INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/165

DENMARK

July 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Denmark, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on May 13, 2025, with the officials of Denmark on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 16, 2025.
- An **Informational Annex** prepared by the IMF staff.

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

Selected Issues

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

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR 25/236

IMF Executive Board Concludes 2025 Article IV Consultation with Denmark

FOR IMMEDIATE RELEASE

- Strong growth has continued, primarily driven by pharmaceutical exports. Public finances and external positions are robust, and the financial system has demonstrated resilience to multiple shocks in recent years.
- Growth is expected to moderate in the near term as external demand weakens and the exceptional pharmaceutical expansion begins to normalize.
- The policy priority is to uphold fiscal sustainability amid rising defense and aging-related expenditures, ensure financial stability, and further intensify structural reforms to support high levels of income and sustain the welfare state.

Washington, DC – July 4, 2025: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation[1] for Denmark and considered and endorsed the staff appraisal without a meeting on a lapse of time basis.[2]

Strong growth has continued, primarily driven by the expansion of pharmaceutical exports, while domestic demand has been relatively sluggish. Inflation has remained below 2 percent. Public finances and external positions are robust, and the financial system has demonstrated resilience to multiple shocks in recent years.

Output growth is expected to moderate from 3.7 percent in 2024 to 3.0 percent in 2025 and further to 1.8 percent in 2026. Exports growth, including pharmaceutical exports, is expected to slow, while the full reopening of the Tyra natural gas and oil field, which operated at reduced capacity last year following maintenance, will provide a temporary boost in 2025. The U.S. is a key trading partner. However, a significant portion of Danish exports to the U.S. consists of merchanting and processing, while exports of goods produced in Denmark passing through customs make up only 3 percent of total exports, limiting the direct impact of U.S. tariffs on the Danish economy. External risks dominate

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

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the outlook, including reversal of globalization, including higher trade barriers and deepening geoeconomic fragmentation.

Executive Board Assessment

Denmark's growth is expected to remain relatively strong, but elevated global uncertainty clouds the outlook. Output growth is projected to gradually moderate to its potential, with slowing exports, including in pharmaceuticals, offset by a pickup in domestic demand. Medium-term growth is projected at around 1.5 percent, assuming a maturing pharmaceutical sector and a declining working-age population. Labor market pressures have eased, with inflation anticipated to stay around 2 percent. External risks dominate the outlook, including reversal of globalization, including higher trade barriers and deepening geoeconomic fragmentation. Denmark's robust institutions, competitive and relatively diversified economic structure, strong fiscal position, and highly educated workforce all reinforce its resilience to external shocks. Staff assesses that Denmark's external balance is stronger than the level implied by medium-term fundamentals and desirable policies.

Although Denmark's fiscal position is strong, significantly higher and more persistent increases in defense spending would require adjustment measures to ensure long-term fiscal sustainability. These adjustment measures should be growth-friendly while ensuring fairness to preserve the welfare state. While both expenditure and revenue measures should be explored, given the already high tax burden, adjustments could come more from spending than revenue measures. Structural reform efforts will continue to be vital to enhance labor supply and income levels, thus generating revenues. The structural balance floor of -1 percent of GDP under current national fiscal rules should be respected.

Systemic risks are contained; however, the authorities should remain vigilant in monitoring financial sector risks. Banks are well-capitalized, with strong profitability, asset quality, and liquidity. To further strengthen financial system resilience, the authorities should thoroughly examine banks' modeling practices of International Financial Reporting Standards 9 to ensure robust credit risk provisioning, complete the review of internal ratings-based models, implement the EU's CRR III/CRD VI as planned, enhance resilience against cyberattacks, and ensure adequately staffing the Financial Supervisory Authority. Given the considerable size and extensive interconnectedness of nonbank financial institutions (NBFIs) within the financial system, as well as their susceptibility to market vulnerabilities, the authorities should also continue strengthening the oversight framework for NBFIs. Given elevated geopolitical risks and evolving threats, the authorities should continue efforts to further strengthen the Anti-Money Laundering/Countering the Financing of Terrorism framework.

Capital-based macroprudential policy is broadly appropriate, but borrower-based measures should be tightened to address pockets of vulnerabilities. Given heightened global risks and a fragile commercial real estate sector, the 2.5 percent countercyclical capital buffer and the 7 percent sector-specific systemic risk buffer should remain in place. The authorities should consider lowering the maximum loan-to-value ratio below the current 95 percent and reduce incentives for larger mortgages by lowering the tax deductibility of mortgage interest expenses.

Structural reforms should further intensify to sustain high levels of income, preserve fiscal space, and sustain the welfare state. Geopolitical and trade tensions and an aging population could weigh on long-term potential growth. To address this challenge, the government should continue efforts to strengthen policies to support entrepreneurship, harness the benefits of digitalization and Artificial Intelligence (AI), and reduce regulatory burdens on businesses while balancing costs and benefits. Ensuring a sufficient labor supply with the right skills, such as IT, health, and long-term care professionals is also critical. Furthermore, deepening EU single market will enhance Denmark's business dynamism and potential growth as this will enhance the benefits of economies of scale and network effects, thus expanding the market for Danish businesses. Denmark's commitment to supporting multilateral and transparent trade policies is commendable.

Strengthening climate adaptation will support sustainable growth. Denmark is particularly vulnerable to sea level rise, storm surges, and coastal erosion, necessitating a well-designed long-term adaptation plan. The government is developing National Climate Adaptation Plan II, which focuses on enhanced coastal and groundwater protection, urban flood management, and the assessment of infrastructure needs, including financing responsibilities among central and local governments and the private sector. The authorities are also encouraged to reform the property insurance scheme ("Storm Surge Scheme") to make insurance premiums risk-based.

Denmark: Selected Economic Indicators

	2024	2025	2026
		Projections	
Output			
Real GDP growth (%)	3.7	3.0	1.8
Employment			
Unemployment rate (%)	2.9	3.0	3.0
Prices			
Inflation (%, average)	1.3	2.0	1.9
General Government Finances			
Revenue (% GDP)	51.0	50.0	50.4
Expenditures (% GDP)	46.5	48.4	48.9
Fiscal balance (% GDP)	4.5	1.6	1.5
Structural balance (% potential GDP)	2.0	0.7	0.3
Public debt (% GDP)	31.1	29.3	28.0
Money and Credit			
Domestic credit growth (%)	2.7	4.3	3.3
3-month interbank interest rate (%)	3.5	2.5	2.3
10-year government bond yield (%)	2.3	2.6	2.7
Balance of Payments			
Current account (% GDP)	12.1	11.4	11.2
International reserves (% change)	0.4	...	...
Exchange Rate			
ULC-based REER (% change)	-2.1	...	...

Sources: Danmarks Nationalbank; Eurostat; and IMF staff calculations.

INTERNATIONAL MONETARY FUND

DENMARK

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

June 16, 2025

KEY ISSUES

Context. Strong growth has continued, primarily driven by the expansion of pharmaceutical exports, while domestic demand has been relatively sluggish. Inflation has remained below 2 percent. Public finances and external positions are robust, and the financial system has demonstrated resilience to multiple shocks in recent years. Staff expects growth to moderate in the near term as external demand weakens, and the exceptional pharmaceutical expansion begins to normalize. While direct impacts from U.S. tariffs are expected to be limited, the escalated global trade tensions pose risks to the outlook. In response to increasing geopolitical tensions, early in 2025, the government announced a substantial increase in defense spending.

Policy recommendations. The priority is to uphold fiscal sustainability amid rising defense and aging-related expenditures. Other key priorities include ensuring financial stability and further intensifying structural reforms to support high levels of income and sustain the welfare state.

- **Fiscal policy**. Denmark's historically high fiscal surplus is expected to decline significantly due to a temporary ¾ percentage points of GDP increase in defense expenditures to a level of 3¼ percent in 2025–26, alongside increased spending for health, long-term care, and climate measures. While the public finances will remain strong, significantly higher and more persistent increases in defense spending or materialization of other downside fiscal risks will require adjustment measures to ensure long-term fiscal sustainability.

- **Financial sector policy**. The financial system remains robust, but risks persist. The authorities should remain vigilant in monitoring risks, especially those pertaining to banks' real estate lending and cyber threats. A review of International Financial Reporting Standards 9 modeling practices is necessary, and the ongoing evaluation of internal rating-based models should be completed promptly. Capital-based macroprudential policy setting is appropriate, but borrower-based measures should warrant a tightening to address pockets of vulnerabilities.

- **Structural policy**. Structural reforms should be further intensified to sustain high levels of income, preserve fiscal space, and sustain the welfare state. A continued focus on labor market reform, including foreign talent recruitment and vocational education and training, is essential to increase the labor supply with the right skills. Maintaining a competitive edge in adopting digital and AI technologies and fostering business dynamism is critical for broad-based productivity growth.

Approved By
Helge Berger (EUR) and Jay Peiris (SPR)

Discussions were held in Copenhagen from May 1–13, 2025. The team comprised Kotaro Ishi (head), Takuji Komatsuzaki, Theodore Renaut (all EUR) and Mahmut Kutlukaya (STA). Jibingxin Han and Yuntian Lu provided research assistance, and Rachelle Vega provided administrative assistance. Henrik Thomasen (Senior Advisor to Executive Director) participated in the discussions. The team met with Ms. Krogstrup, Governor of Danmarks Nationalbank; Messrs. Kieler and Pedersen, Deputy Permanent Secretaries of the Ministry of Finance; Mr. Jorgensen, Deputy Permanent Secretary of the Ministry of Economic Affairs; Ms. Ank, Deputy Permanent Secretary of the Ministry of Industry, Business and Finance Affairs, Mr. Skaarup, Deputy Permanent Secretary of the Ministry of Taxation; Ms. Mogensen, Director General of the Danish Financial Supervisory Authority; other senior officials; and representatives from the Danish Economic Council, social partners, academics, and the financial sector.

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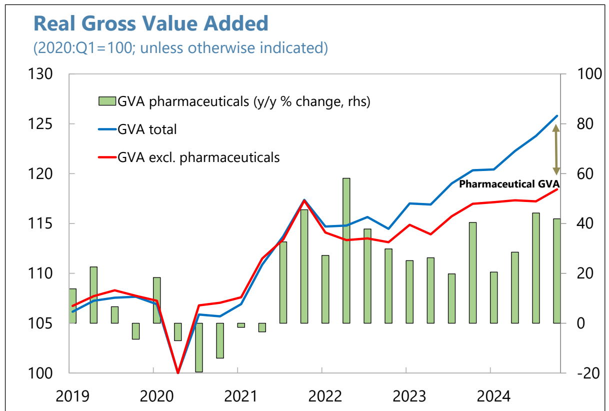
CONTEXT

1. **The exceptional pharmaceutical boom has continued to drive overall growth**. Denmark's GDP experienced robust growth of 3.7 percent in 2024, up from 2.5 percent in 2023, among the highest in Europe. Pharmaceuticals have continued to thrive, while the rest of the economy was relatively sluggish, reflecting lackluster domestic demand.[1] Meanwhile, inflation has stayed below 2 percent; public finances are among the strongest in Europe; external positions remain solid; and the financial system has demonstrated resilience to multiple shocks in recent years.



Sources: Denmark Statistics; Haver Analytics; and IMF staff estimates.

2. **Escalated geopolitical and trade tensions pose challenges to Denmark**. Strong institutions, a competitive and relatively diversified economic structure, a robust fiscal position, and a highly educated workforce all reinforce Denmark's resilience to external shocks. The direct impacts of U.S. tariffs are expected to be limited. Nonetheless, as a small, open economy that heavily relies on global trade, Denmark is vulnerable to trade tensions that could hinder global growth prospects, as well as geopolitical strains, including those over Greenland. Domestically, Denmark grapples with challenges in securing an adequate labor supply with the right skills amid a declining working-age population, maintaining fiscal buffers in light of anticipated higher defense spending, and navigating climate change. If these challenges are not managed effectively, they could undermine Denmark's growth potential and the long-term viability of its welfare state, including its extensive social security system.

3. **Political context**. The current centrist coalition government has prioritized green policies, labor, taxation, immigration, and more recently, defense and Greenland. The next election is scheduled for no later than the end of October 2026. Denmark's policy direction remains broadly consistent with past staff recommendations (Annex I).

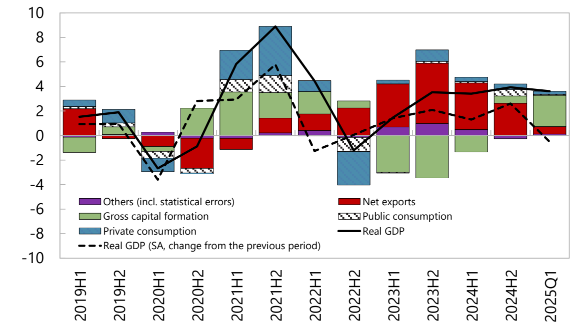
RECENT DEVELOPMENTS

4. **The anticipated broad-based economic recovery has yet to fully materialize** (Figure 1 and Table 1). Output growth accelerated from 3.4 percent year-on-year (y/y) in 2024:H1 to 3.9 percent in H2, driven by strong exports, particularly in pharmaceuticals. Domestic demand picked up slightly but overall remained sluggish. Despite lower inflation and improving real

[1] The extraordinary boom in the pharmaceutical sector has been largely attributed to increased demand for weight-loss drugs in the United States, leading to a more than 2.3-fold increase in pharmaceutical gross value added (in constant prices) over the past three years.

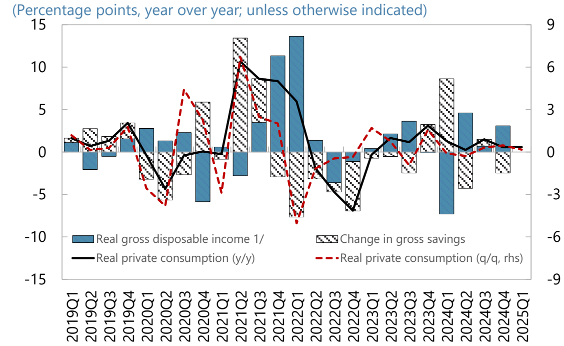
disposable income, private consumption was weak, and consumer sentiment continued to weaken. Gross capital formation picked up, driven by intellectual property rights and transport equipment; however, other business investment was subdued. In 2025:Q1, GDP rose by 3.6 percent y/y, reflecting a strong carry-over effect from robust growth in 2024:H2—on a seasonally adjusted base, GDP fell by 0.5 percent quarter-on-quarter due to a decline in pharmaceuticals and persistently weak domestic demand.[2]

Contributions to Real GDP Growth - Expenditure Based
(Percentage points, year over year, unless otherwise indicated)1/



Sources: Haver Analytics; Statistics Denmark; and IMF staff estimates.
1/ Stacked columns indicate percentage points contributions to Denmark's real GDP growth.

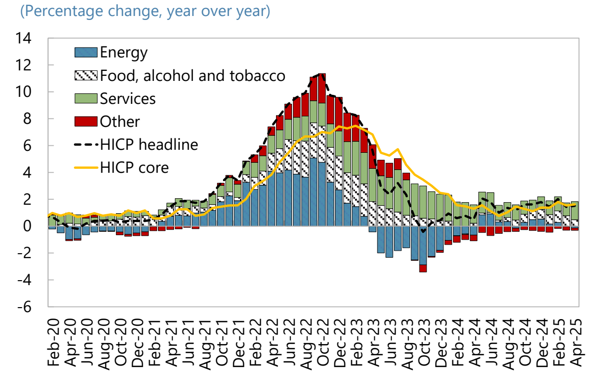
Real Private Consumption
(Percentage points, year over year; unless otherwise indicated)



Sources: Statistics Denmark; and IMF staff estimates.
1/ Real gross disposable income includes adjustment for the change in pension entitlements.

5. Inflation has remained below 2 percent y/y. The headline harmonized consumer price index (HICP) was 1.5 percent y/y in April, down from 1.8 percent y/y at the end of 2024, reflecting a decline in goods (especially energy and food) prices. Core inflation (HICP excluding energy and processed food) has remained stable at around 1.4–1.8 percent in recent months, reflecting sluggish domestic demand.

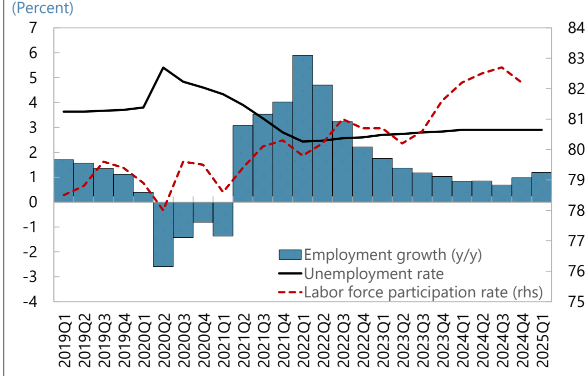
Inflation Decomposition
(Percentage change, year over year)



Sources: Eurostat; Haver Analytics; and IMF staff calculations.

6. Labor market pressures have eased. Employment continued to grow at a moderate pace, with increased participation from foreign and older workers. The unemployment rate stabilized at 2.9 percent, and fewer firms report labor shortages as a limiting factor in production. Job vacancy data suggest a broad-based easing of labor market tightness, with rates returning to pre-pandemic levels across most sectors. Nominal wage growth accelerated through mid- 2024, following collective bargaining agreements, but has since

Labor Market Indicators
(Percent)

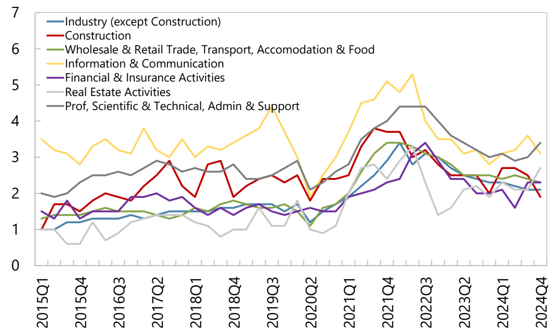


Sources: Statistics Denmark; Eurostat; Haver Analytics; and IMF calculations.

[2] Pharmaceutical production is volatile in the national account estimates depending on supply chain cycles.

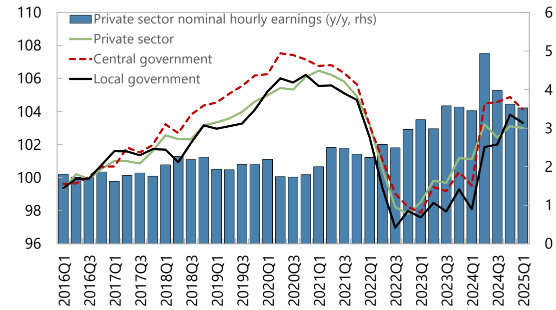
decelerated. Real wages for public and private sector workers continued to recover, supported by lower inflation and higher nominal wage growth.

Job Vacancy Rates by Sector
(Percent)



Sources: Eurostat; and Haver Analytics.

Real Hourly Wages
(lhs: index 2016 = 100; rhs: percent)



Sources: Statistics Denmark; Haver Analytics; and IMF staff calculations.
Note: nominal wages adjusted for headline inflation.

7. Fiscal outcomes were significantly better than expected in 2024 (Tables 2–4). The overall fiscal position has been in surplus since 2017, with a surplus of 4.5 percent of GDP in 2024, exceeding the forecast of 1.7 percent. Revenue collections exceeded expectations, especially from personal and corporate income taxes (reflecting robust labor markets and a thriving pharmaceutical sector) and the pension return tax (reflecting higher returns on pension portfolios).[3] Expenditures rose due to increased public consumption and investment, including defense, but remained broadly aligned with forecasts. The fiscal stance was tight in 2024 with the structural surplus increasing by ¼ percentage point of potential GDP. Gross debt decreased from 34 percent of GDP at the end of 2023 to 31 percent at the end of 2024.

Text Table 1. Denmark: Fiscal Budgeted versus Outturns
(In percent of GDP)

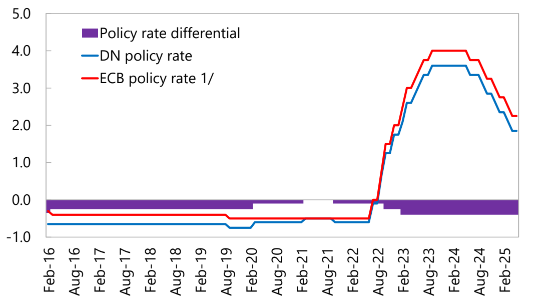
			2024	
	2022	2023	Economic Survey[1,2]	Outturn
Revenue	48.3	50.1	48.7	51.0
Of which:				
Personal income taxes	23.2	24.5	...	24.8
Pension return taxes	0.4	0.5	...	1.5
Corporate taxes	3.3	3.8	...	4.2
Expenditure	44.9	46.8	47.1	46.5
Overall balance	3.4	3.3	1.7	4.5
Structural balance[3]	1.8	1.8	0.6	2.0
Public gross EMU debt	34.1	33.6	28.6	31.1
Memorandum items:				
COVID-19 related above-the-line support[4]	0.5	0.0	0.0	0.0
Military aid to Ukraine	0.1	0.5	0.6	...

Source: Ministry of Finance (MOF); Ministry of Economic Affairs (MOEA); and IMF staff calculation
1/ MOF Economic Survey, May 2024.
2/ National account revisions in June 2024 are not reflected.
3/ Percent of potential GDP.
4/ MOF Economic Survey, Dec 2021.

