growth trajectory is expected over the next few years, where weaker growth in global trade subdues growth in exports and consumers remain cautious about spending. However, GDP growth is expected to remain relatively strong due to continued strong growth in pharmaceutical production abroad and the reopening of the Tyra gas field in the North Sea, see chart 15. Nevertheless, growth in the Danish economy is expected to remain more balanced. GDP is expected to increase by 2.0 per cent in 2025, 2.0 per cent in 2026 and 1.7 per cent in 2027, while domestic output is expected to increase by 2.2 per cent in 2025, 1.7 per cent in 2026 and 1.3 per cent in 2027. Domestic output is considered to be more closely linked to the demand for labour in the short term.

CHART 15

Growth in Denmark will continue to be supported by production abroad under Danish ownership over the next few years, but the growth will become more balanced across industries



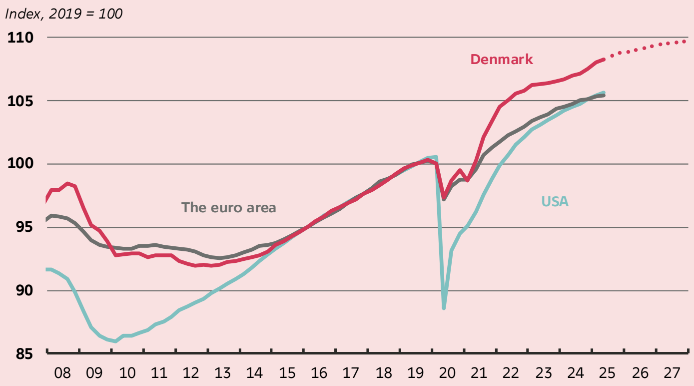
Source: Statistics Denmark and own calculations.

Employment growth is expected to continue but at a slower rate

Employment has continued to rise in 2025, see chart 16. During the first half of the year, employment rose by 22,200 people, which is a larger average half-yearly increase than in 2023 and 2024. Unemployment has long been an unchanged share of the labour force at 2.9 per cent, see chart 17. In the US and the euro area, employment growth has also continued, but at a slightly slower rate than in Denmark.

CHART 16

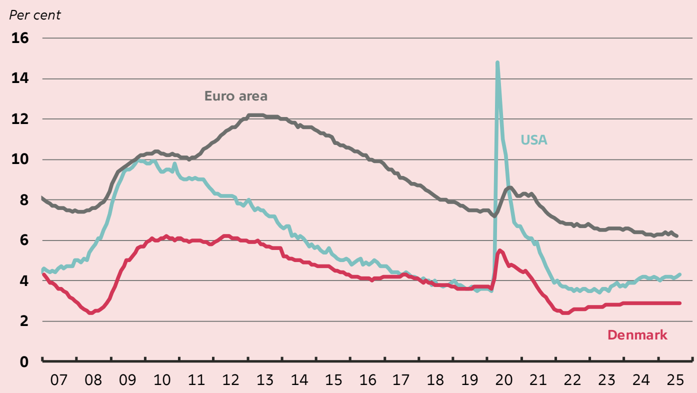
Employment has risen significantly in recent years



Note: Latest actual observation is Q2 2025.
Source: Macrobond, Statistics Denmark and own calculations.

CHART 17

Unemployment has remained largely unchanged in recent years



Note: The latest observation is August for Denmark and the US, and July for the euro area.
Source: Macrobond and Statistics Denmark.

The increased demand for labour in recent years has been met to a significant extent by an influx of foreign labour and a rising employment rate among older workers. Since 2019, employment has increased by more than 110,000 foreign workers, see chart 18. This corresponds to 46 per cent of the total increase in employment during that period.

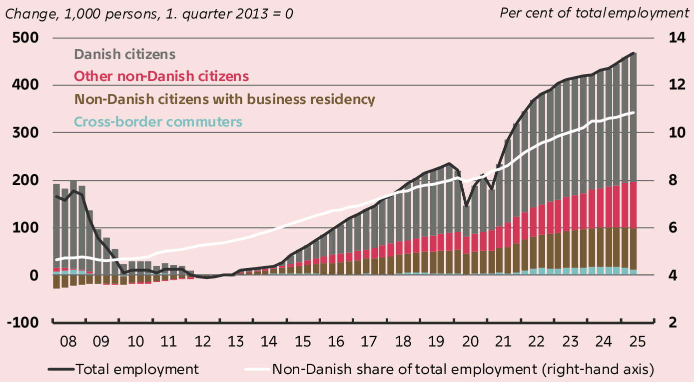
Later retirement from the labour market has continued – even after the retirement age has stopped increasing and agreements aimed at increasing labour supply among older workers have come into force. Since 2019, the employment rate has increased by 10 percentage points for people aged above 60, and employment for this cohort has increased by more than 85,000 people. For other age groups, the employment rate has remained more or less unchanged, meaning that employment has followed the demographic trend.

While employment has risen markedly, hours worked have decreased and thus the increase in hours worked has been slightly less pronounced. Combined with rising output, this has led to an increase in hourly productivity for the Danish economy overall since 2023, complying largely with the trend seen since 2010, see chart 19. This comes after hourly productivity being unchanged from 2019 to 2023. Manufacturing in particular has seen strong productivity growth in recent years, which has contributed significantly to overall productivity. Excluding production abroad, hourly productivity has been remarkably weak overall over the past 4 years. Production abroad does not rely heavily on Danish labour in the short term, but the profit from it does cover part of the remuneration of employees and intellectual property rights in Denmark. Production abroad thus contributes to the competitiveness of Danish companies and cannot be ignored when assessing Danish productivity over an extended period.[25]

[25] See Andreas Kuchler, Morten Spange, Mathias Busk-Tjørnum, Thomas Rasmusen Damsgaard Tørsløv and Robert Wederkinck, Danish productivity and competitiveness in a globalised world, *Danmarks Nationalbank Analysis*, no. 6, March 2025.

CHART 18

Foreign labour has contributed to employment growth



Note: The change is calculated as the difference since Q1 2013.
Source: Statistics Denmark.

CHART 19

Hourly productivity is expected to increase

Note: *Hourly productivity* is calculated as gross value added in the private urban sector in relation to hours worked.
Source: Statistics Denmark and own calculations.