[3] Pension return tax is an annual tax on returns on pension assets, including interest, dividends, and capital gains. Pension providers pay the tax on behalf of policyholders.

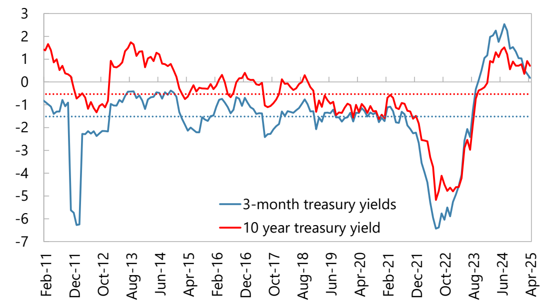
8. The objective of Denmark's monetary policy is to ensure a fixed exchange rate against the euro.[4] Following the European Central Bank (ECB), since June 2024, Danmarks Nationalbank (DN) has cut its policy interest rates eight times for a total of 200 basis points. The monetary policy stance has eased, although real interest rates remain above the historical average. Since February 2023, the Danish krone has fluctuated around the ERM II central rate without any market intervention by the central bank.

Policy Rate Differential with the ECB
(Percent)



Sources: Haver Analytics; Danmarks Nationalbank; ECB; and IMF staff calculations.
1/ This reflects the ECB's deposit rate. Prior to the global financial crisis, the main refinancing operations (MRO) rate was the relevant ECB policy rate.

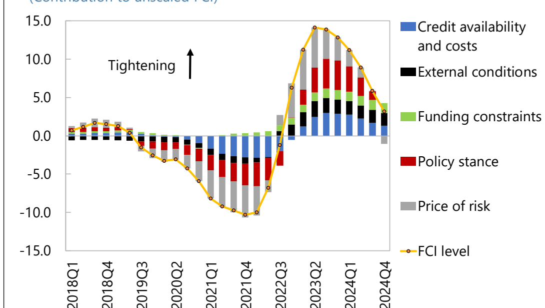
Real Interest Rates 1/
(Percent)



Sources: Bloomberg; Danmarks Nationalbank; Eurostat; and Haver Analytics.
1/ Calculated as nominal interest rates minus annual core inflation rates.

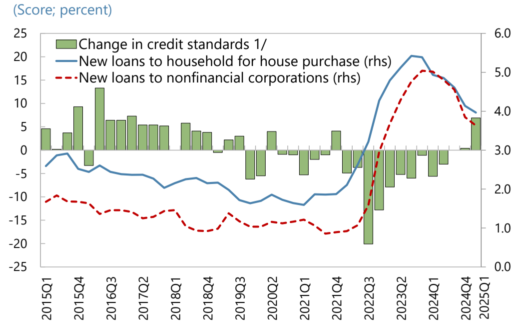
9. Financial conditions have eased but remain tighter than in the pre-monetary tightening period. Bank interest rates and the overall financial conditions, including credit standards, have eased from their recent peaks. However, they are still tighter than they were prior to mid-2022. The growth of overall credit has picked up to around 3 percent y/y, but below nominal GDP growth. Lending to nonfinancial corporates (NFCs) continues to grow moderately, while household lending has begun to strengthen in recent months.

Financial Conditions Index (FCI)
(Contribution to unscaled FCI)



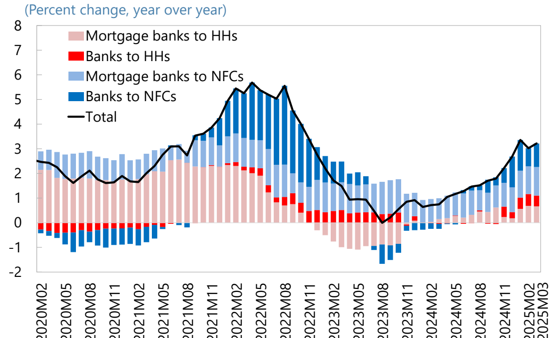
Source: Borraccia et al., 2023, IMF Working Paper 23/209.
Note: 2024Q3 and 2024Q4 are forecasts.

Bank Interest Rate and Credit Standards
(Score; percent)



Sources: Haver Analytics; and Statistics Denmark.
1/ Rated on a scale from -100 to 100, with higher scores indicating easier credit access.

Lending Growth
(Percent change, year over year)

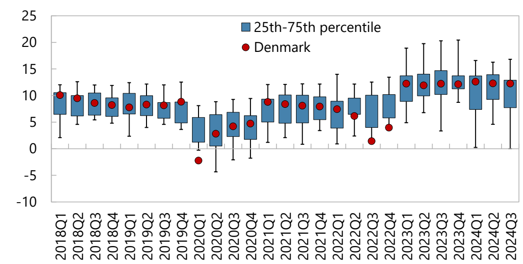


Sources: Danmarks Nationalbank; and IMF staff calculations.

[4] European Exchange Rate Mechanism 2 is the formal framework for Denmark's fixed exchange rate policy. The krone is allowed to fluctuate within the narrow band of +/- 2.25 percent around the central rate of DKK 746.038 per 100 euros.

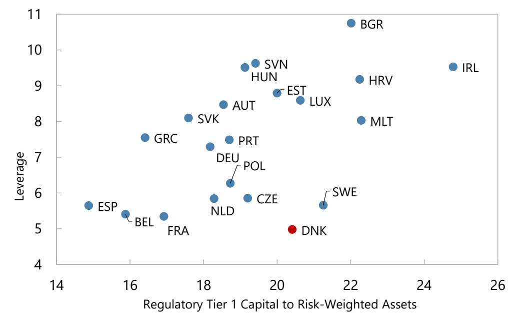
10. The financial system remains robust despite high interest rates. (Figures 2–4 and Table 5). The quality of bank credit portfolios is strong, with non-performing loans at around 2½ percent. Bank profitability is solid, bolstered by high net interest margins and low impairment charges, with a return on equity at 12 percent at end-2024. The Tier 1 capital to risk-weighted assets ratio stood at 20.4 percent at end-2024, above the European Union (EU) average, although the leverage ratio, at around 4½ percent, is among the lowest in Europe. Banks' liquidity coverage and net stable funding ratios comfortably exceed minimum requirements. However, risks remain particularly concerning real estate markets, mortgage lending, nonbank financial institutions (NBFIs), and cyber threats.

AE in Europe: Return on Equity
(Percent)



Sources: Danish Financial Superviaory Authority; IMF Financial Soundness Indicators; and IMF staff calculations.
Notes: In this figure, the top and bottom of the blue boxes correspond to the 75th and 25th percentiles, respectively; the top and bottom spikes correspond to the 90th and 10th percentiles respectively; and the red dot corresponds to the value for Denmark.

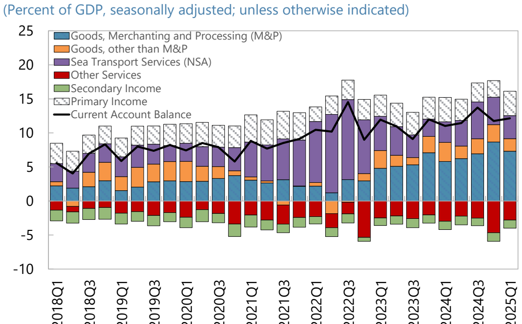
EU Countries: Tier 1 Capital Adequacy vs. Leverage Ratio
(Percent, 2024Q3)



Sources: Danish Financial Supervisory Authority; and IMF Financial Soundness Indicators.

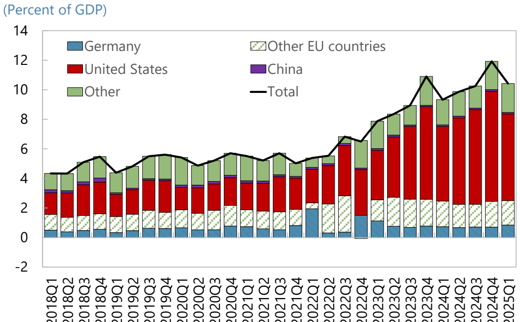
11. The external position remains strong (Tables 6–7). The current account surplus widened to 12 percent of GDP in 2024, up from 11 percent in 2023. The goods trade surplus increased from 7½ percent in 2023 to 9¼ percent of GDP in 2024, primarily driven by the merchanting and processing (M&P) activities of a few large multinationals (particularly in pharmaceuticals), alongside a decline in imports, while the services trade surplus narrowed from 1½ percent in 2023 to ¾ percent of GDP in 2024.[5] Staff's assessment suggests that the external position in 2024 was substantially stronger than implied by medium-term fundamentals and desirable policies (Annex II). An anticipated decline in public sector savings and structural policies aimed at raising investment, including in climate, would help reduce the surplus.

Current Account Balance
(Percent of GDP, seasonally adjusted; unless otherwise indicated)



Sources: Statistics Denmark; Haver Analytics; and IMF staff estimates.

Exports of Goods that Never Cross the Danish Border
(Percent of GDP)



Sources: Statistics Denmark; Haver Analytics; and IMF staff estimates.

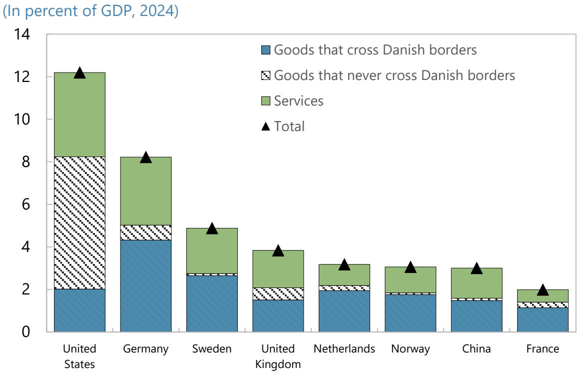
[5] Merchanting refers to a Danish parent company purchasing goods from a nonresident subsidiary and reselling those goods to another nonresident. Processing refers to nonresident subsidiary that process goods for the Danish parent company and sells those goods to a nonresident. In both instances, according to the Balance of Payments and International Investment Position Manual (Sixth Edition), these transactions are recorded as Danish exports, even though the goods do not cross Danish borders. Danmarks Nationalbank analyzes that the 25 largest companies account for most corporate sector net savings.

OUTLOOK AND RISKS

12. GDP growth is projected to gradually moderate in the near term as the exceptional expansion in the pharmaceutical sector normalizes.

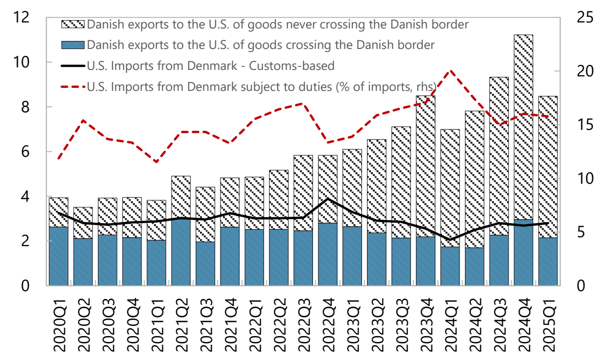
- Output growth is expected to moderate from 3.7 percent in 2024 to 3.0 percent in 2025 and further to 1.8 percent in 2026. Exports growth, including pharmaceuticals, is expected to slow, while the full reopening of the Tyra natural gas and oil field, which operated at reduced capacity last year, will provide a temporary boost in 2025. The U.S. is a key trading partner, accounting for about 17½ percent of total exports and 12 percent of GDP in 2024. A significant portion of Danish exports to the U.S. consists of M&P, while exports of goods produced in Denmark passing through customs make up only 3 percent of total exports, limiting the direct impact of U.S. tariffs on the Danish economy.

Danish Exports by Main Trading Partners
(In percent of GDP, 2024)



Sources: Statistics Denmark; Haver Analytics; and IMF staff estimates.

Trade in Goods with the United States
(lfs: USD billions; rhs: percentage of total custom-based imports from Denmark)



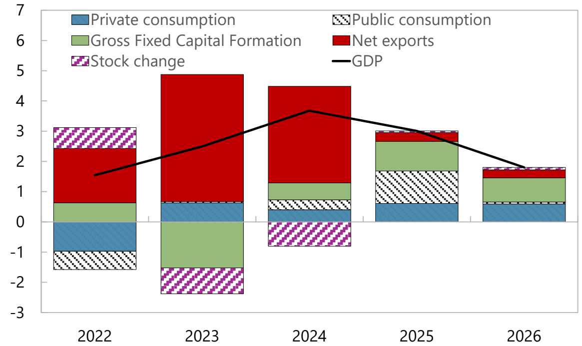
Sources: Statistics Denmark; Census Bureau; Haver Analytics; and IMF staff estimates.

- A significant portion of increased defense spending in 2025–26 is anticipated to be allocated to defense equipment procurements with high import content. This will raise public expenditures and imports, thereby reducing the current account surplus. The staff baseline assumes that net exports will slow as defense equipment imports rise, and pharmaceutical export growth will decline. Meanwhile, domestic demand is expected to strengthen, driven by increased public expenditures and a modest recovery in private consumption due to improved consumer purchasing power.

- Capacity pressures in the labor market are anticipated to further fall, as employment growth decelerates, and the positive employment gap is projected to continue narrowing.[6] Inflation is expected to stay around 2 percent, with wage growth moderating to around 3½ percent, down from 4 percent in 2024.

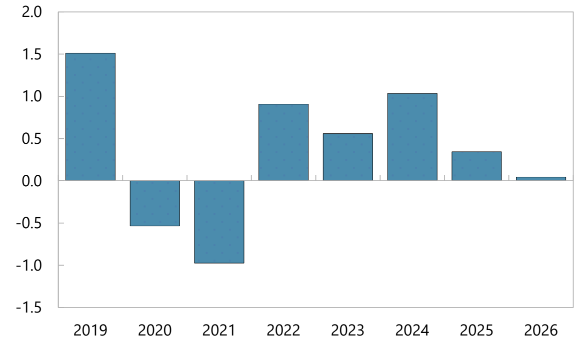
[6] Staff's preferred measure of capacity pressures is the employment gap. In recent years, the output gap has been influenced by the exceptional expansion of the pharmaceutical sector, which in turn reflects its production abroad in the form of merchanting and processing, with limited domestic resource use (for more details, see Annex I of the 2024 Denmark Staff Report). Nonetheless, the output gap remains important for fiscal assessments, as pharmaceutical industries contribute to corporate income taxes.

GDP Growth Decomposition by Expenditure
(Contribution to GDP growth, percentage points)



Sources: Statistics Denmark; Haver Analytics; and IMF staff estimates.

Employment Gap
(Percent)



Sources: Eurostat; Haver Analytics; and IMF staff estimates.

13. Elevated geopolitical and trade tensions, along with well-known structural headwinds, will weigh on Denmark's medium-term economic outlook. Staff expects potential growth to decelerate to around 1½ percent by 2030. The adverse effects of the global trade tensions would increase, as the initial positive trade diversion effects diminish and tariff-driven distortions permeate global supply chains, weakening global growth and, in turn, Denmark's growth prospects. Lower potential growth also reflects a maturing pharmaceutical sector, partly due to increased global competition in diabetes and obesity drugs, a declining working-age population that reduces labor supply, and prudent expectations for non-pharmaceutical productivity growth.

14. Overall, risks to growth are tilted to the downside (Annex III).

- External risks dominate the outlook. Key external risks include higher trade barriers and sanctions, the intensification of regional conflicts, deepening geoeconomic fragmentation, and a larger-than-expected slowdown in the global economy (Box 1). As discussed, although the impact of U.S. tariffs on the Danish economy is limited, firms heavily reliant on global supply chains might be impacted. In addition, Denmark's export sectors could face challenges from potential non-tariff barriers, while changes to U.S. drug price policies may negatively impact Danish pharmaceutical firms exposed to the U.S. market.

- Domestic risks are also negative, as global uncertainty could weaken consumer and business confidence, delaying the recovery of domestic demand. In addition, a higher-than-expected increase in defense spending, especially if allocated to manpower, could pressure the labor market, leading to higher wages and inflation. Furthermore, cyberattacks or the misuse of AI technology could add to these risks.

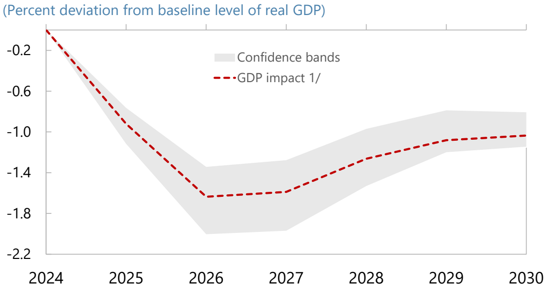
- Upside risks to growth include a faster-than-expected resolution of trade and geopolitical conflicts and stronger external demand, notably for pharmaceutical products or from Germany, following the recently announced increases in public spending.

Box 1. A Downside Scenario

This April 2025 World Economic Outlook outlines an illustrative downside scenario (Scenario A in Box 1.1). The scenario considers (i) global divergence (e.g., weaker productivity growth in Europe and weaker domestic demand in China), (ii) a trade war (e.g., a ratcheting up of tariffs by the US and other countries), (iii) an increase in global uncertainty, and (iv) tighter financial conditions. In this scenario, global GDP is projected to be lowered by 1.3 percentage points by 2025 and 1.9 percentage points by 2026, relative to the WEO reference forecast, while euro area GDP would be reduced by 1 percentage point by 2025 and 1.8 percentage points by 2026.

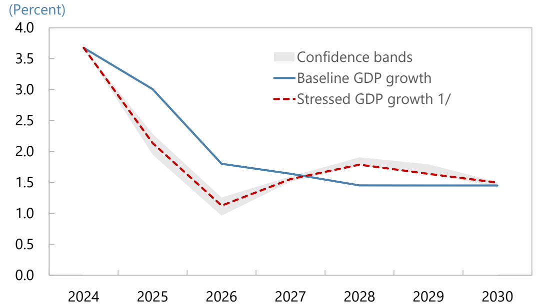
For Denmark, the level of real GDP could be 1.6 percentage points below staff's baseline in 2026 before gradually improving. This is a relatively mild impact: the annual GDP growth rate would be 1.1 percent in 2026, compared to 1.8 percent in the baseline. Given the strength of the Danish economy and well-functioning flexicurity model, discretionary fiscal stimulus measures are not deemed necessary.[1] Instead, staff would recommend allowing automatic stabilizers to fully operate.[2] The ECB may consider easing monetary policy to support the euro area. Under the fixed exchange regime, DN will follow suit, which would further mitigate adverse impacts on the Danish economy.

Impact on Real GDP
(Percent deviation from baseline level of real GDP)



Sources: IMF 2025 WEO and IMF staff estimates.
1/ Calculated using elasticities estimated for European countries based on the IMF's Global Integrated Monetary and Fiscal Model. Confidence bands reflect different elasticities.

Projected GDP Growth Under Downside Scenario
(Percent)



Sources: IMF 2025 WEO and IMF staff estimates.
1/ the stressed GDP growth is derived from the estimated impact on the baseline level of real GDP.

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[1] The Danish flexicurity model has three core elements: (i) employers can hire and fire at will; (ii) employees can receive up to two years of unemployment benefits after losing their jobs; and (iii) the government runs education and retraining programs for the unemployed.

[2] The size of automatic stabilizers in Denmark is estimated to be large (see IMF April 2020 Fiscal Monitor Chapter 2).

POLICY DISCUSSIONS

The priority is to uphold fiscal sustainability amid rising defense and aging-related spending. In light of heightened global risks, supervisors should remain vigilant in monitoring and addressing financial sector vulnerabilities. Reforms should be further intensified to boost potential growth—especially by enhancing the labor supply with the right skills and fostering business dynamism. This will support income levels and preserve fiscal space.

A. Upholding Fiscal Sustainability Amid Rising Defense and Aging-Related Spending

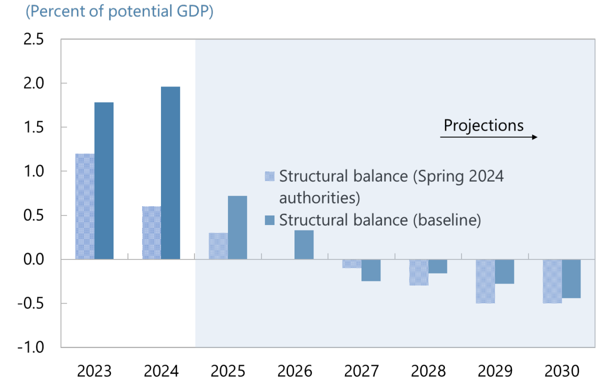
15. The fiscal surplus is expected to decline significantly.

- In February, the authorities announced a DKK 25 billion (¾ percent of GDP) increase in defense spending for 2025 and 2026, followed by DKK 10 billion per year through 2033. As a result, defense spending will temporarily rise from 2½ percent of GDP in 2024 to 3¼ percent in 2025 and 2026 before returning to 2¼ percent by 2033. This increase comes on top of planned non-defense measures, including: (i) personal income tax cuts to enhance work incentives and boost labor supply, (ii) increased employment in health and long-term care, and (iii) higher climate-related expenditures. The overall surplus is projected to fall from 4½ percent of GDP in 2024 to 1¼ percent in 2025, and further to ½ percent in 2026.

- The fiscal stance in 2025 is expansionary, with a structural balance change of –½ percent of potential GDP— which excludes the additional defense budget, as its impact on the domestic economy is limited. Although labor market pressures have eased, and fiscal multipliers for the planned non-defense measures are likely low, the expected fiscal stimulus could be stronger than warranted by macroeconomic circumstances.[7] Given these risks, the authorities should continue to exercise robust spending control and save any revenue above budget forecasts for the remainder of 2025.

16. Given Denmark's robust fiscal position, the announced temporary increase in defense spending is manageable without jeopardizing long-term fiscal sustainability or breaching fiscal rules. Denmark has anticipated rising spending pressures from an aging population, successfully reducing the debt-to-GDP ratio to 31 percent at the end of 2024, down from nearly 50 percent a decade ago. The government's recent decision to gradually raise the retirement age to 70 years for those born after 1970, up from 67 years, aligned with increased life expectancy, will help support long-term fiscal sustainability. Moreover, the higher-than-expected fiscal surplus in 2024 (2¾ percent of GDP) provides additional room to accommodate increased defense spending within Danish fiscal rules. In staff's baseline scenario, the structural balance will stay above the -1 percent of GDP floor over the medium term, consistent with Denmark's fiscal rules and a stable debt ratio (Annex IV).

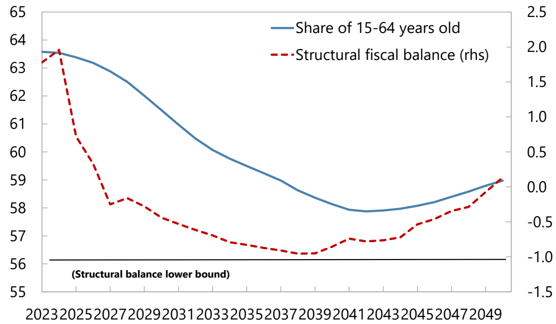
Fiscal Balances
(Percent of potential GDP)



Sources: IMF; World Economic Outlook database; and IMF staff calculations.

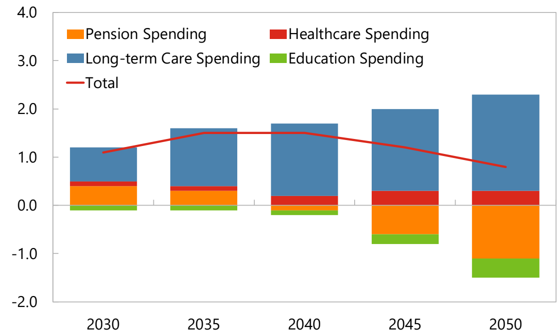
[7] Staff estimates that the growth impact of a structural balance easing of ½ percentage points of GDP is about 0.1 percent, using fiscal multipliers of 0.2–0.3.

Working Age Population and Structural Balance
(Percent)



Sources: Ministry of finance; Statistics Denmark; and IMF staff calculations.
Note: Structural fiscal balance is staff projections up to 2030,

Aging Costs
(Increase from 2025, Percent of GDP)



Sources: 2024 EC Aging Report; and Haver Analytics.

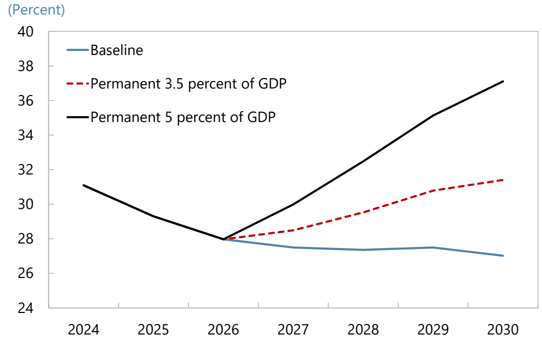
17. **While public finances will remain strong, significantly higher and more persistent increases in defense spending above the baseline would require adjustment measures to ensure long-term fiscal sustainability**. If defense spending increases permanently and significantly above current plans without sufficient offsetting measures, the structural balance could breach the national fiscal rules' -1 percent of GDP floor and put debt on an upward trajectory. In addition, the long-term fiscal outlook faces other downside risks: (i) the supply-side measures that the authorities have taken in recent years to boost labor supply may not generate the expected revenues, and (ii) climate change could accelerate at a faster-than-expected pace, requiring larger adaptation investments.

Illustrative Defense Spending Scenarios

Assumptions (percent of GDP)

	2024	2025	2026	2027	2028	2029	2030
			Projections				
Defense spending							
Baseline	2.3	3.2	3.1	2.5	2.3	2.3	2.3
Permanent 3.5 percent of GDP	2.3	3.2	3.1	3.5	3.5	3.5	3.5
Permanent 5 percent of GDP	2.3	3.2	3.1	5.0	5.0	5.0	5.0
Structural balance							
Baseline	2.0	0.7	0.3	-0.2	-0.2	-0.3	-0.4
Permanent 3.5 percent of GDP	2.0	0.7	0.3	-1.2	-1.4	-1.5	-1.6
Permanent 5 percent of GDP	2.0	0.7	0.3	-2.7	-2.9	-3.0	-3.1

Debt-to-GDP Ratio
(Percent)



Source: IMF staff calculations.

18. **If required, adjustment measures should be growth-friendly while ensuring fairness to preserve the welfare state**. Specifically:

- While both expenditure and revenue measures should be explored, given the already high tax burden, priority should be given to spending measures. An in-depth assessment of expenditures should be conducted to identify low-priority or inefficient spending. Implementing expert committee recommendations on active labor market policies and business subsidies would also help. The authorities should also take this opportunity to enhance public administration efficiency by leveraging digitalization and AI.[8]

- Structural reform programs should be vigorously pursued to boost labor supply and enhance productivity (see Section C).
- The structural deficit limit of 1 percent of GDP under the current fiscal rules should be respected.

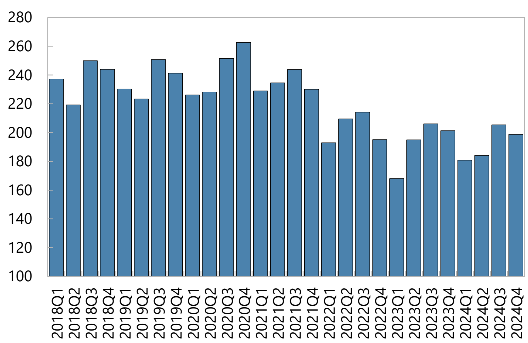
B. Safeguarding Financial Stability

19. Systemic risks have been contained, but sectoral risks remain.

- *Household sector risk*. Despite higher interest rates, households have shown resilience, bolstered by a strong labor market and reduced indebtedness. However, debt service costs have risen as a share of income, with more borrowers refinancing fixed- and low-interest mortgages to variable rates, some opting for deferred amortization.[9] In addition, mortgage loan growth has picked up; about 23 percent of new mortgages were extended to borrowers with a loan-to-value ratio above 90 percent and about 21 percent to those with a debt-to-income ratio above four in 2024:Q4. The heat map suggests reduced but still elevated housing sector risk.

Household Debt to Net Disposable Income

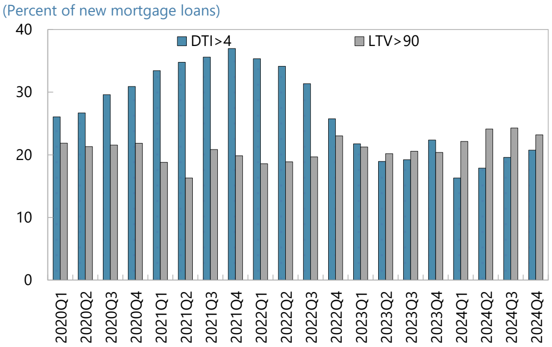
(Percent)



Sources: Haver Analytics; and Statistics Denmark.

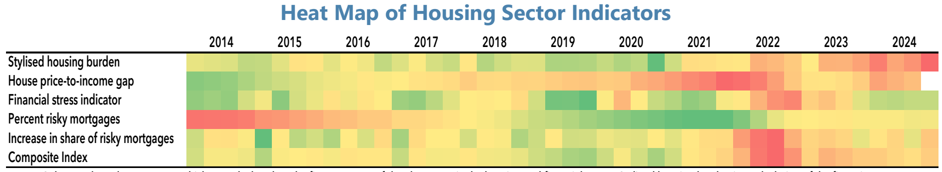
Mortgage Lending

(Percent of new mortgage loans)



Sources: Danmarks Nationalbank; and IMF staff calculations.
Note: Data includes only loans for Danish households.

Heat Map of Housing Sector Indicators



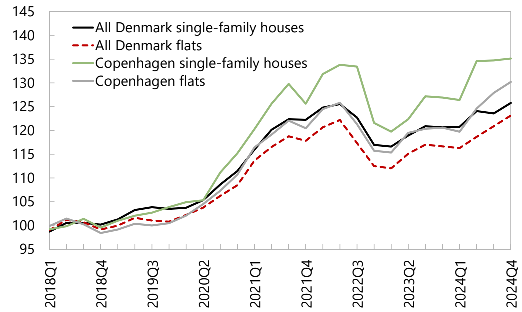
Notes: Colors are based on Z-scores, which are calculated on the five measures of developments in the housing and financial sector. Stylized housing burden is a calculation of the financing costs, including property taxes, when buying a single-family house as a share of average disposable household income. The house price-to-income gap is defined as deviations of the ratio of house price to income from its long-term trend. Growth in real house prices denotes house price increase adjusted for inflation. The Financial Stress indicator aggregates the levels of stress in five key submarkets/sectors: the money, bond, equity and foreign exchange markets and the banking sector. A small value of the indicator shows low volatility and high confidence in the financial system, while a high value indicates that the five submarkets are dysfunctional and market participants are nervous. Increase in share of risky mortgages is the percentage point difference in share or mortgages that are variable rate with deferred amortization in a single quarter. The data are quarterly, and the sample period is from 2014Q1 to 2024Q4. Composite index is a simple average of the five measures. White cells represent unavailable or missing data.
Sources: Denmark Systemic Risk Council, Danmarks Nationalbank, Statistics Denmark, and IMF staff calculations.

[8] A recent analysis shows that AI could potentially boost public sector productivity by saving around 10–12 percent of the expected workforce by 2040 (Confederation of Danish Employers).

[9] The decline in household indebtedness reflected Denmark's unique mortgage system. As interest rates rose and the market value of mortgages fell, some fixed-rate borrowers repaid their mortgages and refinanced them at a higher variable rate but at a lower market value.

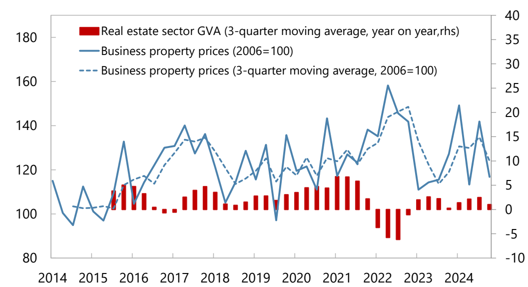
- *Real estate market risks*. Residential real estate activity has continued to recover, evidenced by increased transactions and rising house prices. Staff estimates that house prices are slightly overvalued compared to their fundamentals. In contrast, commercial real estate (CRE) markets have not fully recovered; while CRE prices are rebounding, transaction volumes remain suppressed. The growth of lending by Danish systemically important banks to the CRE sector stood at around 6 percent y/y in 2024:Q4, while their exposures remain substantial, accounting for about 40 percent of total corporate lending. Furthermore, inward and outward interconnectedness exposes the Danish CRE market to regional market volatility.[10] The heat map suggests heightened risk in the CRE sector.

House Prices
(Index, average 2018=100)



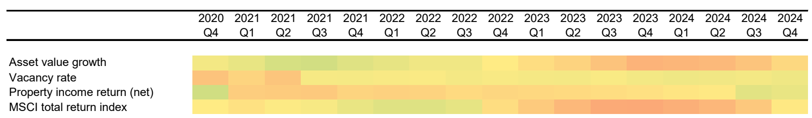
Sources: Statistics Denmark; and IMF staff calculations.

Business Property Prices
(2006=100)



Sources: Haver Analytics; and Statistics Denmark.

CRE Heat Map

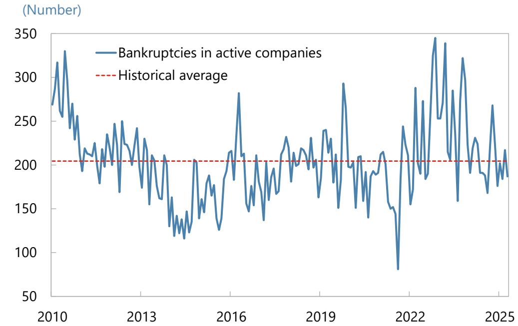


Sources: MSCI; and IMF staff calculations.

Notes: Colors are based on Z-scores. All underlying indicators are from the MSCI. The asset value growth is defined as a change in the real estate asset values held by investors. The property income return (net) is defined as the passing rent or net operating income divided by the gross property value including notional acquisition costs. The MSCI total return index measures market performance, including price performance and income from regular cash distributions (cash dividend payments).

- *Corporate sector risks*. Bankruptcies have fallen to historical averages, indicating resilience in the corporate sector despite increased financing costs. However, higher interest rates have increased the debt service burden, leading to challenges for some corporates—especially in the real estate, trade, and manufacturing sectors—in servicing their debts, as evidenced by a moderate increase in banks' stage 2 loans.

Bankruptcies
(Number)



Sources: Haver Analytics; and Statistics Denmark..

- *Cyber risks*. Due to elevated geopolitical tensions, cybersecurity incidents have risen. In November 2024, the Centre for Cyber Security raised the threat level for destructive cyberattacks against Denmark's financial sector from low to medium. The latest cyber stress test by the

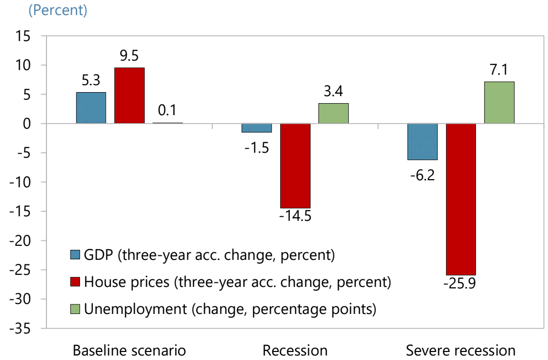
[10] In terms of inward interconnectedness, around 19 percent of the value of Danish CRE companies is ultimately owned by foreign entities, mainly from Luxembourg, Sweden, and Norway (for details, see DN, Economic Memo, November 24, 2024). For outward interconnectedness, banking sector's exposure to the CRE sector abroad is estimated at around 6 percent of its nonfinancial corporations lending.

Danish Financial Supervisory Authority (DFSA) in 2023 revealed vulnerabilities, particularly among third-party providers.

- *Nonbank financial institutions (NBFIs) related risks.* The pension and insurance sector is large, with total assets around 200 percent of GDP and strong domestic and cross-border interconnectedness. A large share of non-guaranteed market rate products and limited direct CRE market exposure help mitigate risks. However, pension and insurance companies are exposed to market and liquidity risks, susceptible to financial market volatility, which could amplify market fluctuations during periods of market turmoil.

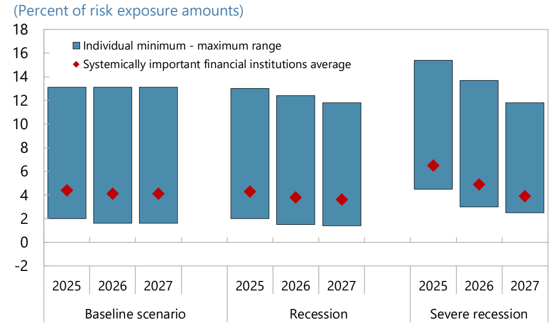
20. Financial system stability is supported by various factors, including banks' sizeable capital and liquidity buffers. Household risks are alleviated by robust job creation, low unemployment, and comprehensive social safety nets, while corporate risks are mitigated by easing financial conditions and the prospect of steady economic growth. Banks' balance sheets are solid, with low nonperforming loans, and their earnings are expected to remain relatively high, albeit lower than recent highs. The authorities have implemented the supervisory guidelines on CRE to ensure that banks maintain robust underwriting, provisioning and appraisal practices when providing loans to CRE firms. The authorities have also intensified their efforts to address climate change risks to the financial sector (Annex V). DN's stress tests indicate that all systemic banks, after utilizing their capital buffers, maintain sufficient capital to endure a severe recession and hold liquidity buffers to survive a four-month period under extreme liquidity stress scenarios.[11]

Macroeconomic Scenarios in Stress Test
(Percent)



Source: Danmarks Nationalbank, Financial Stability Analysis, No. 18, Nov 26, 2024.

Excess Capital in Different Scenarios
(Percent of risk exposure amounts)



Source: Danmarks Nationalbank, Financial Stability Analysis, No. 18, Nov 26, 2024.
Note: In the severe recession scenario, it is assumed that the countercyclical capital buffer will be released, resulting in higher levels of excess capital.

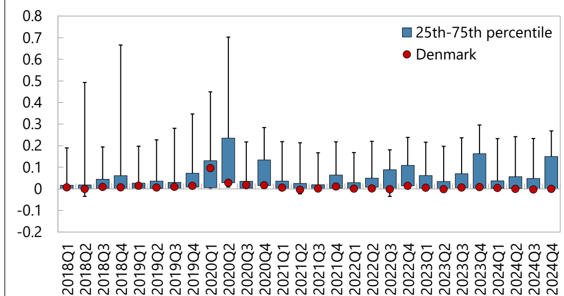
21. The authorities should remain vigilant in monitoring risks in the financial sector.

- Supervisors should ensure that banks maintain robust provisioning practices for credit risks. Provisions have remained stable and low. However, reliance on judgment to estimate International Financial Reporting Standards (IFRS) 9 risk parameters, along with varying

[11] The capital stress testing under a severe recession scenario assumes (i) a cumulative GDP contraction of 6.2 percent over three years, (ii) the unemployment rate increases by 7.1 percentage points, and (iii) house prices fall by 25.9 percent. The liquidity stress testing is based on calculations of each bank's excess liquidity under different assumptions about the proportion of contractual term deposits and market funding that mature, the amount withdrawn from committed facilities and demand deposits, and the realization value of the assets in the liquidity buffer. For technical details, see DN, Financial Stability Analysis, May 30, 2024.

approaches by banks, necessitates a careful examination of IFRS 9 modeling practices. The review should include the assessment of credit risk modeling (e.g., probability of default modeling) and the incorporation of forward-looking information, followed by remedial actions as necessary.

AE in Europe: Net Provisioning Expense to Total Assets Ratio
(Percent)



Sources: IMF; Financial Soundness Indicators; and IMF staff calculations.
Notes: In this figure, the top and bottom of the blue boxes correspond to the 75th and 25th percentiles, respectively; the top and bottom spikes correspond to the 90th and 10th percentiles respectively; and the red dot corresponds to the value for Denmark.

- The authorities have launched a review of internal ratings-based models in line with European Banking Authority guidelines, focusing on residential and commercial real estate portfolios. This should be completed promptly, followed by supervisory actions based on the results. Implementation of the EU's CRR III/CRD VI banking package, including the output floor for banks using internal models to calculate risk weights, should proceed as planned.

- The ongoing joint Nordic-Baltic banking stress testing exercise will enhance the understanding of cross-border exposures and linkages. The initial analysis on interlinkages and the methodological framework is expected to be presented to the Nordic-Baltic Macroprudential Forum by the end of this year.

- The authorities have heightened their focus on cybersecurity resilience, including improved coordination with Nordic policymakers. They should continue efforts to address vulnerabilities, including those posed by third-party providers, and ensure that financial institutions maintain robust cyberattack prevention and crisis management plans. The EU's Digital Operational Resilience Act, which came into force in January 2025, aims to specify criteria for classifying major incidents and cyber threats, establish materiality thresholds, and detail reporting requirements. This will further enhance data availability regarding cyber incidents.

22. Capital-based macroprudential policy setting is appropriate, but borrower-based measures should be tightened to address pockets of vulnerabilities. The 2.5 percent countercyclical capital buffer (CCyB) and the 7 percent sector-specific systemic risk buffer introduced in June 2024 to mitigate risks in the CRE sector should be kept for now, especially given heightened global risks and the fragile CRE sector. If downside risks materialize and credit constraints become binding, the authorities could consider lowering the CCyB rate. To address vulnerabilities in mortgages, the authorities should consider tightening borrower-based measures, including lowering the maximum loan-to-value ratio below the current 95 percent. In addition, incentives for bigger mortgages should be reduced by lowering the tax deductibility of mortgage interest expenses.

23. Ensuring adequate staffing for the DFSA across a range of skills is critical to its supervisory mandate. As international financial sector standards become more complex, the demand for supervisory resources has risen. However, DFSA's human resources are challenged by difficulties in recruiting and retaining qualified staff. The authorities are encouraged to review the adequacy of supervisory resources and increase the DFSA's budget as necessary.