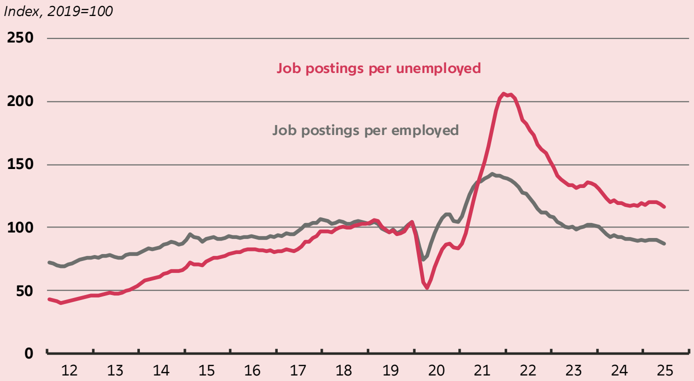
Looking ahead, employment is expected to increase at a slightly slower rate than in previous years, partly due to a slightly weaker overall growth picture. At the same time, the downward trend in average hours worked is expected to continue. Foreign labour and more older workers are expected to continue to contribute to employment growth over the projection period. Employment is expected to rise by 43,000 people by the end of 2027. As the outlook for growth is more balanced than in previous years, productivity in total and domestic output is expected to increase gradually over the next few years.

Labour market pressures continue to ease

There are still signs that pressure on the labour market is easing, even as employment growth continues. The easing pressure on the labour market is reflected in most indicators of labour market pressure, such as the number of job vacancies per employee, labour shortages reported by companies and the number of unsuccessful recruitments in companies, see charts 20 and 21.

CHART 20

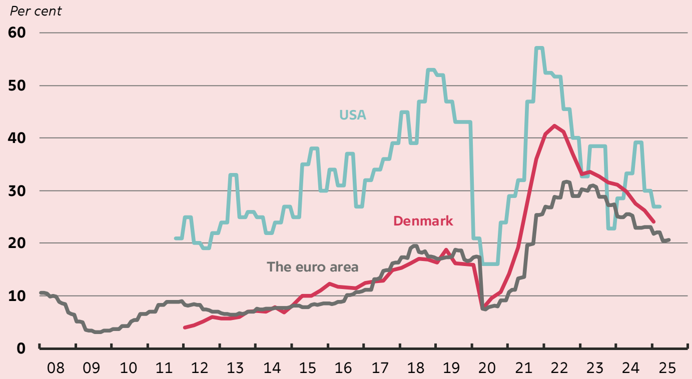
Job postings compared to the number of employed and unemployed continue to fall



Note: The chart shows a 3-month moving average. The most recent observation is from June 2025.
Source: Jobindex, Statistics Denmark and own calculations.

CHART 21

Labour shortages are easing further in Denmark and abroad



Note: The chart shows the percentage of surveyed companies that state that labour shortage is a production constraint. All series show the development of the entire economy. For Denmark and the euro area, Q3 is stated under the assumption that labour shortages are unchanged from August to September.
Source: Statistics Denmark, Eurostat, Macrobond and own calculations.

The fact that employment has been able to rise while pressure on the labour market has eased is due to an increased labour supply in the form of a growing potential workforce, which has increased potential employment. The increase in labour supply is due to several factors: more older workers have stayed in the labour market, immigrants and their descendants have become more closely connected to the labour market, and more foreigners have come to Denmark to work.[26]

Capacity pressure in the Danish economy is estimated to be broadly neutral going forward

Danmarks Nationalbank assesses that the capacity pressure in the Danish economy is currently broadly neutral. This assessment has not changed, despite GDP being revised significantly downwards in the years 2021-24, see box 5. Over the next few years, growth is expected to be more or less in line with potential, with capacity pressure remaining broadly neutral.

The slightly weaker expectations for GDP growth in the Danish economy are assessed to reflect factors that also weaken potential growth. These include lower output expectations for the pharmaceutical industry and higher tariffs on US imports, which weaken potential productivity growth compared to Danmarks Nationalbank's projection in March.

In general, care should be exercised when interpreting capacity pressure in Denmark based on developments in Danish GDP. In recent years, GDP growth has largely been driven by some of the largest Danish companies, which are predominantly characterised by their ability to develop products and create ideas that can be scaled at low cost with limited use of labour and physical

[26] See Danmarks Nationalbank, The outlook is for lower wage increases and stable inflation despite uncertain times, *Danmarks Nationalbank Analysis (Outlook for the Danish economy),* no. 9, March 2025.

capital in Denmark.[27] This means that an increase in output increases capacity utilisation in the Danish economy to a lesser extent. This is especially true for production abroad under Danish ownership.

The estimation of capacity pressure in the Danish economy is associated with considerable uncertainty. This uncertainty is not only linked to production abroad under Danish ownership. Danmarks Nationalbank uses a number of models to estimate capacity pressure, but its assessment is ultimately based on an overall assessment of economic data, models and indicators etc., see box 6. The fact that capacity pressure in the Danish economy is currently assessed to be broadly neutral is also supported by the spring collective agreements in the private labour market, where the agreed wage increases are compatible with stable, low inflation, see chapter 6.

Danmarks Nationalbank assesses that capacity pressure in Denmark does not deviate significantly from that in the euro area. This assessment is supported by the fact that most indicators of capacity pressure in Denmark are more or less in line with the euro area.

BOX 5

Major revision of GDP does not change the assessment of capacity pressure

GDP was revised downwards quite significantly with the revision of the national accounts on 30 June 2025. With the revised estimate, GDP in 2024 is just under 4 per cent lower than previously estimated. The revision reflects lower value creation in agriculture, construction and transport and is seen on the demand side in lower private consumption and service exports. On the other hand, employment has not been revised significantly, while hours worked have been adjusted downwards by approximately 1 per cent, resulting in significantly weaker productivity trends.

The revision of the national accounts only affects Danmarks Nationalbank's assessment of current capacity pressure to a minor extent. Most indicators of capacity pressure, including wage and price growth, are unchanged and continue to paint a picture of an economy with broadly neutral capacity pressure. The downward revision of GDP therefore largely reflects structural factors, which are primarily seen in weaker structural productivity growth in recent years.