24. The risks posed by NBFIs should be closely monitored and assessed. The DFSA has developed a stress testing framework for insurance and pension firms, while DN has increased its focus on the NBFI sector in its financial stability assessment. Given the size and interconnectedness of NBFIs within the financial system, as well as their susceptibility to market vulnerability, the authorities should continue strengthening the oversight framework for NBFIs. Key priorities include:

- Finalizing the supervisory order on the stress testing framework for insurance and pension firms, which will replace the existing quarterly sensitivity analysis, followed by integrating the framework into the overall supervisory policy. Their resilience to liquidity and market shocks should warrant particular attention. Efforts should continue to develop a framework for systemic risk assessment covering banks and NBFIs.
- Ensuring, in line with the recently issued Executive Order on Management of Insurance Companies, that insurance and pension companies provide clear advice to clients about financial and longevity risks when selling non-guaranteed products.

25. The authorities should continue to progress in addressing outstanding 2020 FSAP recommendations (Annex VI). They have made significant strides in implementing numerous recommendations, especially in bank and insurance supervision and systemic liquidity. However, several recommendations regarding systemic risk oversight and the governance of the resolution authorities remain unaddressed. The next FSAP cycle is expected to commence in mid-2026.[12]

26. Progress has been made in strengthening the Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) framework. In line with the recommendations from the 2023 Nordic-Baltic regional TA report, the authorities have focused on: (i) strengthening the risk-based supervision framework, (ii) developing a minimum AML/CFT supervisory engagement model, (iii) enhancing the collection of data and information, including cross-border financial flows and emerging threats, such as trade-based money laundering, and (iv) creating a tailored methodology to identify higher-risk jurisdictions. Given elevated geopolitical risks and evolving threats, the authorities should update the national risk assessment by the end of this year, as planned.

C. Pursuing Structural Reforms

27. Structural reforms should be further intensified to boost growth, preserve fiscal space, and sustain the welfare state. Over the past several decades, Denmark has benefited from globalization, including reduced trade barriers and expanded global value chains. However, conditions may change due to rising geopolitical and trade tensions. An aging population, the costs of the green transition, and slowed technology diffusion globally could also weigh on potential growth.[13] While Denmark's productivity level in PPP terms is comparable to that of the U.S., and

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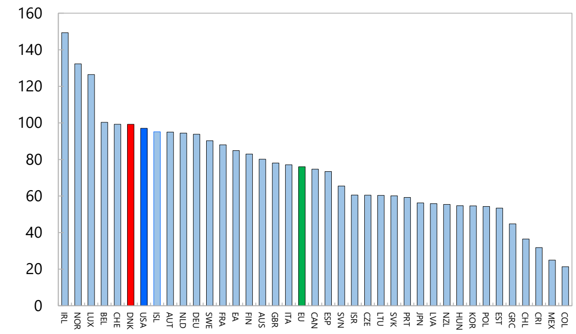
[12] These include (i) incorporating borrower-based tools into the national legislation as part of the policy toolkit, (ii) legally empowering the chair of the Systemic Risk Council (SRC) to propose recommendations after due consultation with other SRC members without the requirement for consensus, and (iii) enhancing the autonomy of the resolution authorities, especially the Financial Stability Company, allowing for government intervention only when fiscal support is necessary.

[13] See the October 2024 Regional Economic Outlook for Europe.

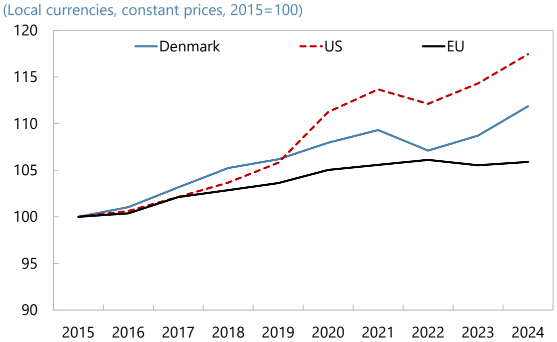
aggregate productivity growth has regained strength, this recovery largely reflects pharmaceuticals and, to a lesser extent, construction and information and communication industries. Productivity growth in the rest of the economy is less impressive. Furthermore, rearmament could divert resources from growth-enhancing reforms and welfare programs. These concerns underscore the need for Denmark to further intensify structural reform efforts.

OECD Countries: GDP per Hour Worked
(US dollars, PPP converted, current prices in 2023)



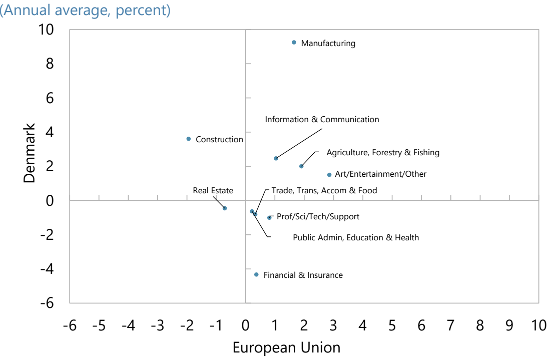
Sources: OECD Productivity Database.

GDP per Hour Worked
(Local currencies, constant prices, 2015=100)



Sources: Eurostat; European Central Bank; US Bureau of Labor Statistics; and IMF staff calculations.

GVA per Hour Worked Growth 2021-24
(Annual average, percent)

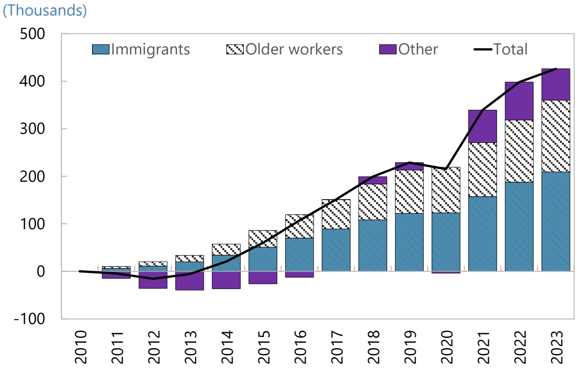


Sources: Eurostat; and IMF staff calculations.

Actively Responding to Evolving Labor Demand

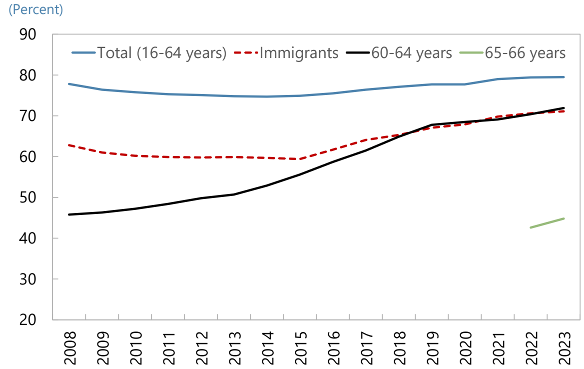
28. Robust employment growth partly reflects the authorities' efforts to mobilize labor and enhance work incentives. Most of the increase in employment over the past decade has come from older workers and foreigners. The government has implemented wide-ranging reforms, including changes to pension and early retirement schemes, recruitment rules for non-EU foreign workers, personal income tax reforms, and the abolition of a public holiday.

Cumulative Change in Employment
(Thousands)



Sources: Statistics Denmark; and IMF staff calculations.

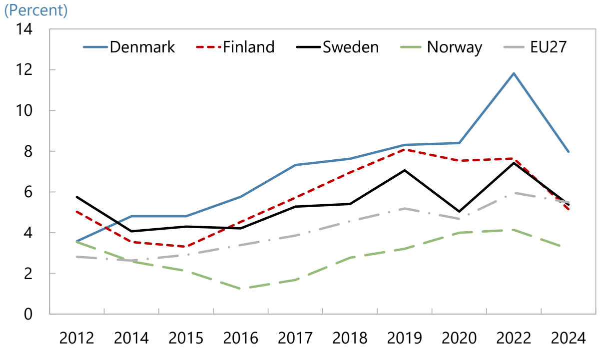
Labor Force Participation Rates
(Percent)



Sources: Statistics Denmark.

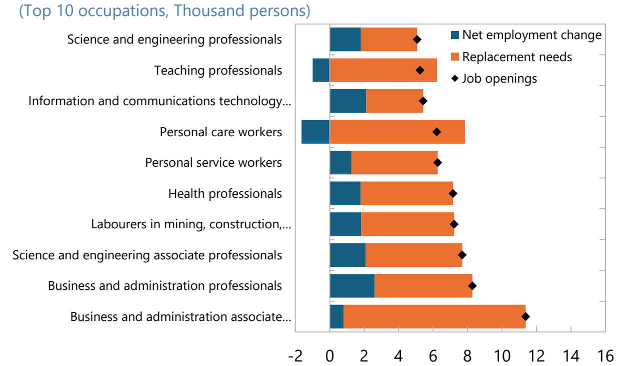
29. A continued focus on labor market reforms is essential to ensure a sufficient labor supply with the right skills (Figure 5–6). Danish companies encounter challenges in hiring workers with specific skills, such as ICT specialists, compared to their European peers. While the proportion of the population with basic digital skills in Denmark exceeds the EU average, it remains below that of top-performing countries. Looking ahead, skill mismatches may worsen as population aging will increase demand for health and personal care professionals, while digital, AI, and green transitions will require a pool of relevant skilled workers. In addition, the expected decline in labor force growth will further limit the available workforce. Policy efforts should continue to address these challenges.

Enterprise Reporting Difficulties to Fill Jobs Vacancies Requiring ICT Specialist Skills
(Percent)



Source: Eurostat.

Expected Job Openings by Occupation in 2035
(Top 10 occupations, Thousand persons)



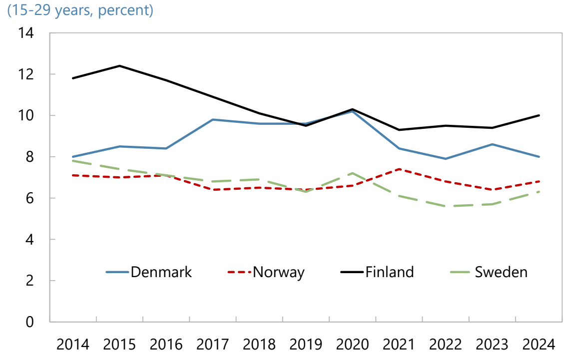
Source: CEDEFOP.

- *Make Active Labor Market Policies (ALMPs) more cost-effective*. At two percent of GDP, Denmark's spending on ALMPs is among the highest in the OECD. Following expert group recommendations presented in June 2024, the government will rationalize ALMPs to reduce costs (by 0.1 percent of GDP) and streamline the system for greater transparency. This reform plan should be implemented to preserve the strengths of the Danish flexicurity model.

- *Continue to assess the appropriateness of the foreign worker recruitment schemes.* Foreign workers can play a critical role in addressing labor shortages and skill gaps. The authorities should continue to evaluate immigration policies, especially regarding the salary requirements and the positive list, to ensure alignment with labor market needs. In addition, assessing the effectiveness of integration programs is essential to help foreign workers and families successfully integrate into Danish society.

- *Enhance vocational education and training.* Efforts should continue to reduce the share of young people in Denmark who are neither employed nor in education, which remains higher than in Norway and Sweden. The authorities, in collaboration with social partners, are appropriately implementing several measures, including the recently-announced initiative, *Prepared for the Future*

Young People Neither Working Nor in Education
(15-29 years, percent)



Source: Eurostat.

VII, which aims to reduce dropout rates by attracting more youth to vocation training and establishing vocation-oriented high schools with enhanced resources and teaching methods.

Boosting a Competitive Edge in Digitalization and Business Dynamism

30. Continued efforts are needed to reap the full benefits of digitalization and AI (Figure 6). Denmark has been implementing a well-developed AI strategy since 2019. The IMF's AI Preparedness Index and other indicators suggest that Denmark is well-positioned to harness the potential benefits of AIs.[14] In October 2024, Denmark launched its first AI supercomputer, which will facilitate research and innovation across various fields. However, challenges, such as a lack of expertise and high costs, need to be addressed. The planned curriculum revision to strengthen digital education in primary and secondary schools is a positive step forward. Additionally, strengthening cybersecurity remains critical.

31. The adoption of AI in the public sector should be accelerated. To promote e-government transformation, in December 2024, the authorities introduced a new strategic approach, aimed at adopting AI in the public sector. Successful implementation of this initiative would help free up resources, reduce administrative costs, and enhance service quality in public services, ultimately boosting public sector productivity and reallocating human capital to the private sector.

32. Policy frameworks to support scale-ups should be strengthened. Denmark boasts an exemplary business environment, ranking high in product market, service sector, and digital market regulations, with high business birth and death rates and a high employment share in high-growth enterprises. Denmark has demonstrated success in creating "unicorns" (i.e., technology companies valued at US$ 1 billion or more). However, many of these tech companies do not stay and relocate their headquarters abroad, suggesting a need for policies that help start-ups stay and grow in Denmark. To enhance innovation and business dynamism, the authorities plan to increase the tax deduction for R&D expenditure from 108 percent to 120 percent by 2028 and have launched a new strategy for entrepreneurship to support start-ups and scale-ups by improving their access to capital, lowering taxes, and easing the regulatory burden. These initiatives are welcome, and their effectiveness should be closely monitored and evaluated.

Table. Summary of the Entrepreneurship Strategy

Action areas	Selected measures
1.Improve access to capital and reduce taxation	· Lower tax on equity investment and entrepreneurs, including the abolition of taxation on dividends from unlisted companies. · Expand the Danish Export and Investment Fund.
2.Reduce administrative burdens	· Reduce capital requirements for establishing private limited companies. · Utilize regulatory sandboxes. · Make the regulations more manageable for entrepreneurs.
3.Promote talents	· Extend the right to unemployment benefits to entrepreneurs. · Strengthen entrepreneurship education in primary and secondary schools.
4.Prioritize knowledge intensive startups	· Support commercialization of university research and collaboration between universities and businesses. · Expand tax credits for R&D expenses.
5.Promote entrepreneurs throughout Denmark	· Develop entrepreneurial ecosystems in collaboration with Danish foundations. · Strengthen access to capital by SMEs.

33. A deeper EU single market will bolster business dynamism. The EU market, Denmark's most important one, is fragmented. Deepening EU integration, like the Capital Market Union, will

[14] See Selected Issues Paper '*The Impact of Artificial Intelligence on Denmark's Labor Market*' for more details.

help enhance the benefits of economies of scale and network effects, thus expanding the market for Danish businesses, facilitating access to capital, and helping startups and scale up. Denmark's continued commitment to supporting multilateral and transparent trade policies that promote mutually beneficial cooperation on global trade, knowledge, and investment flows is welcome.

Continue Advancing Energy Security and the Climate Policy Agenda

34. More efforts are needed to prepare for climate change and strengthen energy security.

- Due to its coastal location and flat topography, Denmark is particularly vulnerable to sea level rise, storm surges, and coastal erosion. Building on the first plan adopted in October 2023, the government is developing National Climate Adaptation Plan II, which focuses on enhanced coastal and groundwater protection, urban flood management, and the assessment of infrastructure needs, including financing responsibilities among utilities, central and local governments, and the private sector. Simultaneously, the authorities are encouraged to update the investment needs, while the property insurance scheme ("Storm Surge Scheme") should be reviewed to make insurance premiums risk-based.

- Energy security can be further strengthened from its already solid position. With the full reopening of the Tyra oil and gas field, Denmark will become a net gas exporter. Denmark aims for 100 percent renewable electricity consumption by 2028, including by expanding offshore winds with public support. Such support should be carefully designed to minimize fiscal costs and risks while adhering to EU state aid rules. Denmark's plan to build a hydrogen pipeline to export green hydrogen to Germany is welcome as it will strengthen energy security in Europe.

- Regarding mitigation, Denmark is on track to meet its national target of a 70 percent reduction of GHG emissions compared with 1990 by 2030.

AUTHORITIES' VIEWS

35. The authorities broadly concurred with staff's assessment of the economic outlook. The Danish economy continues to exhibit a dichotomy: domestic demand has experienced sluggish growth, while exports have seen significant expansion, driven by pharmaceuticals. The slowdown in the domestic economy has eased capacity pressures. The authorities expect growth to moderate in the near term, while inflation and wage pressures remain contained. However, the authorities noted that the outlook is subject to significant risks from trade conflicts, geopolitical unrest, and weaker global growth. They view that the widening of the current account surplus largely reflects merchanting and processing activities driven by a few large firms, while the balance of payments data, including net errors and omissions, are likely to be revised. The authorities broadly agreed with staff's external sector assessment.

36. The Ministry of Finance views that easing capacity pressures create room for fiscal easing in the near term. This supports a soft landing for the economy while allowing for higher spending on defense and security, healthcare, the green transition, lower personal income taxes, and business tax reforms to support entrepreneurship.

37. The authorities are committed to long-term fiscal sustainability. They agreed that the announced temporary increase in defense spending would be manageable without jeopardizing Denmark's national fiscal rules. Regarding a potential further increase, the Ministry of Finance indicated that a political decision is expected later this year following NATO meetings in June. They agreed that significantly higher and more persistent defense spending would require adjustment measures to ensure long-term fiscal sustainability. The ministry noted that the government would explore all options and would not commit beforehand to the balance between expenditure and tax measures. It noted that there may be scope to raise some taxes without materially distorting labor incentives, and that the current tax level reflects an overall political priority for a broad-based welfare system in a well-functioning economy. The authorities agreed on seeking to enhance efficiency in public spending, including through digitalization and AI.

38. The authorities assessed that the financial system remains sound. Banks have adequate capital and liquidity buffers, strong profitability, and low nonperforming loans. The authorities are committed to vigilant monitoring of financial sector risks. They recognize the importance of thoroughly examining banks' IFRS 9 modeling practices, completing the review of internal ratings-based models, implementing CRR III/CRD VI per the EU transition plan, and ensuring adequate staffing of the Financial Supervisory Authority to fulfill its mandates. In the non-banking financial sector, insurance and pension firms maintain strong capital and liquidity, with a large portion of non-guaranteed market-return products mitigating their financial risk exposure. The authorities also see the value in developing a systemic risk assessment framework that encompasses both banks and non-banks, given their high interconnectedness within the financial system. Furthermore, they remain committed to further strengthening the AML/CFT framework, including by updating the national risk assessment by the end of 2025.

39. The authorities recognized macro-financial risks. Regarding capital-based macroprudential policy, the Danish Systemic Risk Council is currently evaluating the CRE sector-specific systemic risk buffer. DN concurred with staff that lower tax deductibility of mortgage interest expenses (as it promotes lower indebtedness) and tighter borrower-based measures would enhance the financial system's resilience. However, ministries expressed concerns about their potential negative impacts on the housing market and noted that the deductibility of mortgage interest expenses should be seen in the broader context of a tax system that treats positive and negative capital income symmetrically. Regarding the 2020 FSAP recommendations on the financial sector's institutional arrangements, the ministries saw no need for legislative changes.

40. The authorities remain committed to structural reforms. Their ongoing initiatives include boosting business dynamism by implementing the entrepreneurship strategy, increasing the supply of foreign labor in jobs facing shortages, enhancing digital education, and strengthening vocational training. Regarding digitalization and AI, they are focused on developing a strategy to deploy AI solutions at scale across the public sector while ensuring responsible and ethical use. The authorities agreed that deepening the EU single market will benefit Denmark. In this context, the benefits and costs of regulatory and administrative requirements for businesses, partly arising from EU regulations, should be reviewed. The authorities indicated that Denmark's upcoming EU Presidency will prioritize this issue as a key agenda item.

41. The authorities acknowledged challenges in developing a long-term climate adaptation plan. They noted that the responsibilities of climate adaptation policies are shared between citizens, utility companies, and central and local governments, which complicates decision-making. They expressed hope that the reorganization of the regulatory framework and the financing mechanism would be addressed in the forthcoming Climate Adaptation Plan II. They also indicated that the review of the storm surge insurance premium is ongoing.

STAFF APPRAISAL

42. Denmark's growth is expected to remain relatively strong, but elevated global uncertainty clouds the outlook. Output growth is projected to gradually moderate to its potential, with slowing exports, including in pharmaceuticals, offset by a pickup in domestic demand. Medium-term growth is projected at around 1.5 percent, assuming a maturing pharmaceutical sector and a declining working-age population. Labor market pressures have eased, with inflation anticipated to stay around 2 percent. External risks dominate the outlook, including reversal of globalization, including higher trade barriers and deepening geoeconomic fragmentation. Denmark's robust institutions, competitive and relatively diversified economic structure, strong fiscal position, and highly educated workforce all reinforce its resilience to external shocks. Staff assesses that Denmark's external balance is stronger than the level implied by medium-term fundamentals and desirable policies.

43. Although Denmark's fiscal position is strong, significantly higher and more persistent increases in defense spending would require adjustment measures to ensure long-term fiscal sustainability. These adjustment measures should be growth-friendly while ensuring fairness to preserve the welfare state. While both expenditure and revenue measures should be explored, given the already high tax burden, adjustments could come more from spending than revenue measures. Structural reform efforts will continue to be vital to enhance labor supply and income levels, thus generating revenues. The structural balance floor of -1 percent of GDP under current national fiscal rules should be respected.

44. Systemic risks are contained; however, the authorities should remain vigilant in monitoring financial sector risks. Banks are well-capitalized, with strong profitability, asset quality, and liquidity. To further strengthen financial system resilience, the authorities should thoroughly examine banks' modeling practices of International Financial Reporting Standards 9 to ensure robust credit risk provisioning, complete the review of internal ratings-based models, implement the EU's CRR III/CRD VI as planned, enhance resilience against cyberattacks, and ensure adequately staffing the Financial Supervisory Authority. Given the considerable size and extensive interconnectedness of nonbank financial institutions (NBFIs) within the financial system, as well as their susceptibility to market vulnerabilities, the authorities should also continue strengthening the oversight framework for NBFIs. Given elevated geopolitical risks and evolving threats, the authorities should continue efforts to further strengthen the Anti-Money Laundering/Countering the Financing of Terrorism framework.

45. Capital-based macroprudential policy is broadly appropriate, but borrower-based measures should be tightened to address pockets of vulnerabilities. Given heightened global risks and a fragile commercial real estate sector, the 2.5 percent countercyclical capital buffer and the 7 percent sector-specific systemic risk buffer should remain in place. The authorities should consider lowering the maximum loan-to-value ratio below the current 95 percent and reduce incentives for larger mortgages by lowering the tax deductibility of mortgage interest expenses.

46. Structural reforms should further intensify to sustain high levels of income, preserve fiscal space, and sustain the welfare state. Geopolitical and trade tensions and an aging population could weigh on long-term potential growth. To address this challenge, the government should continue efforts to strengthen policies to support entrepreneurship, harness the benefits of digitalization and Artificial Intelligence (AI), and reduce regulatory burdens on businesses while balancing costs and benefits. Ensuring a sufficient labor supply with the right skills, such as IT, health, and long-term care professionals is also critical. Furthermore, deepening EU single market will enhance Denmark's business dynamism and potential growth as this will enhance the benefits of economies of scale and network effects, thus expanding the market for Danish businesses. Denmark's commitment to supporting multilateral and transparent trade policies is commendable.

47. Strengthening climate adaptation will support sustainable growth. Denmark is particularly vulnerable to sea level rise, storm surges, and coastal erosion, necessitating a well-designed long-term adaptation plan. The government is developing National Climate Adaptation Plan II, which focuses on enhanced coastal and groundwater protection, urban flood management, and the assessment of infrastructure needs, including financing responsibilities among central and local governments and the private sector. The authorities are also encouraged to reform the property insurance scheme ("Storm Surge Scheme") to make insurance premiums risk-based.

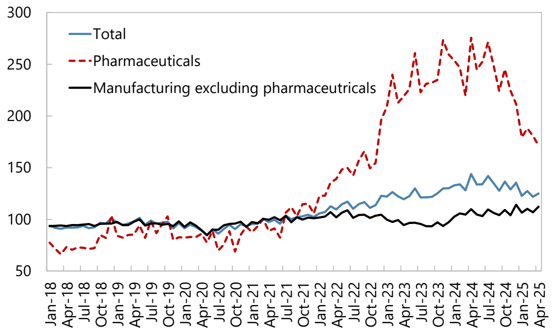
48. It is recommended that the next Article IV consultation with Denmark be held in the standard 12-month cycle.

Figure 1. Denmark: Recent Developments

Pharmaceutical production expanded significantly over the past few years…

Industrial Production

(Index, 2015=100)

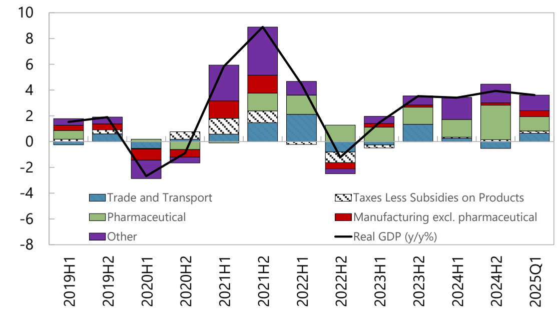


Sources: Haver Analytics; and Statistics Denmark.

…driving overall growth.

Contributions to Real GDP Growth by Sector

(Percentage points; year over year 1/)

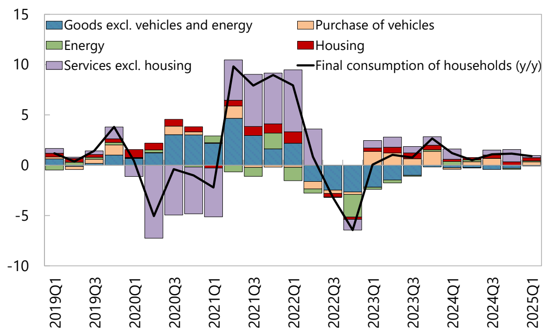


Sources: Haver Analytics; Statistics Denmark; and IMF staff calculations.
1/ Stacked columns indicate percentage points contributions to Denmark's real GDP growth.

Private consumption has been weak across all types of expenditures…

Contributions to Private Consumption

(Percentage points; year over year; unless otherwise indicated)

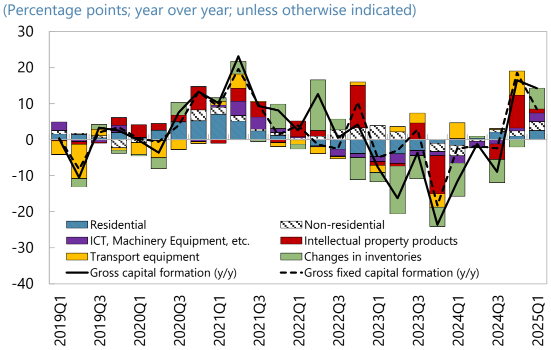


Sources: Statistics Denmark; and IMF staff calculations.

…while gross capital formation has picked up recently, driven by investments in IP and changes in inventories.

Contributions to Gross Capital Formation

(Percentage points; year over year; unless otherwise indicated)

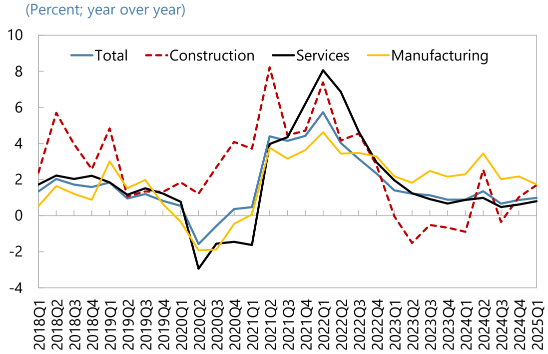


Sources: Haver Analytics; Statistics Denmark; and IMF staff calculations.

Employment growth has moderated across sectors.

Employment Growth

(Percent; year over year)

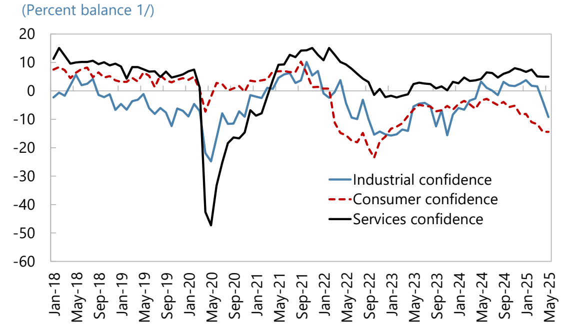


Sources: Haver Analytics; Statistics Denmark; and IMF staff calculations.

Business confidence has gradually recovered, while consumer confidence remains weak.

Business and Consumer Confidence

(Percent balance 1/)

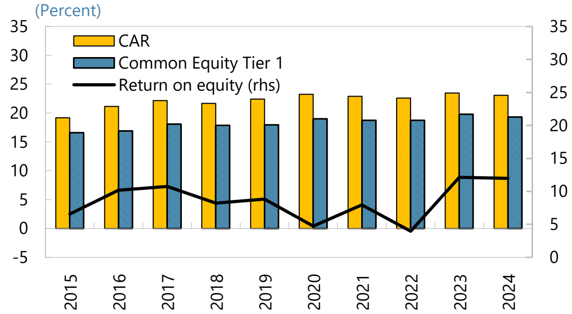


Sources: Eurostat; Haver Analytics; and IMF staff calculations.
1/ Percent balance equals percent of respondents reporting an increase minus the percent of respondents reporting a decrease.

Figure 2. Denmark: Financial Soundness Indicators

Risk-weighted capital ratios remained well above regulatory requirements.

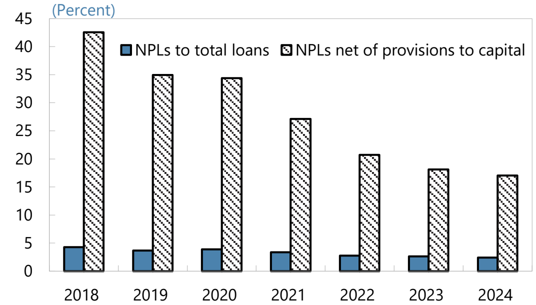
Capital Adequacy Ratios
(Percent)



Source: Danish Financial Supervisory Authority.

Nonperforming loans remained low...

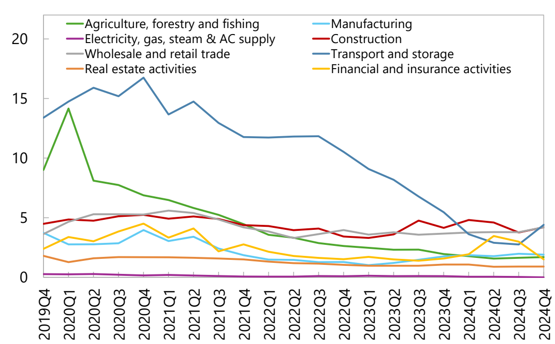
Nonperforming Loans
(Percent)



Source: Danish Financial Supervisory Authority.

...albeit some variations across sectors.

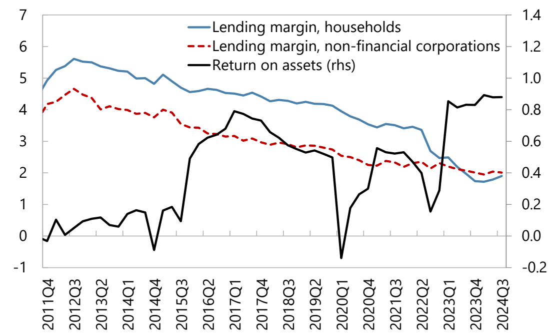
NPL Ratios by Sector
(Percent)



Source: European Banking Authority.

Profitability has increased and remained high....

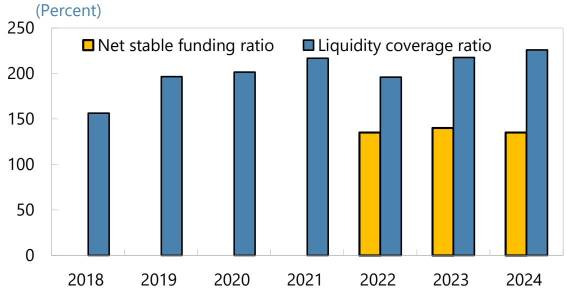
Lending Margins
(Percent)



Sources: Danmarks Nationalbank; and IMF staff calculations.

...while liquidity ratios exceed regulatory requirements.

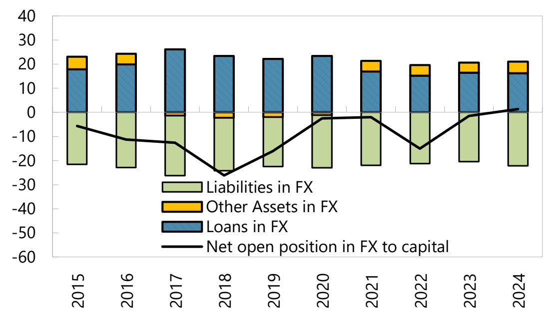
Liquid Assets Indicators
(Percent)



Source: Danish Financial Supervisory Authority.
Note: NFSR data is available starting from 2022.

Net FX open position was balanced in 2024.

Banks Exposure to FX

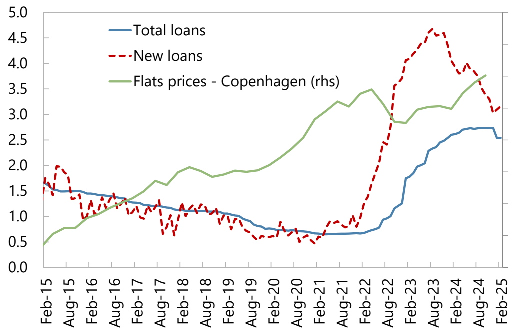


Sources: IMF Financial Soundness Indicators; and IMF staff calculations.

Figure 3. Denmark: Real Estate Market Developments

Lending rates on banks' new loans declined from their peak.

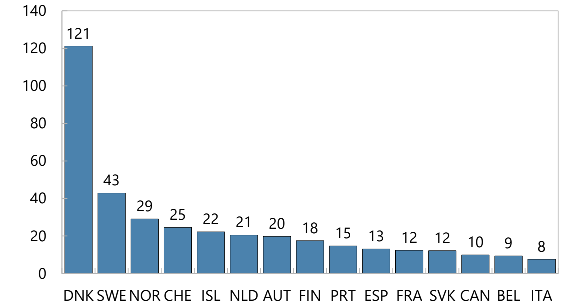
Average Mortgage Rates and House Prices
(Percent, net of administration fee; index, average 2018=100)



Sources: Statistics Denmark; and IMF staff calculations.

Denmark's mortgage covered bond market is the largest in Europe.

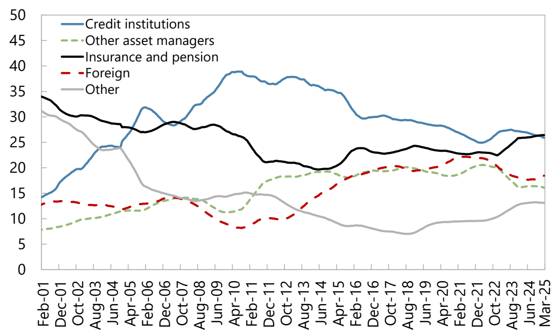
Mortgage Covered Bond Markets
(Outstanding amount, 2023; percent of GDP)



Source: European Mortgage Federation.

…and credit institutions, insurance, and pension funds are among the largest investors.

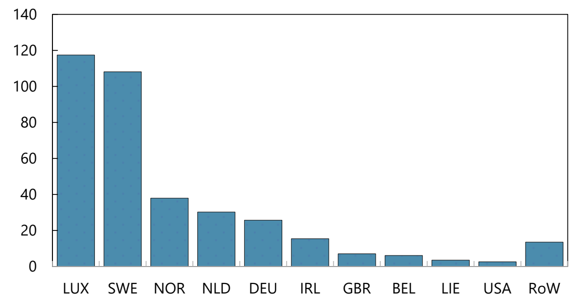
Ownership Shares of Danish Mortgage Bonds
(Percent)



Sources: Danmarks Nationalbank; and IMF staff calculations.

Luxemburg and Swedish investors have sizable ownership in the Danish CRE market.

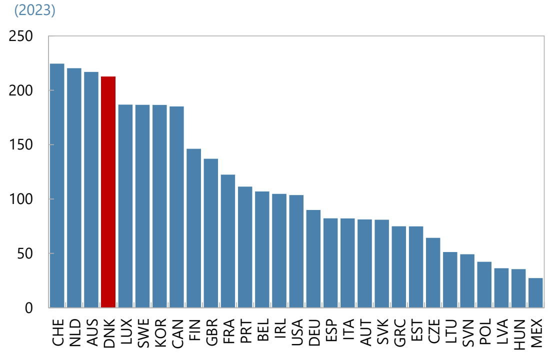
Commercial Real Estate - Foreign Ownership
(Billions of Danish Krone, October 2024)



Source: Danmarks Nationalbank.
Note: The owners registered in Luxembourg primarily consist of holding companies and investment funds.

Household indebtedness is high in Denmark compared to other advanced economies…

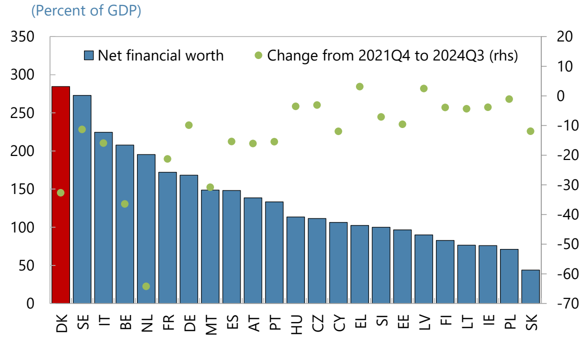
Household Debt as Percent of Net Disposable Income
(2023)



Source: OECD.

…while households have high financial net worth.

Household Net Financial Worth
(Percent of GDP)

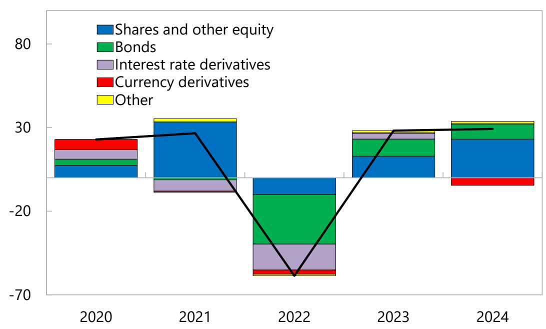


Sources: Eurostat; and IMF staff calculations.
Note: Net Financial Worth = Financial assets - Financial liabilities

Figure 4. Denmark: Pension and Insurance Sector Developments

Pension and insurance profitability increased slightly in 2024.

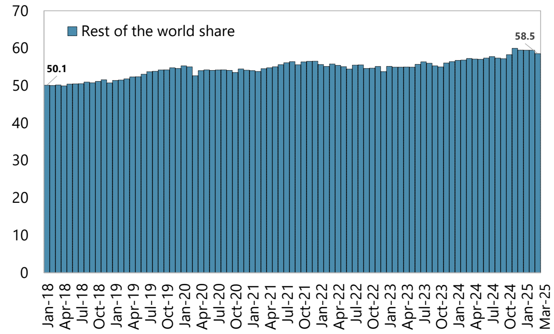
Insurance and Pension Fund Performance
(Return on investments, monthly average, DKK billions)



Source: Danmarks Nationalbank; and IMF staff calculations.

Cross-border exposures of the pension and insurance companies have continued to rise…

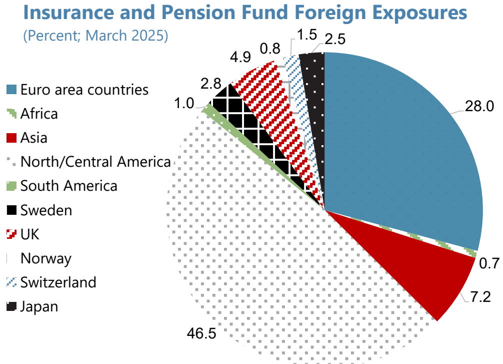
Insurance and Pension Fund Foreign Exposure Share
(Percent)



Sources: Danmarks Nationalbank; and IMF staff calculations.

…with their exposure to North/Central American markets accounting for around half of the total.

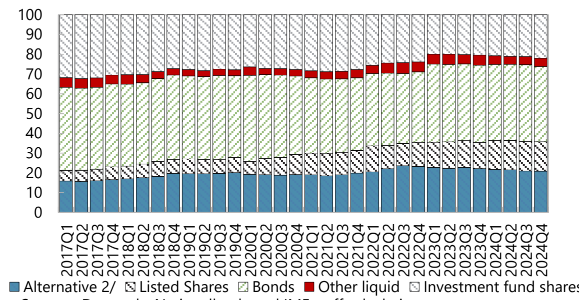
Insurance and Pension Fund Foreign Exposures
(Percent; March 2025)



Sources: Danmarks Nationalbank; and IMF staff calculations.

Pension and insurance companies continued to hold a high share of liquid assets while increasing their investments in listed shares.

Insurance and Pension Fund Asset Composition 1/
(Percent)



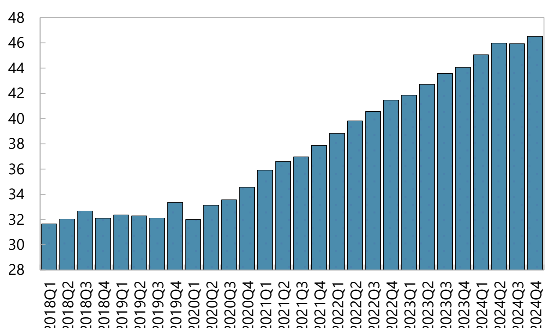
Sources: Danmarks Nationalbank; and IMF staff calculations.

1/ Decomposition does not permit Danish investment fund-look through. Other liquid includes deposits and receivables.

2/ Alternatives include unlisted shares, other equity, and direct lending.

Insurance companies have increasingly transferred the market risk to customers by increasing market-rate products…

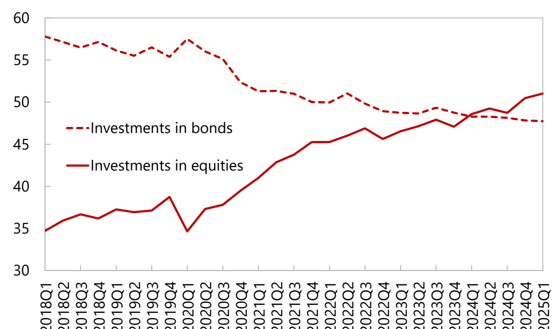
Market Rate Product Share of Insurance Provisions
(Percent)



Sources: Danmarks Nationalbank; and IMF staff calculations.

…while investment in equities now exceeds investment in bonds.