Current account surplus remains high

The current account surplus is expected to remain high over the next few years. This is partly due to continued growth in production abroad under Danish ownership. The current account surplus in Q2 amounted to 12 per cent of GDP and has risen sharply in recent years due to increased production abroad under Danish ownership. This growth is expected to continue, albeit at a slightly slower rate. However, the current account surplus is expected to fall to just under 11 per cent of GDP during the next few years as imports increase relatively strongly, partly due to the purchase of defence equipment abroad. The large current account surpluses reflect high savings and low household consumption among other things. However, there are no signs that companies are reluctant to invest.

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

BOX 6

Judgements contribute to increasing the assessment of potential output compared to models and dampen the output gap

The output gap is defined as the difference between actual output in the economy measured by GDP and potential output. Danmarks Nationalbank defines potential output as the level of output in a fictitious economy where prices and wages have fully adjusted to current economic conditions.[1] When the output gap is positive, actual output in the economy is higher than potential output, and the output gap therefore becomes an indicator of the current capacity pressure in the economy. High pressure on output capacity will typically create upward pressure on inflation, so the output gap also serves as an indicator of current inflationary pressure.

In Danmarks Nationalbank's definition, potential output can be affected by both short- and long-run conditions. Long-run drivers, such as demographics and technological development, determine trends in potential output, but potential output can change over the business cycle depending on the underlying drivers. For example, short-term supply-side drivers such as foreign labour inflows or temporary productivity gains can increase potential output above the actual output level.

There are other definitions for the output gap than the one used by Danmarks Nationalbank. This means that comparisons of output gaps across organisations should be made with caution. The Danish Ministry of Finance and the Chairmanship of the Danish Economic Councils also calculate estimates for the output gap in Denmark, which largely follow the same approach as Danmarks Nationalbank. However, these organisations also use the output gap for fiscal policy planning, which includes considerations other than counteracting fluctuations in capacity pressure and thus inflationary pressures.

The output gap is currently assessed to be slightly lower than the level indicated by several of the pure model estimates
Danmarks Nationalbank publishes a single official output gap. It is based on the results of the bank's three economic models, but also incorporates available information not necessarily directly included in the models and other judgements.

Based on the results of the bank's economic models and a number of judgements, the output gap in the Danish economy in mid-2025 is estimated to be around 0.5 per cent, see chart. The remaining capacity pressure is estimated to be mainly related to trends in the labour market.

It is generally difficult for economic models to capture large and sudden movements in the short term. Danmarks Nationalbank's overall assessment of the output gap since the pandemic has been that several of the models have to some extent overestimated the capacity pressure in the Danish economy. This should be seen in light of a series of extraordinarily large shocks to the Danish and international economies in the form of the coronavirus pandemic and the inflation crisis.

The downward adjustments are interpreted in Danmarks Nationalbank's DSGE model primarily as an assessment that the labour supply is currently greater than captured by the models. This means that the potential output is assessed to be higher than the pure model estimates, whereby the output gap is assessed to be lower.

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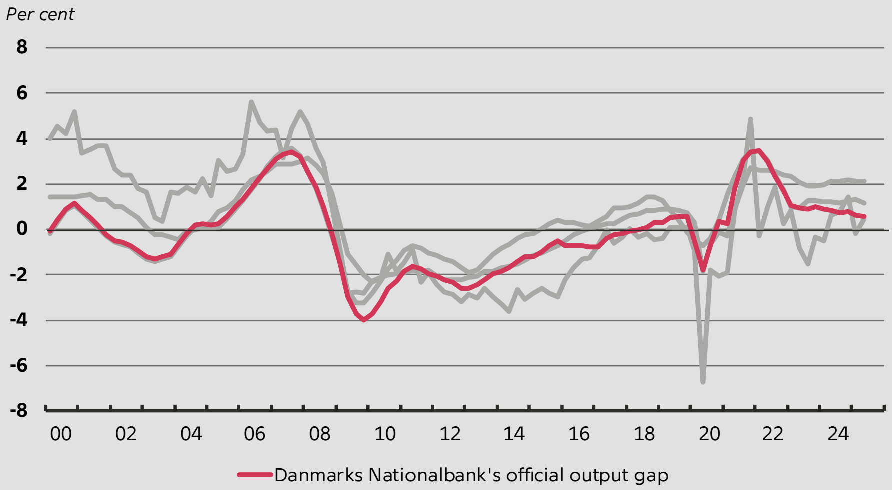
CHART

The output gap is assessed to be slightly positive



Note: Grey lines indicate the estimated output gaps from Danmarks Nationalbank's models. The red line shows Danmarks Nationalbank's official output gap, which includes manual adjustments based on judgements of factors that the models do not capture.
Source: Own calculations.

[1] See Mikkel Bess, Rasmus Bisgaard Larsen, Filip Rozsypal, Christoffer Jessen Weissert and Theodor Justus Bock, The output gap in the Danish economy: calculation and assessment, *Danmarks Nationalbank Analysis*, no. 22, September 2025.

06

Wage increases have come down with an outlook for low and stable inflation

Wage increases in the private labour market have slowed markedly as indicated by the spring collective agreements in the private labour market, and wage increases in Denmark are lower than in the euro area. Over the next few years, wage growth is expected to remain moderate in line with the agreed wage increases.

Inflation in Denmark has been stable over the past year at just under 2 per cent, and the effects of the shocks to the Danish and international economies that caused inflation to rise in 2022 are assessed to have subsided. Recently, inflation has risen to around 2 per cent, partly due to higher price increases on food and non-alcoholic beverages.

The expected wage increases will lead to stable domestic price trends, while price growth abroad is subdued. Inflation will be reduced by the changes in excise duties, that are part of the proposed 2026 Finance Act. Next year, inflation is expected to decline to 1.1 per cent, while core inflation is expected to be 1.7 per cent, as core inflation is not affected by the reduction in the electricity tax.