Investment by Insurance and Pension Companies
(Percent of total investment)



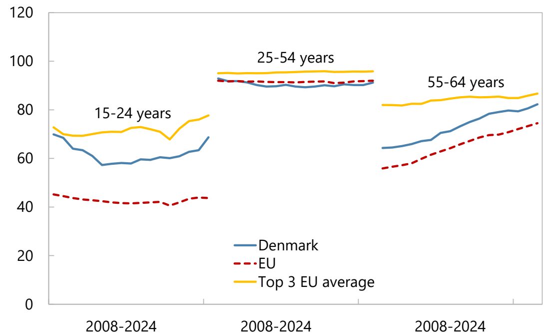
Sources: Danmarks Nationalbank; and IMF staff calculations.

Figure 5. Denmark: Labor Market and Education Outcome Indicators

The male participation rate is higher than or comparable with the EU average but falls short of the top 3 countries….

Labor Participation Rate: Male

(Percent)

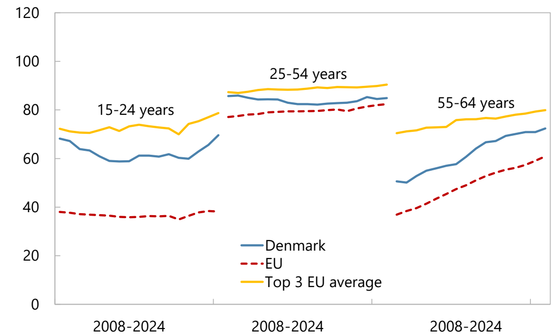


Sources: Eurostat; Haver Analytics; and IMF staff calculations.

…and so is the female participation rate.

Labor Participation Rate: Female

(Percent)

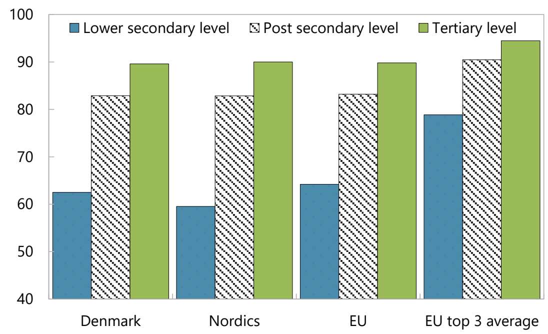


Sources: Eurostat; Haver Analytics; and IMF staff calculations.

The employment rate among people with low education attainment is similar to the Nordics and EU averages…

Employment Rate by Educational Attainment

(Percent; 25-54 years old; 2024Q4)

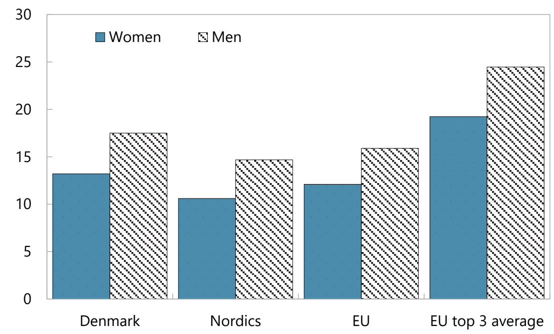


Sources: Eurostat; Haver Analytics; and IMF staff calculations.

…while the share of the population with low education attainment is relatively high.

Share of Population with Low Educational Attainment

(Percent; 25-34 years old; 2024)

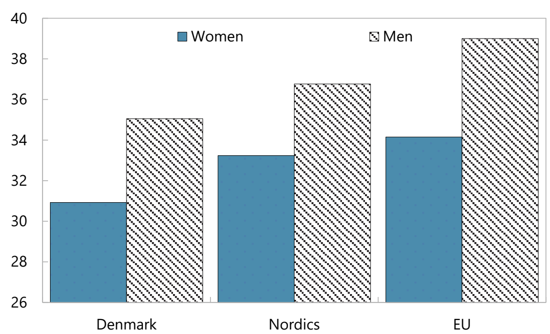


Sources: Eurostat; Haver Analytics; and IMF staff calculations.

Average work hours per worker are among the lowest in the EU.

Average Weekly Hours Worked by Gender

(Hours; 2024)

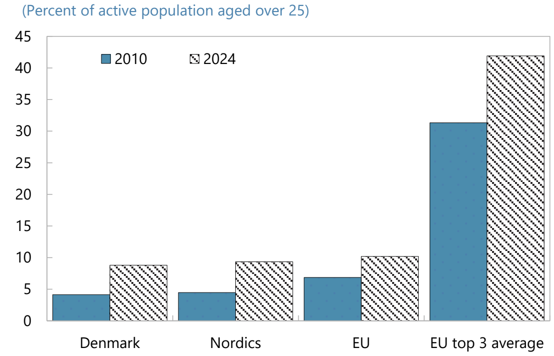


Sources: Eurostat; Haver Analytics; and IMF staff calculations.

The share of the foreign labor force is lower than the EU and Nordic averages.

Share of Foreign Labor Force

(Percent of active population aged over 25)



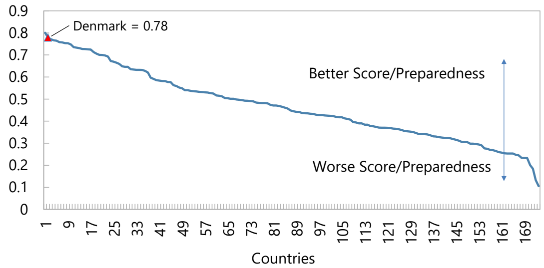
Sources: Eurostat; Haver Analytics; and IMF staff calculations.

Figure 6. Denmark: AI and Digitalization Preparedness

Denmark's score of AI preparedness is among the highest in the world...

AI Preparedness Index (AIPI)

(Index)

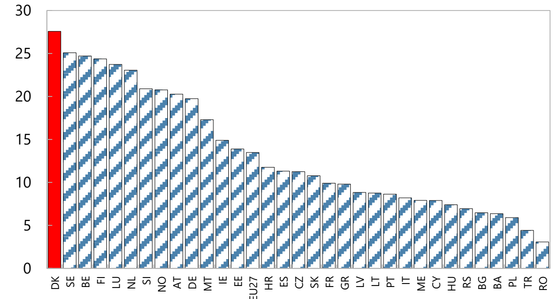


Sources: Cazzaniga and others (2024); and IMF staff calculations.
Note: The AIPI assesses the level of AI preparedness across 174 countries, based on a rich set of macro-structural indicators from various sources. The index incorporates several perceptions-based indicators, reflecting individuals' subjective assessments and experiences. Therefore, the index should be seen as an indicative measure, guiding policymakers in identifying areas for improvement rather than being used for ranking purposes.

...so is the share of enterprises using AI technology.

Share of Enterprises using AI Technology

(Percent; 2024)

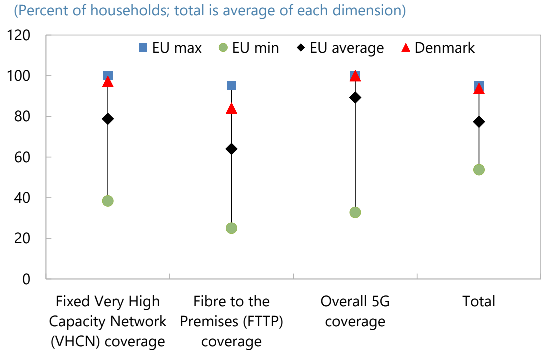


Sources: Eurostat; and IMF staff calculations.
Note: All activities (except agriculture, forestry and fishing, and mining and quarrying), without the financial sector.

Denmark has strong digital infrastructure...

Digital Infrastructure

(Percent of households; total is average of each dimension)

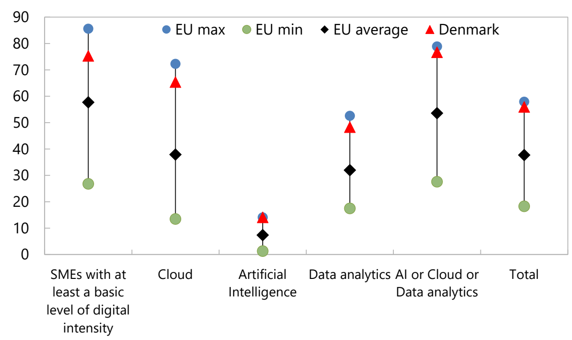


Sources: European Commission; and IMF staff calculations.

...with strong business adaptation.

Digital Transformation of Businesses

(Percent of enterprises; total is average of each dimension)

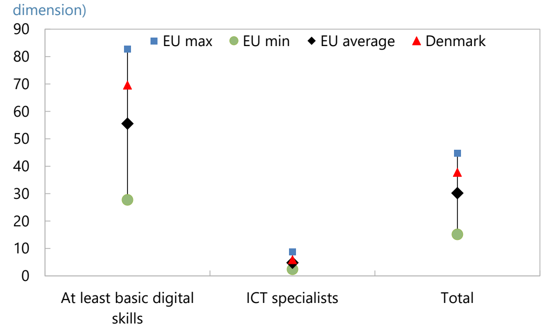


Sources: European Commission; and IMF staff calculations.

There remains room to strengthen digital skills....

Digital Skills

(Percent of individuals/percent of total employment; total is average of each dimension)

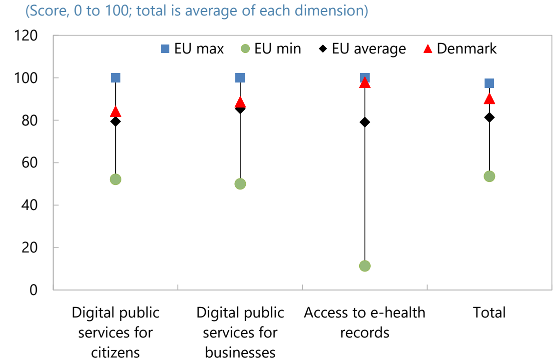


Sources: European Commission; and IMF staff calculations.

...and e-Government.

Digitalization of Public Services

(Score, 0 to 100; total is average of each dimension)



Sources: European Commission; and IMF staff calculations.

Table 1. Denmark: Selected Economic and Social Indicators, 2022–30

	2022	2023	2024	2025	2026	2027	2028	2029	2030
						Proj.			
Supply and Demand (change in percent)									
Real GDP	1.5	2.5	3.7	3.0	1.8	1.6	1.5	1.5	1.5
Total domestic demand	-0.3	-1.8	0.5	3.1	1.8	1.8	1.7	1.5	1.5
Private consumption	-2.1	1.4	0.9	1.4	1.4	1.3	1.3	1.2	1.2
Public consumption	-2.5	0.2	1.4	4.8	0.3	2.0	2.0	2.0	2.0
Gross capital formation	5.6	-9.6	-1.1	5.0	4.1	2.6	2.3	1.6	1.8
Net exports 1/	1.8	4.2	3.2	0.3	0.3	0.1	0.0	0.1	0.1
Gross national saving (percent of GDP)	35.8	33.8	33.7	33.3	33.3	33.1	33.0	33.0	33.0
Gross domestic investment (percent of GDP)	24.7	22.8	21.6	21.9	22.1	22.1	22.3	22.6	22.8
Potential output	2.5	2.5	2.7	2.8	2.0	2.0	2.0	1.6	1.5
Output gap (percent of potential output)	0.0	-0.1	0.9	1.1	0.9	0.6	0.1	0.0	-0.1
Labor Market (change in percent) 2/									
Labor force	2.9	1.5	0.9	0.9	0.4	0.4	0.2	0.2	0.2
Employment	4.0	1.3	0.8	0.6	0.4	0.4	0.2	0.2	0.1
Harmonized unemployment rate (percent)	2.5	2.8	2.9	3.0	3.0	3.0	3.0	3.0	3.0
Prices and Costs (change in percent)									
GDP deflator	9.1	-3.8	1.8	1.3	1.5	2.0	2.0	2.0	2.0
HICP (year average)	8.5	3.4	1.3	2.0	1.9	2.0	2.0	2.0	2.0
HICP (Q4 on Q4)	10.3	0.1	1.7	2.1	1.9	2.0	2.0	2.0	2.0
Public Finance (percent of GDP) 3/									
Total revenues	48.3	50.1	51.0	50.0	50.4	49.5	49.5	49.5	49.5
Total expenditures	44.9	46.8	46.5	48.4	48.9	48.9	49.3	49.6	50.0
Overall balance	3.4	3.3	4.5	1.6	1.5	0.6	0.2	-0.1	-0.4
Primary balance 4/	3.1	2.5	3.8	0.9	0.9	0.0	-0.4	-0.7	-1.0
Cyclically-adjusted balance (percent of potential GDP)	3.5	3.4	3.9	0.8	0.8	0.6	0.2	-0.1	-0.4
Structural balance (percent of potential GDP) 5/	1.8	1.8	2.0	0.7	0.3	-0.2	-0.2	-0.3	-0.4
Gross debt	34.1	33.6	31.1	29.3	28.0	27.5	27.4	27.5	28.0
Money and Interest Rates (percent)									
Domestic credit growth (end of year)	2.8	0.9	2.7	4.3	3.3	3.7	3.4	3.5	3.4
M3 growth (end of year)	10.5	4.9	1.5	...	...	...	...	...	...
Short-term interbank interest rate (3 month)	0.3	3.4	3.5	2.5	2.3	2.3	2.3	2.3	2.3
Government bond yield (10 year)	1.2	2.4	2.3	2.6	2.7	2.8	2.9	3.1	3.3
Balance of Payments (percent of GDP)									
Exports of goods & services	70.4	68.9	70.2	71.1	71.9	72.1	71.8	71.2	70.7
Imports of goods & services	61.0	59.9	60.1	61.6	62.6	63.0	63.1	62.8	62.5
Trade balance, goods and services	9.5	8.9	10.1	9.5	9.3	9.1	8.7	8.5	8.3
Oil trade balance	-0.7	-0.8	-0.9	-0.9	-1.0	-1.2	-1.3	-1.5	-1.7
Current account	11.1	10.9	12.1	11.4	11.2	11.0	10.7	10.4	10.2
International reserves, changes	1.8	1.2	0.4	...	...	...	...	...	...
Exchange Rate									
Average DKK per US$ rate	7.1	6.9	6.9	...	...	...	...	...	...
Nominal effective rate (2010=100, ULC based)	98.9	101.0	101.2	...	...	...	...	...	...
Real effective rate (2010=100, ULC based)	96.3	95.2	93.2	...	...	...	...	...	...
Memorandum Items									
Nominal GDP (Bln DKK)	2,844	2,805	2,961	3,090	3,191	3,308	3,422	3,543	3,664
GDP (Bln USD)	402	407	429	...	...	...	...	...	...
GDP per capita (USD)	68,435	68,619	72,042	...	...	...	...	...	...

Sources: Danmarks Nationalbank; Eurostat; IMF, World Economic Outlook; Statistics Denmark; and IMF staff calculations.

1/ Contribution to GDP growth.

2/ Based on Eurostat definition.

3/ General government.

4/ Overall balance net of interest.

5/ Cyclically-adjusted balance net of temporary fluctuations in some revenues (e.g., North Sea revenue, pension yield tax revenue) and one-offs. Covid-related one-offs are not excluded.

Table 2. Denmark: GFSM 2001 Statement of Government Operations, 2022–30

(Billions of DKK)

	2022	2023	2024	2025	2026	2027	2028	2029	2030
						proj.			
General Government									
Total revenues	1374.8	1406.3	1508.9	1546.4	1607.2	1636.5	1695.0	1754.8	1815.0
Personal income taxes	658.5	686.0	731.0	747.7	769.1	797.2	824.6	853.8	883.0
Pension return taxes	11.2	13.0	43.0	24.7	44.7	26.5	27.4	28.3	29.3
Company taxes	94.3	106.1	122.7	126.7	130.8	122.4	126.6	131.1	135.6
Taxes on goods and services	356.5	338.5	354.6	373.1	382.2	396.1	409.8	424.2	438.8
Social contributions	19.9	19.6	20.7	21.6	22.3	23.2	24.0	24.8	25.6
Interest and dividends	29.9	42.2	43.6	43.3	41.5	43.0	44.5	46.1	47.6
Other revenues	204.6	200.8	193.3	209.3	216.7	228.2	238.1	246.5	255.0
Total expenditures	1276.9	1313.5	1375.7	1495.9	1559.7	1618.3	1686.8	1757.6	1831.1
Expense	1193.1	1227.5	1284.8	1375.4	1432.0	1495.9	1560.1	1626.5	1695.5
Public consumption	611.9	624.1	657.1	708.1	730.0	761.6	797.1	833.0	874.8
Public subsidies	39.9	36.0	36.7	43.3	44.7	46.3	47.9	49.6	51.3
Interest expenditures	20.3	18.6	21.7	21.6	22.3	23.2	24.0	24.8	25.6
Social benefits	430.1	443.1	462.5	494.3	523.4	549.1	571.4	595.1	615.6
Other expenditures	90.9	105.7	106.9	108.1	111.7	115.8	119.8	124.0	128.2
Net acquisition of nonfinancial assets	83.8	86.0	90.9	120.5	127.6	122.4	126.6	131.1	135.6
Gross Operating Balance	181.8	178.7	224.1	170.9	175.2	140.6	134.8	128.3	119.5
Net Lending/Borrowing	97.9	92.7	133.2	50.4	47.6	18.2	8.2	-2.8	-16.1
Net Financial Transactions	108.1	87.7	..	..	..	..	..	..	..
Net acquisition of financial assets	-8.5	41.2	..	..	..	..	..	..	..
Currency and deposits	14.8	1.5	..	..	..	..	..	..	..
Securities other than shares	11.3	3.9	..	..	..	..	..	..	..
Loans	-6.2	21.8	..	..	..	..	..	..	..
Shares and other equity	13.0	3.0	..	..	..	..	..	..	..
Insurance technical reserves	0.0	0.0	..	..	..	..	..	..	..
Financial derivatives and employee stock options	11.0	-6.3	..	..	..	..	..	..	..
Other Financial Assets	-52.4	17.4	..	..	..	..	..	..	..
Net incurrence of liabilities	-116.5	-46.5	..	..	..	..	..	..	..
Currency and deposits	0.1	-0.9	..	..	..	..	..	..	..
Securities other than shares	-93.8	-24.7	..	..	..	..	..	..	..
Loans	7.4	-6.9	..	..	..	..	..	..	..
Shares and other equity	0.0	0.0	..	..	..	..	..	..	..
Insurance technical reserves	0.0	0.0	..	..	..	..	..	..	..
Other liabilities	-30.2	-14.0	..	..	..	..	..	..	..

Sources: Statistics Denmark; and IMF staff calculations.

Table 3. Denmark: GFSM 2001 Statement of Government Operations, 2022–30

(Percent of GDP)

	2022	2023	2024	2025	2026	2027	2028	2029	2030
						proj.			
General Government									
Total revenues	48.3	50.1	51.0	50.0	50.4	49.5	49.5	49.5	49.5
Personal income taxes	23.2	24.5	24.7	24.2	24.1	24.1	24.1	24.1	24.1
Pension return taxes	0.4	0.5	1.5	0.8	1.4	0.8	0.8	0.8	0.8
Company taxes	3.3	3.8	4.1	4.1	4.1	3.7	3.7	3.7	3.7
Taxes on goods and services	12.5	12.1	12.0	12.1	12.0	12.0	12.0	12.0	12.0
Social contributions	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Interest and dividends	1.1	1.5	1.5	1.4	1.3	1.3	1.3	1.3	1.3
Other revenues	7.2	7.2	6.5	6.8	6.8	6.9	7.0	7.0	7.0
Total expenditures	44.9	46.8	46.5	48.4	48.9	48.9	49.3	49.6	50.0
Expense	41.9	43.8	43.4	44.5	44.9	45.2	45.6	45.9	46.3
Public consumption	21.5	22.3	22.2	22.9	22.9	23.0	23.3	23.5	23.9
Public subsidies	1.4	1.3	1.2	1.4	1.4	1.4	1.4	1.4	1.4
Interest expenditures	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Social benefits	15.1	15.8	15.6	16.0	16.4	16.6	16.7	16.8	16.8
Other expenditures	3.2	3.8	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Net acquisition of nonfinancial assets	2.9	3.1	3.1	3.9	4.0	3.7	3.7	3.7	3.7
Gross Operating Balance	6.4	6.4	7.6	5.5	5.5	4.3	3.9	3.6	3.3
Net Lending/Borrowing	3.4	3.3	4.5	1.6	1.5	0.6	0.2	-0.1	-0.4
Net Financial Transactions	3.8	3.1	..	..	..	..	..	..	..
Net acquisition of financial assets	-0.3	1.5	..	..	..	..	..	..	..
Currency and deposits	0.5	0.1	..	..	..	..	..	..	..
Securities other than shares	0.4	0.1	..	..	..	..	..	..	..
Loans	-0.2	0.8	..	..	..	..	..	..	..
Shares and other equity	0.5	0.1	..	..	..	..	..	..	..
Insurance technical reserves	0.0	0.0	..	..	..	..	..	..	..
Financial derivatives and employee stock options	0.4	-0.2	..	..	..	..	..	..	..
Other Financial Assets	-1.8	0.6	..	..	..	..	..	..	..
Net incurrence of liabilities	-4.1	-1.7	..	..	..	..	..	..	..
Currency and deposits	0.0	0.0	..	..	..	..	..	..	..
Securities other than shares	-3.3	-0.9	..	..	..	..	..	..	..
Loans	0.3	-0.2	..	..	..	..	..	..	..
Shares and other equity	0.0	0.0	..	..	..	..	..	..	..
Insurance technical reserves	0.0	0.0	..	..	..	..	..	..	..
Other liabilities	-1.1	-0.5	..	..	..	..	..	..	..
Memorandum Items									
Primary balance 1/	3.1	2.5	3.8	0.9	0.9	0.0	-0.4	-0.7	-1.0
Structural balance 2/	1.8	1.8	2.0	0.7	0.3	-0.2	-0.2	-0.3	-0.4
One-off measures 2/ 3/	1.7	1.6	1.9	0.1	0.5	0.8	0.4	0.2	0.0
Cyclically adjusted balance 2/	3.5	3.4	3.9	0.8	0.8	0.6	0.2	-0.1	-0.4
Gross debt	34.1	33.6	31.1	29.3	28.0	27.5	27.4	27.5	28.0
Gross domestic product (Bln. Kroner)	2,844	2,805	2,961	3,090	3,191	3,308	3,422	3,543	3,664

Sources: Statistics Denmark; and IMF staff calculations.