Wage growth has slowed down

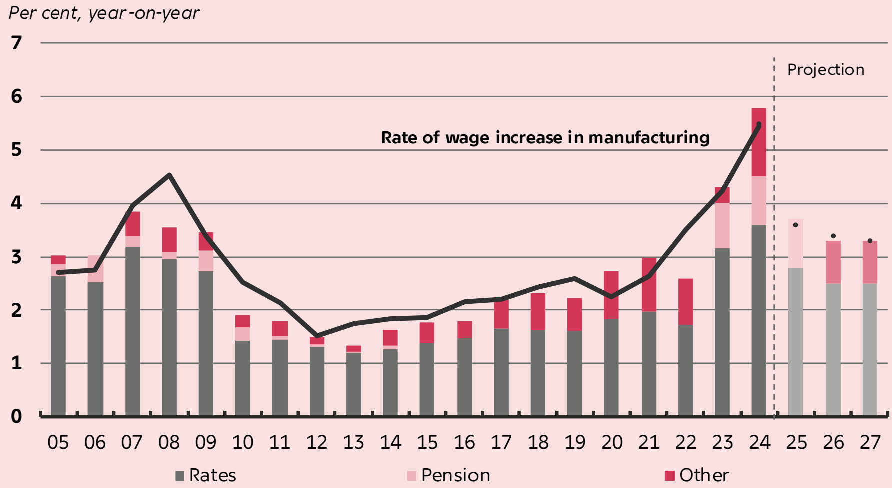
Wage growth in the Danish economy slowed significantly in the 2nd quarter, when the spring collective agreements in the private labour market came into force, see chart 22. In the overall DA area, wage increases slowed to 3.4 per cent, and wage increases slowed across all industries. Wage growth in Denmark is now lower than abroad, where wage increases in industry were just over 4 per cent in the 2nd quarter according to DA's international wage statistics, including Germany, Denmark's largest export market. Wage increases in construction, trade and transport are also lower in Denmark than abroad.

Wage increases in the manufacturing industry are expected to be just over 3 per cent over the next few years, in line with the spring collective agreement. This is slightly above the euro area, where the ECB expects wage growth of just under 3 per cent over the next few years.[28] Wage growth in Denmark is generally compatible with low and stable inflation over the next few years.

Wage increases are expected to be just over 3 per cent over the next few years.

CHART 22

Wage growth is expected to remain moderate, in line with the spring collective agreements in the private labour market



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

Inflation remains low

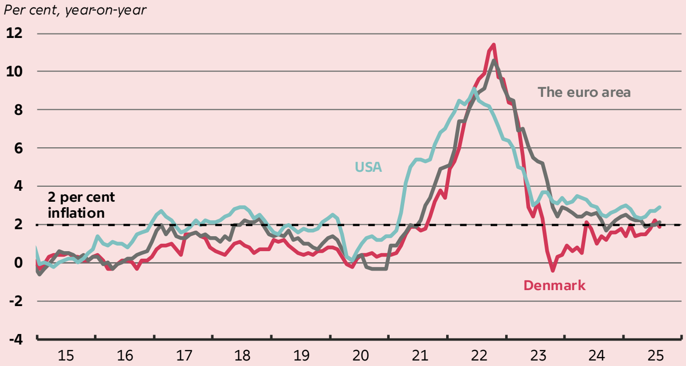
Inflation in Denmark has been low and stable over the past year, and the effects of the shocks to the Danish and international economies that caused inflation to

[28] The ECB estimates the national accounts payroll per employee. Wage growth in Denmark using the same concept is estimated at 2.9 per cent in Q2 2025 and just over 3 per cent in 2025-27.

rise in 2022 are assessed to have subsided. Inflation and core inflation have both picked up in recent months, partly due to higher price increases for items such as coffee and chocolate, which are included in core inflation. Inflation and core inflation were both close to 2 per cent in Juli and August, but have remained around 1.5 per cent since the beginning of 2024, see charts 23 and 24.

CHART 23

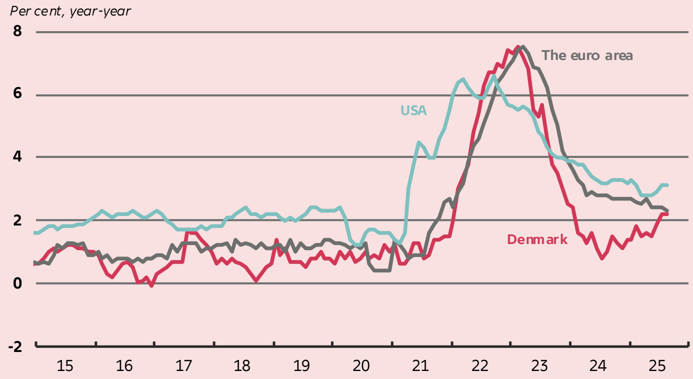
Inflation has been stable in recent years



Note: HICP inflation for Denmark and the euro area. CPI inflation for the US. The latest observation is August 2025.
Source: Macrobond.

CHART 24

Core inflation is lower in Denmark than in the euro area



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

Inflation in Denmark is now on par with the euro area, but has been significantly lower since 2023. In recent years, inflation in the euro area has been close to the ECB's inflation target of 2 per cent, and core inflation is now also close to 2 per cent. Inflation in the US is still slightly higher than in Denmark, but consumer price increases here are also within the Federal Reserve's inflation target of between 1 and 3 per cent. The fact that consumer price increases have been higher abroad than in Denmark is primarily due to higher price increases on services, while price increases on goods are more in line between Denmark and abroad.

There are signs that higher tariffs on US imports and the weakening of the dollar are starting to show up in US inflation. In recent months, inflation has picked up slightly, partly due to higher commodity prices. US consumers may still be shielded by the fact that, there was a significant stockpiling of imported goods leading up to the increase in tariffs on US imports. Inflation could rise further towards the New Year as US companies increasingly pass on the increase in tariffs to US consumers.[29] However, there are no clear signs yet that consumer prices in the euro area and Denmark have been subdued by the higher tariffs on US imports and the stronger euro, which are exerting a negative shock on demand. This is the expectation in most international forecasts.

[29] For example, Goldman Sachs estimates that the increase in tariffs contributed 0.2 percentage points to consumer price increases in June in the US and that this contribution will increase to almost 1 percentage point in H2 2025. Se Goldman Sachs, Tariff Passthrough Update: More Underway Through June, *Goldman Sachs US Daily*, 10 August 2025.

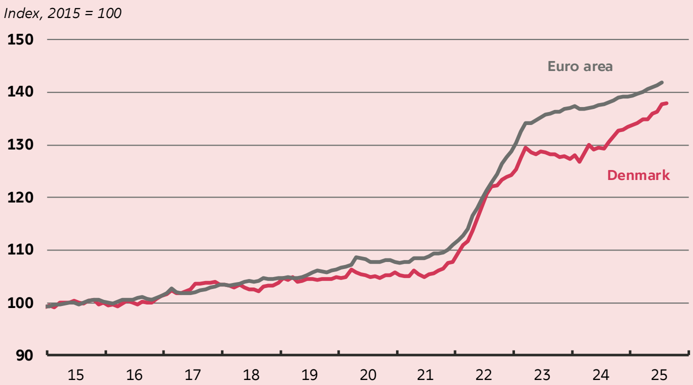
Food prices are currently rising sharply, but overall price developments across consumer groups have become more uniform

Consumer prices for food and non-alcoholic beverages have risen sharply, increasing by 8 per cent since the beginning of 2024, especially for coffee, chocolate, beef and veal, and dairy products. The price of these product groups has increased by between 40 and 60 per cent in recent years. However, it is not only in Denmark that the price of food and non-alcoholic beverages has risen, and the overall price of these product groups has risen broadly in line with the euro area since 2021, see chart 25. In recent years, food commodity prices have seen significant uncertainty and instability in food supply in the wake of the coronavirus pandemic, the war in Ukraine and increasing trade conflicts. In addition, climate change, including droughts and floods, is having a negative impact on agricultural output globally. The general increase in food prices internationally should therefore be seen in light of the fact that commodity prices have increased significantly and that these price increases are also finding their way into consumer prices.[30] Core inflation excluding processed and unprocessed food, beverages and tobacco continues to rise less than in the euro area, see chart 26.

CHART 25

Food prices in Denmark have not increased more than in the euro area since 2019

Consumer price increases for food and non-alcoholic beverages

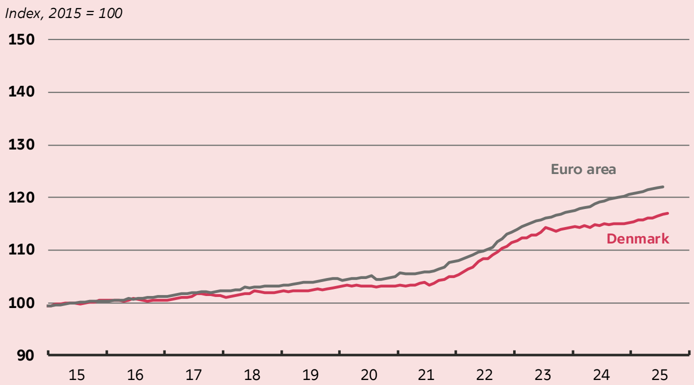


Note: Calculated at constant taxes. Own seasonal adjustment. The latest observation is August 2025.
Source: Statistics Denmark and Eurostat.

CHART 26

Core inflation excluding all food prices has increased less in Denmark than in the euro area

Inflation excluding energy, food, beverages and tobacco



Note: Own seasonal adjustment. The latest observation is August 2025.
Source: Statistics Denmark and Eurostat.

Despite high price increases on food, inflation in Denmark generally shows more uniform developments across sub-components than has been the case in recent years. Price increases for services are slightly higher than price increases for goods, but to an extent that is in line with the years before the pandemic. Price developments in Denmark are also more consistent across domestic market-based inflation and imported consumer prices. Consumer energy prices also contribute little to inflation, but there are still signs that indirect effects from energy are dragging down core inflation. This indicates that the effects of the shocks in recent years have subsided.

[30] See Oliver Hammershøj Bentsen, Christoffer Jessen Weissert and Amy Yuan Zhuang, Global conditions drive high food prices in Denmark and abroad, *Danmarks Nationalbank Analysis*, no. 20, September 2025.

Wage and price developments in recent years have seen large fluctuations caused by price increases in energy, other commodities and freight in the wake of the pandemic and Russia's invasion of Ukraine, which have now passed through the economy.[31] Wage increases, on the other hand, have not in themselves been a significant driver of inflation, and employees' share of total value added has generally been fairly stable in recent years.

Outlook for low and stable inflation

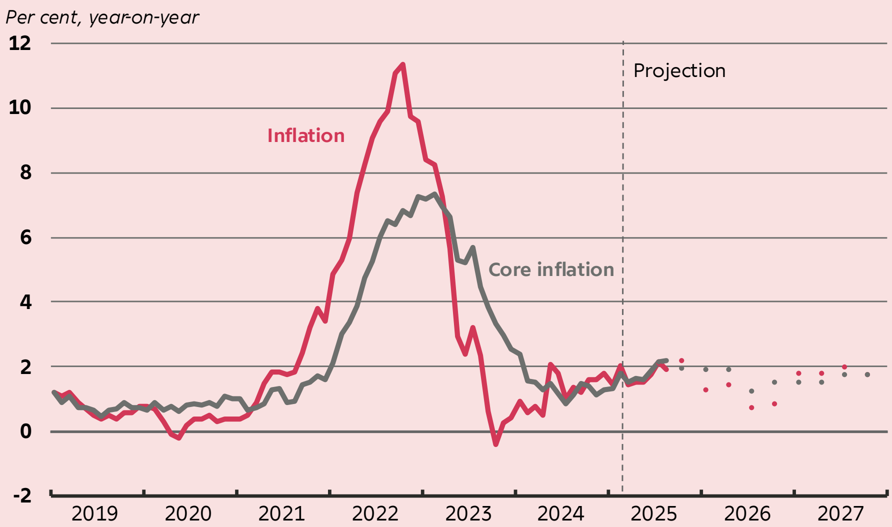
Based on wage increases of just over 3 per cent over the next few years, inflation is generally expected to remain stable at just under 2 per cent, see chart 27. The moderate wage increases in particular support the expectation that domestic price levels will remain low and stable.