1/ Overall balance net of interest.

2/ In percent of potential GDP.

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

Table 4. Denmark: Public Sector Balance Sheet, 2015–23

	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Billions of DKK				
Assets	2,019	2,114	2,208	2,301	2,531	2,944	2,923	2,871	2,905
Financial assets	1,051	1,109	1,170	1,222	1,420	1,785	1,745	1,669	1,681
Monetary gold and SDR	0	0	0	0	0	0	0	0	0
Currency and deposits	194	146	189	159	108	171	187	201	203
Securities other than shares	102	104	112	157	225	228	256	240	252
Loans	220	231	234	251	268	340	365	358	379
Shares and other equity	386	436	458	493	556	698	627	593	552
Insurance technical reserves	2	1	1	1	1	1	1	1	1
Financial derivatives and employee stock options	24	24	14	16	20	19	17	33	26
Other financial assets	122	165	162	144	243	328	293	243	267
Capital stock net of depreciation	968	1,005	1,038	1,079	1,111	1,158	1,178	1,202	1,224
Liabilities	1,194	1,216	1,205	1,199	1,272	1,513	1,410	1,140	1,118
Financial liabilities	1,194	1,216	1,205	1,199	1,272	1,513	1,410	1,140	1,118
Monetary gold and SDR	0	0	0	0	0	0	0	0	0
Currency and deposits	24	24	20	20	20	21	20	21	20
Securities other than shares	930	936	921	905	951	1,141	1,060	804	810
Loans	72	68	69	73	75	80	76	81	74
Other financial assets	152	171	176	185	206	242	233	203	189
Net Worth	826	899	1,003	1,102	1,260	1,431	1,514	1,731	1,788
Financial Net Worth	-142	-106	-35	23	149	272	336	530	563
					Percent of GDP				
Assets	99.5	100.6	100.8	102.5	109.9	126.5	113.9	100.9	103.6
Financial assets	51.8	52.8	53.4	54.4	61.7	76.7	68.0	58.7	59.9
Monetary gold and SDR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	9.6	7.0	8.6	7.1	4.7	7.4	7.3	7.1	7.2
Securities other than shares	5.0	5.0	5.1	7.0	9.8	9.8	10.0	8.5	9.0
Loans	10.9	11.0	10.7	11.2	11.6	14.6	14.2	12.6	13.5
Shares and other equity	19.0	20.8	20.9	22.0	24.1	30.0	24.4	20.8	19.7
Insurance technical reserves	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1
Financial derivatives and employee stock options	1.2	1.2	0.6	0.7	0.9	0.8	0.7	1.1	0.9
Other financial assets	6.0	7.9	7.4	6.4	10.5	14.1	11.4	8.5	9.5
Capital stock net of depreciation	47.7	47.8	47.4	48.1	48.2	49.8	45.9	42.2	43.7
Liabilities	58.8	57.8	55.0	53.4	55.2	65.0	54.9	40.1	39.8
Financial liabilities	58.8	57.8	55.0	53.4	55.2	65.0	54.9	40.1	39.8
Monetary gold and SDR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	1.2	1.1	0.9	0.9	0.9	0.9	0.8	0.7	0.7
Securities other than shares	45.8	44.5	42.0	40.3	41.3	49.0	41.3	28.3	28.9
Loans	3.5	3.2	3.2	3.2	3.2	3.5	3.0	2.8	2.6
Other financial assets	7.5	8.1	8.0	8.3	8.9	10.4	9.1	7.1	6.7
Net Worth	40.7	42.8	45.8	49.1	54.7	61.5	58.9	60.9	63.7
Financial Net Worth	-7.0	-5.1	-1.6	1.0	6.5	11.7	13.1	18.6	20.1
Memorandum Items:									
Nominal GDP (in billions of DKK)	2,030	2,102	2,190	2,244	2,304	2,327	2,568	2,844	2,805

Sources: Eurostat; Statistics Denmark; and IMF staff calculations.

Table 5. Denmark: Financial Soundness Indicators, 2015–24[1]

(Percent)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Regulatory capital to risk-weighted assets	19.2	21.2	22.1	21.7	22.4	23.2	22.9	22.6	23.5	23.1
Tier 1 capital to risk-weighted assets	17.3	18.8	19.7	19.8	19.9	20.5	20.3	20.1	21.1	20.4
Common Equity Tier 1 capital to risk-weighted assets	...	16.9	18.1	17.9	18.0	19.0	18.8	18.7	19.8	19.3
Leverage ratio (Basel-III)	...	...	4.2	4.3	4.1	4.2	4.3	4.5	4.6	4.6
Nonperforming loans net of provisions to capital	26.3	17.2	37.4	42.5	34.9	34.4	27.1	20.7	18.1	17.0
Nonperforming loans to total gross loans	3.3	2.4	3.9	4.3	3.7	3.9	3.3	2.8	2.6	2.4
Provisions to nonperforming loans	41.8	42.0	23.9	22.1	23.5	24.7	27.8	31.7	34.3	35.0
Return on assets	0.5	0.7	0.8	0.6	0.6	0.3	0.6	0.4	1.0	1.0
Return on equity	6.6	10.2	10.7	8.2	8.8	4.7	7.9	4.0	12.1	12.0
Interest margin to gross income	61.5	57.3	52.6	54.3	50.0	52.0	47.9	53.7	58.4	60.3
Noninterest expenses to gross income	65.5	57.6	56.1	62.8	64.9	67.2	64.3	78.1	53.5	51.7
Liquid assets to total assets	...	16.3	18.4	17.5	16.4	19.1	20.6	20.2	20.2	20.0
Liquid assets to short-term liabilities	...	...	...	66.9	62.8	68.4	73.3	69.8	70.5	66.9
Liquidity coverage ratio	...	184.3	194.9	156.5	196.6	201.7	216.8	196.0	217.6	226.0
Net stable funding ratio	...	...	...	...	...	...	...	135.1	140.1	135.1
Net open position in foreign exchange to capital /2	-5.7	-10.7	-12.6	-26.2	-16.2	-2.5	-2.0	-15.0	-1.5	6.0
Personnel expenses to noninterest expenses	71.2	75.8	71.8	72.1	68.9	70.4	70.4	60.8	72.1	76.5
Foreign-currency-denominated loans to total loans /2	17.9	20.4	30.8	26.7	26.3	28.9	21.9	19.1	21.6	19.8
Foreign-currency-denominated liabilities to total liabilities /2	20.0	22.9	26.1	23.1	21.8	22.3	22.3	21.3	21.2	21.9
Residential real estate loans to total gross loans	...	...	38.4	38.6	38.5	40.3	40.7	37.4	38.7	37.3
Commercial real estate loans to total gross loans	...	...	17.9	17.8	17.8	18.7	19.1	19.2	20.4	19.9

Source: Danish Financial Supervisory Authority.

1/ Consolidated data covering banks and mortage credit institutions.

2/ Based on unconsolidated reporting.

Table 6. Denmark: Balance of Payments, 2022–30

	2022	2023	2024	2025	2026	2027	2028	2029	2030
						proj.			
					Billions of DKK				
Current Account	316.1	306.8	356.9	352.4	357.9	365.1	365.2	368.9	374.1
Balance on goods	65.2	210.5	276.5	273.1	274.2	277.9	279.8	286.0	291.8
Merchandise exports f.o.b.	1043.5	1100.7	1189.6	1241.7	1282.1	1323.2	1356.8	1391.4	1426.3
Merchandise imports f.o.b.	978.3	890.2	913.1	968.6	1007.9	1045.3	1077.0	1105.3	1134.4
Balance on services	204.2	40.5	23.2	19.6	22.1	23.3	19.3	14.4	11.4
Exports of services, total	959.8	831.7	888.6	955.5	1011.6	1062.3	1099.8	1132.4	1165.9
Imports of services, total	755.6	791.2	865.4	935.9	989.5	1039.0	1080.5	1117.9	1154.5
Balance on income	46.7	55.8	57.2	59.7	61.6	63.9	66.1	68.4	70.8
Capital and Financial Account	323.4	206.1	225.8	330.5	335.3	341.6	340.9	343.7	348.1
Capital transfer, net	1.1	-8.9	-10.5	-11.0	-11.3	-11.7	-12.1	-12.6	-13.0
Financial account	322.3	214.9	236.3	341.4	346.6	353.3	353.1	356.3	361.1
Direct investment, net	8.1	22.1	82.8	40.0	33.1	27.1	5.8	5.3	1.6
Abroad	204.3	83.7	211.1	127.0	143.3	158.7	140.8	127.7	135.9
In Denmark	196.2	61.6	128.3	87.0	110.2	131.6	135.0	122.3	134.2
Portfolio investment, net	26.2	145.5	239.6	202.5	160.3	120.5	132.7	147.2	177.5
Assets	-90.4	125.1	304.2	242.5	248.9	220.1	226.9	238.4	280.5
Liabilities	-116.6	-20.4	64.6	40.0	88.6	99.7	94.2	91.2	103.0
Financial derivatives, net	130.8	-53.3	-53.9	-56.2	-58.1	-60.2	-62.3	-64.5	-66.7
Other investment, net	104.8	67.2	-43.0	155.2	211.3	265.9	276.8	268.2	248.6
Reserve assets	52.3	33.4	10.7	0.0	0.0	0.0	0.0	0.0	0.0
Net Errors and Omissions	-7.3	100.8	131.1	21.9	22.7	23.5	24.3	25.1	26.0
					Percent of GDP				
Current Account	11.1	10.9	12.1	11.4	11.2	11.0	10.7	10.4	10.2
Balance on goods	2.3	7.5	9.3	8.8	8.6	8.4	8.2	8.1	8.0
Merchandise exports f.o.b.	36.7	39.2	40.2	40.2	40.2	40.0	39.7	39.3	38.9
Merchandise imports f.o.b.	34.4	31.7	30.8	31.3	31.6	31.6	31.5	31.2	31.0
Balance on services	7.2	1.4	0.8	0.6	0.7	0.7	0.6	0.4	0.3
Exports of services, total	33.7	29.7	30.0	30.9	31.7	32.1	32.1	32.0	31.8
Imports of services, total	26.6	28.2	29.2	30.3	31.0	31.4	31.6	31.6	31.5
Balance on income	1.6	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Capital and Financial Account	11.4	7.3	7.6	10.7	10.5	10.3	10.0	9.7	9.5
Capital transfer, net	0.0	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Financial account	11.3	7.7	8.0	11.1	10.9	10.7	10.3	10.1	9.9
Direct investment, net	0.3	0.8	2.8	1.3	1.0	0.8	0.2	0.2	0.0
Abroad	7.2	3.0	7.1	4.1	4.5	4.8	4.1	3.6	3.7
In Denmark	6.9	2.2	4.3	2.8	3.5	4.0	3.9	3.5	3.7
Portfolio investment, net	0.9	5.2	8.1	6.6	5.0	3.6	3.9	4.2	4.8
Assets	-3.2	4.5	10.3	7.8	7.8	6.7	6.6	6.7	7.7
Liabilities	-4.1	-0.7	2.2	1.3	2.8	3.0	2.8	2.6	2.8
Financial derivatives, net	4.6	-1.9	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8
Other investment, net	3.7	2.4	-1.5	5.0	6.6	8.0	8.1	7.6	6.8
Reserve assets	1.8	1.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Net Errors and Omissions	-0.3	3.6	4.4	0.7	0.7	0.7	0.7	0.7	0.7
Memorandum Items:									
Net oil and oil-related exports	-0.9	-0.6	-0.3	...	...	...	...	...	...
Net sea transportation receipts	10.1	3.8	4.1	...	...	...	...	...	...
Current account net of items above	1.9	7.7	8.3	...	...	...	...	...	...
Reserves coverage (months of imports)	4.1	4.6	4.3	...	...	...	...	...	...
Gross external debt	...	...	...	...	...	...	...	...	...
Gross domestic product	2,844	2,805	2,961	3,090	3,191	3,308	3,422	3,543	3,664

Sources: Danmarks Nationalbank; Statistics Denmark; and IMF staff calculations.

Table 7. Denmark: International Investment Position, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
					Billions of DKK				
Assets	6,979	7,246	7,172	8,342	9,230	10,049	10,277	10,400	11,035
Direct investment	1,829	1,875	2,035	2,068	2,159	2,442	2,613	2,609	2,854
Equity	1,321	1,367	1,491	1,444	1,505	1,766	1,893	…	…
Debt instruments	464	466	507	599	635	674	724	…	…
Portfolio investment	2,889	3,056	3,098	3,705	3,998	4,717	4,058	4,508	5,379
Equity	1,316	1,519	1,527	1,866	2,057	2,727	2,269	2,595	3,197
Investment fund shares	308	354	356	420	480	506	482	540	677
Debt securities	1,266	1,183	1,215	1,419	1,461	1,484	1,307	1,373	1,505
Fin. deriv. (other than reserves)	523	405	389	841	1,136	804	1,509	1,083	464
Other investment	1,290	1,446	1,189	1,282	1,472	1,521	1,482	1,546	1,657
Reserve assets	449	465	461	446	465	564	614	654	682
Liabilities	6,003	6,162	5,860	6,733	7,835	8,362	8,822	8,962	8,717
Direct investment	1,235	1,230	1,355	1,363	1,455	1,576	1,753	1,681	1,899
Equity	823	830	935	867	896	906	905	…	…
Debt instruments	364	353	368	438	496	603	721	…	…
Portfolio investment	3,041	3,304	2,904	3,395	4,094	4,668	4,289	4,958	4,830
Equity	1,176	1,404	1,178	1,537	2,022	2,616	2,554	3,129	2,914
Investment fund shares	86	109	85	107	118	144	114	122	118
Debt securities	1,779	1,791	1,642	1,751	1,955	1,908	1,620	1,707	1,798
Financial derivatives	490	352	370	781	991	768	1,553	1,088	570
Other investment	1,237	1,276	1,232	1,193	1,295	1,351	1,228	1,234	1,418
Net Investment Position	976	1,084	1,311	1,609	1,395	1,686	1,455	1,438	2,318
Direct investment	593	645	680	705	704	867	860	928	955
Portfolio investment	-152	-248	194	310	-97	49	-231	-451	549
Other investment	53	169	-43	89	177	170	254	312	239
					Percent of GDP				
Assets	332.1	330.9	319.7	362.1	396.7	391.4	361.3	370.8	372.7
Direct investment	87.0	85.6	90.7	89.8	92.8	95.1	91.9	93.0	96.4
Equity	62.9	62.4	66.4	62.7	64.7	68.8	66.5	…	…
Debt instruments	22.1	21.3	22.6	26.0	27.3	26.3	25.4	…	…
Portfolio investment	137.5	139.6	138.1	160.8	171.8	183.7	142.7	160.7	181.7
Equity	62.6	69.4	68.1	81.0	88.4	106.2	79.8	92.5	108.0
Investment fund shares	14.6	16.2	15.9	18.2	20.6	19.7	16.9	19.3	22.9
Debt securities	60.2	54.0	54.1	61.6	62.8	57.8	46.0	48.9	50.8
Fin. deriv. (other than reserves)	24.9	18.5	17.3	36.5	48.8	31.3	53.1	38.6	15.7
Other investment	61.4	66.0	53.0	55.7	63.3	59.3	52.1	55.1	55.9
Reserve assets	21.3	21.2	20.5	19.4	20.0	22.0	21.6	23.3	23.0
Liabilities	285.6	281.4	261.2	292.3	336.8	325.7	310.2	319.5	294.4
Direct investment	58.8	56.2	60.4	59.2	62.5	61.4	61.6	59.9	64.1
Equity	39.2	37.9	41.7	37.6	38.5	35.3	31.8	…	…
Debt instruments	17.3	16.1	16.4	19.0	21.3	23.5	25.4	…	…
Portfolio investment	144.7	150.9	129.5	147.4	176.0	181.8	150.8	176.8	163.1
Equity	56.0	64.1	52.5	66.7	86.9	101.9	89.8	111.6	98.4
Investment fund shares	4.1	5.0	3.8	4.6	5.1	5.6	4.0	4.4	4.0
Debt securities	84.7	81.8	73.2	76.0	84.0	74.3	57.0	60.9	60.7
Financial derivatives	23.3	16.1	16.5	33.9	42.6	29.9	54.6	38.8	19.3
Other investment	58.8	58.3	54.9	51.8	55.7	52.6	43.2	44.0	47.9
Net Investment Position	46.4	49.5	58.4	69.9	60.0	65.7	51.1	51.3	78.3
Direct investment	28.2	29.5	30.3	30.6	30.3	33.8	30.2	33.1	32.3
Portfolio investment	-7.2	-11.3	8.6	13.4	-4.1	1.9	-8.1	-16.1	18.5
Other investment	2.5	7.7	-1.9	3.9	7.6	6.6	8.9	11.1	8.1

Sources: Haver Analytics; Statistics Denmark; and IMF staff calculations.

Annex I. Implementation of Past IMF Policy Recommendations

2024 Article IV Advice	Actions Since 2024 Article IV
Fiscal Policy	
In the short term, fiscal policy should avoid adding to capacity pressures.	The fiscal stance was tight in 2024, with the structural surplus increased.
Anticipated slight easing of fiscal stance in the medium term is appropriate, but the government should continue to monitor the long-term fiscal pressures and implement additional fiscal adjustment measures as necessary.	Despite the significant increase in defense spending, the authorities remain committed to long-term fiscal sustainability.
Develop an implementation plan of the National Climate Adaptation Plan I and update the estimates of the investment needs.	Ongoing.
Financial Sector	
Consider additional borrower-based measures to contain excessive risk-taking and impose tightening conditions on new mortgages extended to highly leveraged households.	There are no plans to implement these measures.
Bridge the remaining data gaps to strengthen vulnerability assessment in the CRE sector.	Ongoing.
Integrate stress testing for insurance and pension companies into an overall supervisory policy and develop a framework for a systemic risk assessment encompassing banks and NBFIs.	Ongoing.
Finalize a supervisory order aiming to strengthen the duties of NBFIs to provide their clients with clear advice on the financial and longevity risks.	Ongoing.
Structural Reforms	
Continue efforts to address skill mismatches, including in vocational training, education, and recruitment from abroad.	Ongoing. New policies are being introduced in vocational training, education, and recruitment from abroad.
Reform public sector wage setting to better address labor shortages in certain sectors.	Ongoing.
Modernize active labor market policies (ALMP).	Ongoing. The government has agreed on the ALMP reform in April 2025, following the experts' recommendations.
Continue to develop policies to improve education outcomes of the children with immigrant backgrounds and, more broadly, to strengthen their integration into Danish society.	Ongoing.
Continue to review the size and effectiveness of the R&D tax incentive.	Ongoing.

Annex II. External Sector Assessment

<table>
<tr><td colspan="6">Overall assessment: The external position has strengthened in 2024 and is now assessed as substantially stronger than the level implied by medium-term fundamentals and desirable policies. The current account (CA) surplus was 12.1 percent of GDP in 2024, up from 10.9 percent of GDP in 2023. The goods surplus expanded from 7.5 percent of GDP in 2023 to 9.3 percent of GDP in 2024, primarily driven by merchanting and processing activities of a few large multinational enterprises, particularly in the pharmaceutical sector, while the services surplus declined from 1.4 percent of GDP to 0.8 percent of GDP in 2024.

Potential policy responses: An anticipated decline in public sector savings and structural policies aimed at raising investment, including in climate, would help reduce the surplus.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="5">Background. The net international investment position (NIIP) rose to 78 percent of GDP in 2024. Gross liabilities decreased by 25 percentage points to 294 percent of GDP, partly due to price decreases of Danish shares owned by foreigners, including especially shares in Novo Nordisk. Gross external debt represents less than half of gross liabilities, standing at 129 percent of GDP. The net asset position of financial corporations, which hold most of net foreign assets, increased by 11 percentage points to 146 percent of GDP. Among financial corporations, insurance and pension funds (67 percent of GDP) and investment funds (55 percent of GDP) act as net external lenders, while deposit-taking corporations are net external debtors (-20 percent of GDP). Households are also net external lenders (10 percent of GDP), whereas nonfinancial corporations (-69 percent of GDP) and the government (-11 percent of GDP) are net external debtors.