Consumer prices in Denmark are also greatly influenced by price trends in the global economy, which in Danmarks Nationalbank's projection are either based on assumptions from futures markets or international forecasts. Consumer food prices are expected to remain high based on futures prices for a range of food prices. But price increases are expected to slow down over the next few years. In addition, consumer price increases for energy are expected to decline slightly over the next few years based on energy futures prices.

Inflation is also likely to be subdued by lower price increases from abroad, as there are prospects of lower price increases on exports in the countries that Denmark imports from. This is the assumption in several international forecasts.

CHART 27

Consumer price increases are expected to remain stable and low, while inflation is reduced by lower excise duties next year



Note: The most recent observation is from July 2025.
Source: Statistics Denmark and own calculations.

[31]See box 2 in Danmarks Nationalbank, Prospect of lower wage increases and stable inflation despite uncertain times, *Danmarks Nationalbank Analysis (Outlook for the Danish economy)*, no. 9, March 2025.

The weakening of export prices abroad is partly due to the higher tariffs on US imports, which means that exporters in many countries are less able to enter the US market and therefore lower their prices to sell their products in other markets. Weaker price increases on imported goods are also reinforced by the fact that the strengthening of the effective krone rate over the past six months will gradually have an impact in the coming period.

Inflation is also affected by a number of changes in taxes on electricity, among other things, which will reduce inflation by around ¾ percentage points in 2026. The tax changes mean that inflation is expected to fall from 1.9 per cent in 2025 to 1.1 per cent in 2026, before rising again to 1.8 per cent in 2027. Core inflation, which is not affected by changes in taxes on electricity, is expected to be 1.8 per cent in 2025 and 1.7 per cent in 2026 and 2027.

Overall, expected inflation in Denmark is slightly lower than other institutions' expectations for inflation in the euro area. For example, the ECB's September forecast for the euro area shows consumer prices rising 2.1 per cent this year, 1.7 per cent next year and 1.9 per cent in 2027. The slightly lower inflation in Denmark compared to the euro area may be due to *price convergence*, which means that the Danish price level, which has historically been higher than in the euro area, will approach the price level in the euro area in the long term.[32]

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

07
Risks are mainly related to trade conflict and defence spending

Risks to the growth outlook for the Danish economy are overall tilted to the downside, while they are balanced for inflation. There are several global uncertainties related to the growth outlook that could make the business cycle more uneven than assumed in the main scenario. In particular, the considerable uncertainty about the future conditions for global trade could derail the expected economic growth over the next few years.

A significant increase in defence spending could result in a period of increased capacity pressure and higher inflation. If Danish defence spending rises more than in the euro area, it will lead to greater capacity pressure in Denmark, although donations to Ukraine, purchases of military equipment abroad and a relatively small Danish defence industry will dampen some of the domestic activity effect.

In addition to increased defence spending, general fiscal easing in Denmark may also push capacity pressure higher than assumed in the projection.

Other domestic risks include the expected development of private domestic demand and the pharmaceutical industry, both of which could develop either weaker or stronger than expected.

Danmarks Nationalbank assesses that there are currently no signs of any significant macroeconomic imbalances building up in the Danish economy that could amplify a possible recession in the event of unforeseen shocks to the global economy. This provides a solid foundation to withstand unexpected economic headwinds in the coming years.

Trade conflict and geopolitical tensions could cause sudden negative shocks to the global economy

There are several global uncertainties related to the growth outlook that may make the economic cycle more uneven than assumed in the main scenario for the Danish economy. The risk outlook is particularly heightened by the ongoing trade conflict and geopolitical tensions associated with Russia's invasion of Ukraine and waning support for the multilateral economic system framework. The risks to the growth outlook for the Danish economy are therefore declining overall, while they are balanced for inflation.

As a small, open economy, Denmark has benefited from free trade, globalisation and rules-based multilateral cooperation. Initially, the trade conflict is not expected to have a sufficiently negative impact on economic activity to derail the expected growth in the Danish economy, even though changes in US tariffs have created considerable uncertainty about the future framework for global trade. However, a further escalation of trade policy tensions between the US, China and the EU could quickly slow global demand more than expected and lead to weaker Danish exports over the next few years.

Regardless of the actual tariff increases, the high level of trade policy uncertainty encourages wait-and-see behaviour, potentially dampening the investment appetite of companies and leading to precautionary savings among households. Therefore, if political uncertainty does not diminish as expected during the projection period, this could lead to weaker demand than estimated.

Although inflation is expected to gradually fall back towards 2 per cent in the US over the next few years, it is possible that tariff increases – along with fiscal easing and a reduced labour supply due to fewer immigrants – will feed through into inflation expectations and give rise to more sustained US price pressure than assumed in international forecasts. This could lead to a sudden and sharp tightening of global financial conditions with associated negative effects on Danish growth.

The trade dispute poses upside and downside risks to inflation in Denmark

In Denmark and the rest of Europe, the trade conflict creates both upside and downside risks for price developments. Although a political trade agreement has been reached between the EU and the US that does not include a European retaliatory tariff on US goods, there is still an inherent risk of the trade conflict escalating again. If such a scenario leads to a European retaliatory tariff, it could increase Danish import prices. On the other hand, the trade conflict reduces demand and thereby also inflation in Denmark. The redirection of Chinese exports to Europe in response to bilateral tariff increases between the US and China could also put downward pressure on consumer prices here in Denmark.

A significant increase in defence spending in Europe could result in a period of increased capacity pressure and higher inflation

Russia's invasion of Ukraine and changing relations between traditional alliance partners have heightened the threat to the European and Danish economies. In response to the new security reality, governments in Denmark and across Europe have announced that they will significantly increase defence spending over the next few years. One of the reasons for this is to meet the new NATO target of spending 5 per cent of GDP on defence and security-related expenditure by 2035. As several of the announced increases in defence spending have yet to materialise, they are not fully included in the available international forecasts. A rapid rearmament could therefore lead to stronger growth and higher inflation than expected.

While stimuli from the military build-up in Europe or new large-scale fiscal easing in the US could boost demand in the short term, they also reinforce existing long-term imbalances. The high public debt ratios in the US and Europe may eventually necessitate significant fiscal tightening to bring debt back on a sustainable path.

Natural disasters due to climate change could affect global food supply and increase the risk of higher food prices

As climate change increases, so does the risk of more extreme weather events such as droughts and floods. This could reduce agricultural output worldwide. Disruptions in the global food supply could thus contribute to significant increases in commodity prices, which are then passed on to consumer prices.

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

Global risk factors that do not affect the economic situation differently in Denmark than in the euro area will generally be counteracted by the ECB's monetary policy, which will also have an effect in Denmark due to the fixed exchange rate policy. Global risk factors generally do not therefore give reason to change fiscal policy in Denmark relative to the euro area. Danmarks Nationalbank assesses that there are currently no significant differences in the risk outlook for Denmark and the euro area.

However, a number of factors could contribute to capacity pressure in the Danish economy developing either more strongly or more weakly than in the euro area. For example, a larger increase in Danish defence spending compared to several of the euro area countries poses a particular risk of increased capacity pressure in Denmark. However, extensive Danish donations to Ukraine and purchases of foreign defence equipment will certainly lessen some of this impact on activity. On the other hand, several of the euro countries have a larger defence industry than Denmark, which gives them better opportunities for increasing sales than Danish companies.

In addition to increased defence spending, general fiscal easing in Denmark may also push capacity pressure higher than assumed in the projection.

It is not clear whether a potential escalation of the trade conflict will have a more negative impact on the economy in Denmark than in the euro area, even though the modelling in box 1 indicates that Denmark could be hit harder by the new US tariffs than the EU average. On the one hand, Denmark is a more open economy than several of the major euro area countries, and the US is the largest export market for Danish companies. Furthermore, a slowdown in global trade will have a negative impact on Danish service exports because they are largely made up of sea freight. On the other hand, a large part of Danish exports to the US consist of goods that are already produced in the US and therefore do not cross the Danish border. This makes them less vulnerable to US tariff increases compared with the EU.

The increasing importance of the largest Danish companies could potentially increase fluctuations in the Danish economy and make GDP development more sensitive to the development of a few companies. However, these fluctuations affect employment and capacity utilisation in the Danish economy to a lesser extent. Danmarks Nationalbank’s projection assumes that growth in the pharmaceutical sector will continue in the coming years and thus support the Danish economy as a whole. However, an unforeseen downturn in the pharmaceutical industry could have knock-on effects on subcontractors, affecting the rest of the Danish economy.

In Danmarks Nationalbank's projection, the pressure on the Danish labour market is expected to remain broadly neutral over the next few years. However, labour shortages could quickly flare up again and translate into higher wage increases, for example if the influx of foreign labour slows down or the consumption ratio increases from its current low level. Conversely, weak consumer confidence could have a greater negative impact on domestic demand and labour demand than estimated. In particular, a possible idiosyncratic shock to demand poses an independent risk to the Danish economy, as any common fluctuations are likely to be stabilised through economic policy in the euro area.

The Danish economy is well equipped to withstand global headwinds

In Danmarks Nationalbank's assessment, there are currently no signs that macroeconomic imbalances are building up in the Danish economy, which have previously exacerbated downturns in the event of unforeseen shocks to the global economy.

On the contrary, there is a large balance of payments surplus, healthy public finances and no clear signs of unsustainable credit growth. There are also no signs that macro-financial balances are making the Danish economy more vulnerable to shocks.[33] Household debt ratios have fallen significantly since the financial crisis and Danish companies have gained market shares in recent years. Overall, this provides a solid foundation for economic development during the projection period, even in the event of an unexpected global slowdown.

[33] See Danmarks Nationalbank, Neutral monetary policy in a time of global uncertainty, *Danmarks Nationalbank Analysis (Monetary and financial trends)*, no. 21, September 2025.

TABLE 3

Key economic variables

					2024	2025	
Real growth relative to the previous period, per cent	**2024**	**2025***	**2026***	**2027***	**Q4**	**Q1**	**Q2**
GDP	3.5	2.0	2.0	1.7	1.2	-1.3	1.3
Private consumption [1]	1.0	2.2	2.0	2.0	0.5	0.8	0.5
Public consumption	1.0	1.9	4.2	3.7	0.8	-1.6	0.8
Residential investments	-10.2	-0.9	1.9	2.4	-7.7	3.9	-1.3
Public investments	2.4	12.3	5.4	7.1	14.0	-1.3	4.2
Corporate investments	8.0	-8.8	2.8	2.1	19.1	-20.4	-1.0
Inventory investments etc.[2]	-0.3	0.4	0.1	0.0	-0.4	1.2	-0.6
Exports	7.1	1.4	4.1	2.2	1.7	-4.0	4.0
Manufactured exports	10.7	3.1	3.2	2.8	4.2	-5.6	5.1
Imports	4.1	-0.3	5.8	3.8	4.8	-5.9	2.1
Employment, 1,000 people	3,218	3,257	3,278	3,292	3,231	3,247	3,253
Gross unemployment, 1,000 people	87	88	90	90	87	87	87
Balance of payments on current account[3], per cent of GDP	12.2	11.8	10.8	10.6	10.7	12.0	12.0
Government budget balance, per cent of GDP	4.5	2.3	1.4	1.2	2.5	2.7	2.7
House prices[3], per cent year-on-year	3.6	5.4	3.6	3.3	4.2	5.5	5.3
Consumer prices (HICP), per cent year-on-year	1.3	1.9	1.1	1.8	1.7	1.6	1.6
Core inflation, per cent year-on-year	1.9	1.8	1.7	1.7	1.3	1.6	1.7
Hourly wages[4] (manufacturing), per cent year-on-year	5.5	3.7	3.4	3.3	4.5	4.4	3.2

[1] Includes both households and non-profit institutions serving households, NPISH.
[2] Contribution to GDP growth (this item comprises inventory investments, valuables and statistical discrepancy).
[3] Nominal prices of single-family houses.
[4] Confederation of Danish Employers' (DA) pay statistics for profits including inconvenience supplements for manufacturing.
Note: * indicates projection.
Source: Statistics Denmark and own calculations.

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

The projection is prepared using Danmarks Nationalbank's macroeconomic model, MONA, and is based on available economic statistics, including Statistics Denmark's quarterly national accounts for Q2 2025. The projection is based on published statistics up to 10 September 2025. The projection also includes a number of assumptions concerning the international economy, financial conditions, labour force developments and fiscal policy.

International economy

Export market growth is assumed to be 2.7 per cent in 2025, 1.9 per cent in 2026 and 2.9 per cent in 2027, see table A1. Wage increases abroad are assumed to gradually decrease from 5.2 per cent in 2024 to 3.5 per cent in 2025 and just over 3 per cent in 2026 and 2027. Price increases on imported goods and services are assumed to fall by 1 per cent in 2025 before increasing by 0.4 per cent in 2026 and then stabilise at around 2 per cent. The assumptions are based on the latest OECD forecast from June 2025, which includes explicit assumptions about Denmark's export market growth, competitor prices abroad and adjustments based on other international organisations' forecasts and economic data since then.

Interest rates, exchange rates and energy prices

Developments in short-term and long-term interest rates in the projection are based on the expectations of future developments that can be derived from the yield curve in the financial markets. The money market interest rate measured by DESTR is therefore assumed to be 1.9 per cent in 2025, 1.7 per cent in 2026 and 1.8 per cent in 2027.

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

Energy prices are generally expected to follow the development in oil prices, which are assumed to follow futures prices during the projection period. The oil price in the projection is based on an average of futures prices in September prior to the finalisation of the data. The oil price was around USD 67 per barrel in the first third of September and is assumed to be largely unchanged by the end of 2027.

Given the special developments in gas and electricity prices in recent years, this projection also takes into account gas and electricity price developments, as in Danmarks Nationalbank's previous projections. As with oil prices, gas prices are assumed to follow the futures price going forward. They are assumed to fluctuate slightly around the current level of around kr. 240 per MWh until early 2027 and then end at around kr. 220 per MWh by the end of 2027. The electricity price is assumed to follow a three-month moving average of developments in futures prices on the German electricity market.

Fiscal policy assumptions

The projection is based on preliminary national accounts data on public-sector consumption and investment as well as the Finance Act in *Economic Survey, August 2025* and the medium-term scenario in *Updated 2030 development, August*

2025. Against this background, real public consumption is assumed to increase by 1.9 per cent in 2025, 4.2 per cent in 2026 and 3.7 per cent in 2027. Public investments are assumed to increase by 12.3 per cent in 2025, 5.4 per cent in 2026 and 7.1 per cent in 2027.

TABLE A1

Overview of projection assumptions

	2024	2025	2026	2027
International economy				
Export market growth, per cent, year-on-year	2.4	2.7	1.9	2.9
Foreign price, per cent, year-on-year[1]	0.4	1.4	0.8	2.3
Foreign hourly wages, per cent, year-on-year	5.2	3.5	3.1	3.2
Financial conditions etc.				
Money market interest rate, per cent, p.a.	3.3	1.9	1.7	1.8
Average bond yield, per cent, p.a.	3.2	2.7	2.7	2.9
Effective krone rate, 1980 = 100	105.0	106.2	107.3	107.3
Dollar exchange rate, DKK per USD	6.9	6.6	6.4	6.4
Oil price, Brent, USD per barrel	79.7	70.8	65.9	66.0
Fiscal policy				
Public consumption, per cent year-on-year	1.0	1.9	4.2	3.7
Public investments, per cent, year-on-year	2.4	12.3	5.4	7.1
Public-sector employment, 1,000 persons	878	883	886	889

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

Revisions in relation to the previous projection

The estimate for GDP growth has been revised downwards by 1.6 percentage points in 2025 and 0.3 percentage points in 2026 and 2027. This largely reflects the fact that higher tariffs on US imports are now incorporated into the main scenarios of international economic forecasts, that equity analysts have downgraded expectations for sales growth in the Danish pharmaceutical industry, and that revised GDP estimates provide a weaker starting point for growth in 2025.

The impact of higher tariffs on US imports is one of several factors reflected in changing assumptions about export market growth, exchange rates and foreign wage and price increases. These assumptions all contribute to weakening growth in Denmark over the next few years compared to the March forecast, see table A2. Model-based estimates suggest that higher tariffs will dampen activity in the Danish economy by 0.5 per cent in the short term (measured by GNI), see box 1.

The overall change in the GDP estimate is also affected by other factors, such as revisions of historical data and the realised development since the latest projection, other assumptions and expert assessments. These factors include a weaker starting point for growth in 2025 and lower analyst expectations for sales growth in the pharmaceutical industry. Revised figures for GDP growth through 2024 provide a starting point for annual growth (the so-called carry-over) which is 0.5 percentage points lower than in March. In addition, lower revenue expectations for the pharmaceutical industry reduce GDP growth by around 0.5 percentage points in both 2025 and 2026, of which a large part was realised in the 1st half of 2025, when production in the pharmaceutical industry fell on the back of an extraordinarily large increase by the end of 2024.

The estimate for the rate of increase in consumer prices, HICP, has been revised downwards by 0.1 percentage points in 2025 and 0.6 percentage points in 2026, while inflation has been revised upwards by 0.1 percentage points in 2027. In isolation, changes in exchange rates contribute to reducing inflation every year. In addition to the impact of these assumptions, a number of changes to taxes on electricity, for example, contribute to reducing inflation by around ¾ percentage points in 2026, while e.g. higher climate taxes contribute slightly to increasing inflation in 2027. *Other factors* can reflect, that the pass-through from exchange rates has not taken place to the extent that model estimates suggest.

TABLE A2

Changes in the projection

	GDP			Consumer prices, HICP		
Per cent, year-on-year	**2025**	**2026**	**2027**	**2025**	**2026**	**2027**
Projection from March	3.6	2.3	2.0	2.0	1.7	1.7
Contribution to revised forecast from:						
Export market growth	0.0	-0.4	-0.3	0.1	0.1	0.1
Development in interest rates	0.0	0.1	0.1	0.0	0.0	0.0
Exchange rates	-0.9	-0.5	0.0	-0.2	-0.5	-0.6
Oil prices	0.0	0.0	0.0	0.0	-0.1	0.0
Foreign wages and prices	-0.5	-0.4	0.0	-0.2	-0.5	-0.4
Other factors	-0.3	1.1	-0.1	0.1	0.4	1.0
This projection	2.0	2.0	1.7	1.9	1.1	1.8

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

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

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