Assessment. The NIIP is expected to improve further in the medium term, reflecting the outlook for continued CA surpluses. Although rollovers of external debt may present some vulnerability, risks are moderated by banks' ample liquidity and large capital buffers. The NIIP level and trajectory do not raise sustainability concerns.</td></tr>
<tr><td>2024
(% GDP)</td><td>NIIP: 78.3</td><td>Gross Assets: 372.7</td><td>Debt Assets: 106.8</td><td>Gross Liab.: 294.4</td><td>Debt Liab.: 108.6</td></tr>
<tr><td>Current Account</td><td colspan="5">Background. The current account (CA) surplus rose by 1.1 percentage points to 12.1 percent of GDP in 2024. The increase was largely attributed to a higher goods surplus, particularly from exports in the form of merchanting and processing that do not cross Danish borders, particularly reflecting the continued expansion of the pharmaceutical sector. Lower imports of goods also contributed to the increased goods surplus. The balance of services further declined, from 1.4 percent of GDP in 2023 to 0.8 in 2024—while rising international freight and shipping rates led to a larger surplus in sea transport services, the balances of other business services deteriorated. Primary income continued to be stable at 3.2 percent of GDP. The CA surplus reflected positive saving-investment (S-I) balances for both public and private sector, about 5 and 8 percent of GDP, respectively in 2024.

Assessment. The cyclically adjusted CA surplus is estimated at 12.4 percent of GDP. It can be adjusted to reflect temporary factors that the EBA model does not adequately capture, including valuation losses on fixed-income securities attributed to inflation (0.4 percent of GDP) and retained earnings on portfolio equity investments (0.5 percent of GDP). Incorporating these adjustments, the adjusted CA surplus is 11.5 percent of GDP. The EBA CA norm is estimated at 5.9 percent of GDP, of which 4.1 percent of GDP is attributed to policy gaps (largely reflecting a relatively tighter fiscal stance and a negative credit gap). Taking the difference between the adjusted CA (11.5 percent of GDP) and the norm (5.9 percent of GDP), the CA gap is estimated at 5.6 percent of GDP. Note that the estimated EBA norm for Denmark is low, for example, when compared to the average surplus of 8.6 percent of GDP over the past 10 years. This suggests that the EBA model does not fully capture other factors relevant to Denmark. These include (i) a significant increase in Denmark's merchanting and processing activities abroad under Danish ownership, driven by a few large multinational enterprises, including pharmaceuticals, and (ii) Denmark's large pension contributions arising from the ongoing transition to the fully-funded retirement system. Complementary EBA tools suggest that Denmark's pension system could explain potentially about 2.5 percentage points of the gap.</td></tr>
</table>

Denmark, Model Estimates for 2024 (in percent of GDP)

	CA model	REER Level model	REER Index model
CA-Actual	**12.1**		
Cyclical contributions (from model) (-)	-0.3		
Valuation losses on fixed income securities due to inflation	0.4		
Retained earnings on portfolio equity investment	0.5		
Adjusted CA	**11.5**		
CA Norm (from model) 1/	**5.9**		
o/w Relative policy gap	*4.1*		
CA Gap	**5.6**		
Elasticity	-0.5		
REER Gap (in percent)	**-11.6**	**1.6**	**7.6**

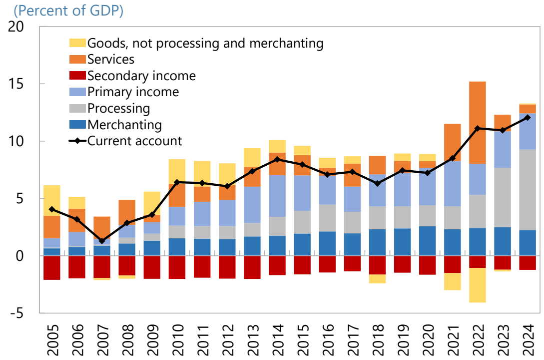
1/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate	**Background**. The exchange rate arrangement is a conventional peg regime, with Denmark's currency pegged to the euro. The real effective exchange rate (REER) based on relative unit labor costs (ULCs) appreciated by 0.3 percent, and the REER based on CPI depreciated by 0.8 percent in 2024 compared to the previous year. **Assessment**. Based on the CA gap model applying an estimated elasticity of -0.5, staff estimate a REER undervaluation of -11.6 percent in 2024. The REER level and index models for 2024 suggest an overvaluation of 1.6 percent and 7.6 percent, respectively. Taking a longer-term perspective and comparing two different measures of REER to their 28-year averages in 2023, the REER ULC-based index indicated an undervaluation of 0.4 percent, whereas the REER CPI-based index pointed to an undervaluation of 4 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background**. The capital and financial account balance increased to 8.0 percent of GDP in 2024, from 7.7 percent of GDP in 2023, with capital transfers (-0.4 percent of GDP), financial derivatives (-1.8 percent of GDP), portfolio investment (8.1 percent of GDP), FDI flows (2.8 percent of GDP), and reserve assets (0.4 percent of GDP). Other investment turned negative to -1.5 percent of GDP in 2024, from 2.4 percent of GDP in 2023. **Assessment**. The strong external position limits vulnerabilities to capital outflows, which are inherent in countries with a large financial sector. While this volatility is a potential source of vulnerability, it is mitigated by sound financial regulation and supervision, as well as ensuing high capitalization and ample liquidity buffers of Danish banks.
FX Intervention and Reserves Level	**Background**. Given the Danish krone is pegged to the euro, Danmarks Nationalbank (DN) adjusts the interest rate spread relative to the ECB's monetary policy rate in response to krone pressures, but also occasionally shapes the exchange rate using interventions financed via its FX reserves. While lowering its policy rate four times in 2024, DN has been maintaining it below the ECB rate amid depreciation pressures, with no FX intervention since February 2023. **Assessment**. International reserves increased by DKr23 billion in 2024, reaching DKr679 billion in December 2024. Reserves were equivalent to about 23 percent of GDP and 3.9 months of imports.

Annex II. Figure 1. Denmark: External Sector Assessment

The CA surplus increased to 12 percent of GDP due to a higher contribution of merchanting and processing.

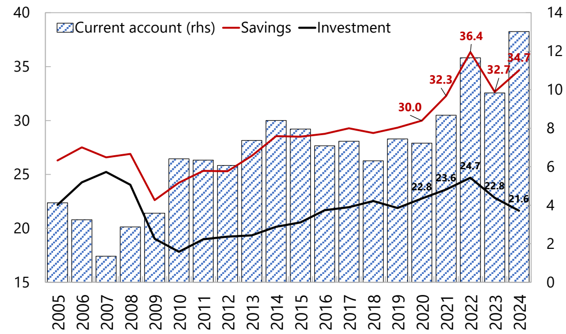
Current Account
(Percent of GDP)



Sources: Haver Analytics; Statistics Denmark; and IMF staff calculations.

Savings picked up, while investment continued to decline…

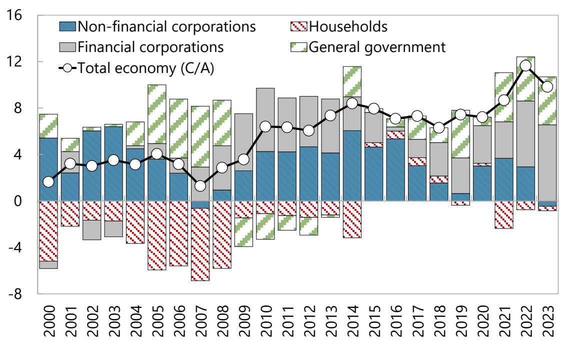
External Balance, Savings and Investment
(Percent of GDP)



Sources: Statistics Denmark; and IMF staff calculations.

…with a deterioration in non-financial corporates' saving-investment balances.

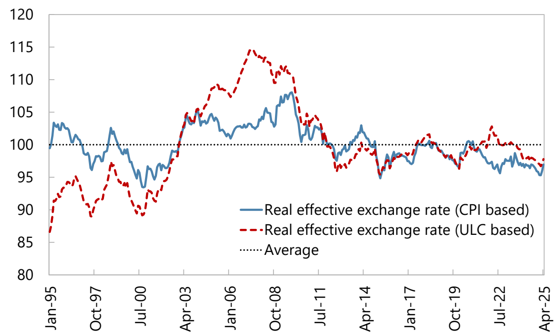
Saving - Investment Balances by Sector
(Percent of GDP)



Sources: Statistics Denmark; and IMF staff calculations.

The REER (both CPI-based and unit labor cost-based) has depreciated recently.

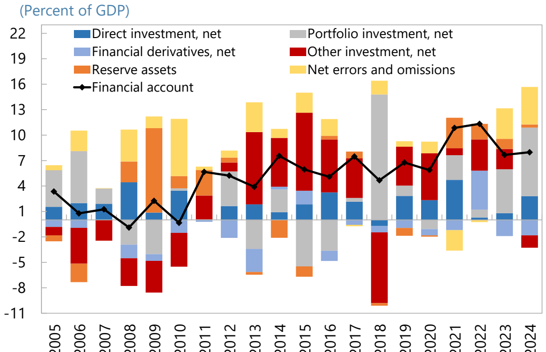
Real Effective Exchange Rate
(Index average; 1995 January-2025 April =100)



Sources: Haver Analytics; and IMF staff calculations.

The financial account increased due to higher portfolio investment.

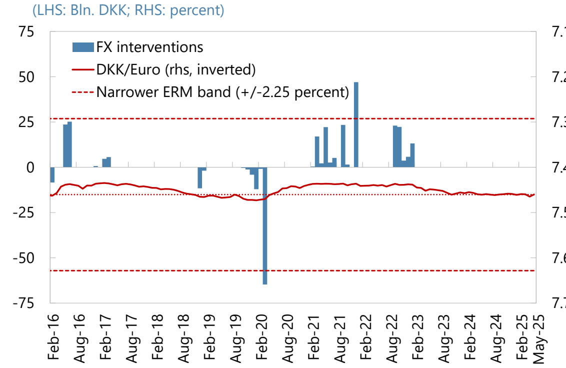
Financial Account
(Percent of GDP)



Sources: Statistics Denmark; and IMF staff calculations.

DN has not intervened in the FX market since February 2023.

FX Interventions and the Exchange Rate
(LHS: Bln. DKK; RHS: percent)



Sources: Danmarks Nationalbank; Haver Analytics; and IMF staff calculations.

Annex III. Risk Assessment Matrix[1]

Source of Risks and Relative Likelihood (High, medium, or low)	**Impact if Risk is Realized** (High, medium, or low)	**Policy Response**
Global		
High **Trade policy and investment shocks**. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**High** The shocks would lead to a slowdown in trading partners' growth, weakening external demand. An increase in corporate bankruptcies and a weakening of confidence will reduce consumption and investment, with higher unemployment. Pressure on bank capital adequacy would trigger credit tightening.	Step up further structural reforms and let flexicurity operate to facilitate reallocation from sectors exposed to shocks and regional labor mobility. Allow automatic stabilizers to operate. Fiscal policy space should be used to provide targeted support to vulnerable households and businesses.
Medium **Regional conflicts**. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupts trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increases refugee flows.	**Medium** Denmark's direct exposure to the countries in conflict is limited. Nevertheless, the intensification of the conflicts would weigh on activity in trading partners, reducing external demand.	
High **Deepening geoeconomic fragmentation**. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payment systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	**High** Although its trade is well diversified in terms of products and partners, Denmark's deep integration into global value chains and reliance on specialized products make it vulnerable to geopolitical fragmentation risks.	In collaboration with partners, continue to support global cooperation and multilateralism. Develop risk mitigation strategies with close coordination at the EU level.
Medium **Cyberthreats**. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**Medium** Economic activity is disrupted, leading to weaker confidence.	Continue to promote public awareness and preparedness campaigns and to invest in cyber defense. For the financial sector, utilize the recently developed cyber stress testing framework.
Regional and Domestic		
Medium **Weaker domestic demand**. Global uncertainty could weaken both consumer and business confidence, further delaying the recovery in domestic private demand.	**Medium** A weakening of confidence will reduce consumption and investment, with higher unemployment. Pressure on bank capital adequacy would trigger credit tightening.	Step up further structural reforms and let flexicurity operate to facilitate reallocation from sectors exposed to shocks and regional labor mobility. Allow automatic stabilizers to operate. Fiscal policy space should be used to provide targeted support to vulnerable households and businesses.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex IV. Debt Sustainability Analysis

Annex IV. Figure 1. Denmark: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting a relatively low level of vulnerability in the near- and medium-term and low levels of vulnerability over the long-term horizon.
Near term 1/			
Medium term	Low	Low	Medium-term risks are assessed as low.
Fanchart	Low	...	
GFN	Low	...	
Stress test		...	
Long term	...	Low	Long-term risks are assessed as low. Demographic-related expenditures are projected to increase by less than 1 percent of GDP by 2040. Health-care and long-term care expenditure is the main driver, while pension expenditures will be contained by the indexation of statutory retirement age to life expectancy.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA Summary Assessment

Denmark is at a low overall risk of sovereign stress and debt is sustainable. Fiscal balances remained in surplus in recent years and would weaken to a small deficit over the medium term, broadly consistent with the MTO set for 2030. The debt-to-GDP ratio is projected to remain around 30 percent in the medium term, including the foreseen increases in the defense spending. Liquidity risks as analyzed by the GFN Financeability Module are also low. The long-term module assesses fiscal risk to be low. That said, the government should continue to closely monitor fiscal pressures due to higher-than expected defense and aging-related spending or lower-than-expected revenues, and identify additional fiscal adjustment measures as necessary.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex IV. Figure 2. Denmark: Debt Coverage and Disclosures

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

Subsectors captured in the baseline	Inclusion	Comments
1 Budgetary central government	Yes	Not applicable
2 Extra budgetary funds (EBFs)	Yes	
3 Social security funds (SSFs)	Yes	
4 State governments	No	
5 Local governments	Yes	
6 Public nonfinancial corporations	No	
7 Central bank	Yes	
8 Other public financial corporations	No	

(Grouping: CG = rows 1–3; GG: expected = rows 1–5; NFPS = rows 1–6; CPS = rows 1–8.)

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1 Budget. central govt		0.5		3.57E-05	0.0			0.1	0.6
2 Extra-budget. funds									0
3 Social security funds									0
4 State govt.									0
5 Local govt.									0
6 Nonfin pub. corp.									0
7 Central bank	7.5								7.5
8 Oth. pub. fin. corp									0
Total	7.5	0.5	0	3.57E-05	0.0	0	0	0.1	8.1

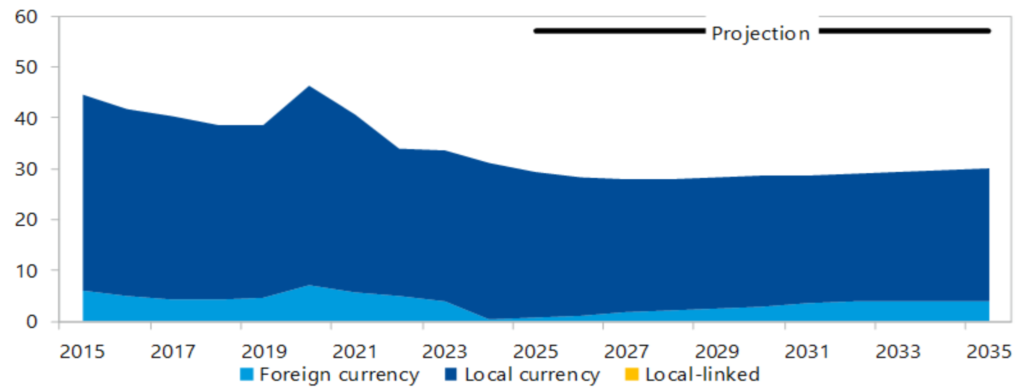
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: Denmark does not have state governments.

Annex IV. Figure 3. Denmark: Public Debt Structure Indicators

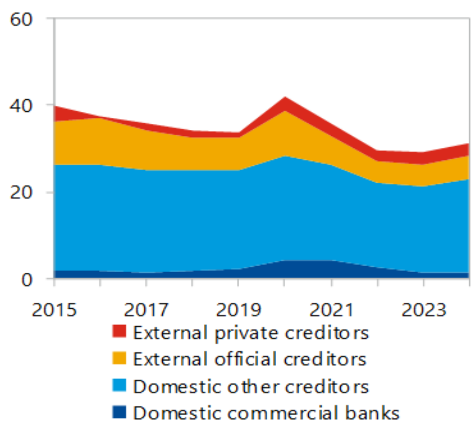
(Percent of GDP)

Debt by Currency (Percent of GDP)



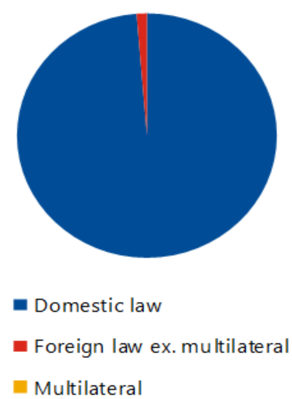
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



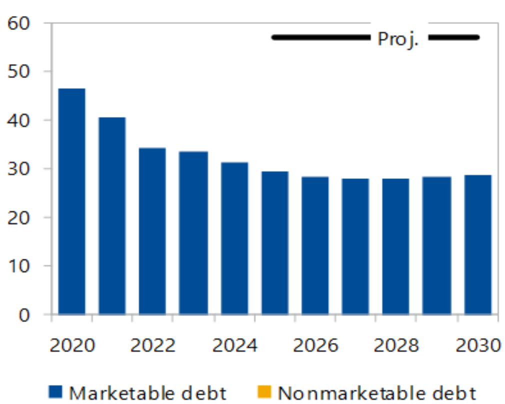
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)



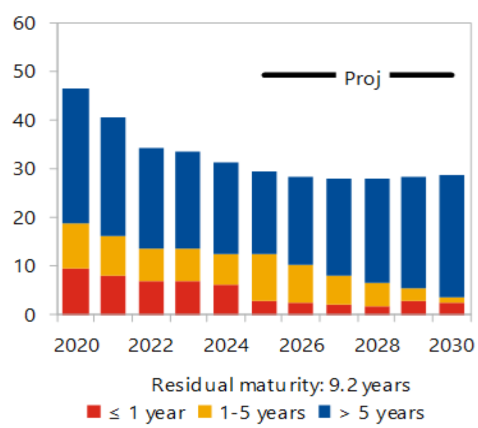
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

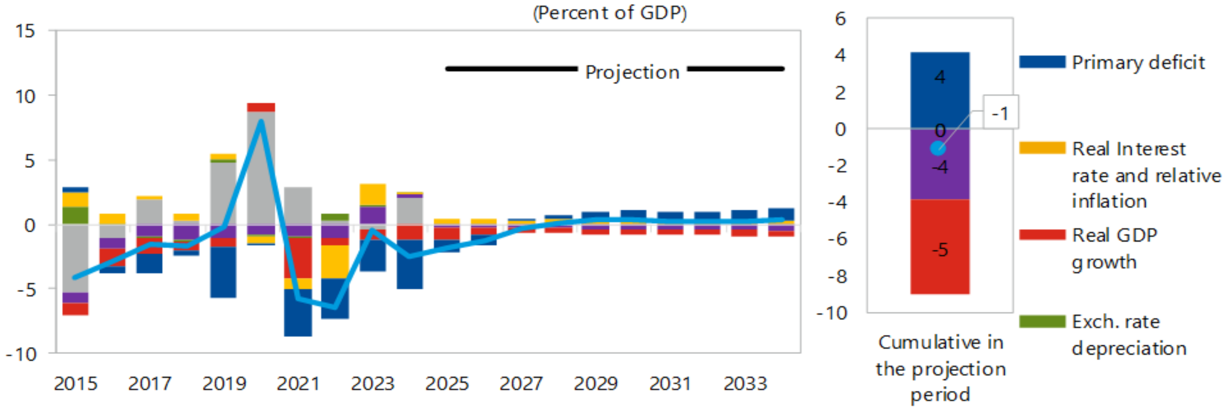
Commentary: Public debt mainly comprises of longer-maturity bonds. Debt is mostly in local currency.

Annex IV. Figure 4. Denmark: Baseline Scenario
(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	31.1	29.4	28.1	27.8	27.9	28.2	28.5	28.7	28.9	29.2	29.6
Change in public debt	-2.5	-1.7	-1.2	-0.3	0.1	0.3	0.3	0.2	0.2	0.3	0.3
Contribution of identified flows	-4.6	-1.7	-1.2	-0.3	0.1	0.3	0.3	0.2	0.2	0.3	0.3
Primary deficit	-3.8	-0.9	-0.9	0.0	0.4	0.7	0.7	0.7	0.8	0.8	0.9
Noninterest revenues	49.5	48.6	49.1	48.2	48.2	48.2	48.3	48.3	48.3	48.3	48.3
Noninterest expenditures	45.7	47.7	48.2	48.2	48.6	48.9	49.0	49.0	49.0	49.1	49.2
Automatic debt dynamics	-1.0	-0.5	-0.1	-0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Real interest rate and relative inflat	0.1	0.4	0.4	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Real interest rate	0.2	0.4	0.4	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.2	-0.9	-0.5	-0.5	-0.4	-0.4	-0.4 .	-0.4	-0.4	-0.4	-0.4
Real exchange rate	0.0	...	...	...	...	...	... .	...	...	...	...
Other identified flows	0.2	-0.3	-0.2	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.5
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-1.5	-1.4	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Other transactions	1.7	1.1	1.1	1.1	1.0	1.0	1.0	0.9	0.9	0.9	0.8
Contribution of residual	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	-0.5	1.8	1.4	1.5	0.9	0.3	0.7	0.0	-0.3	-0.2	-0.4
of which: debt service	4.7	4.1	3.6	2.8	1.9	0.9	1.3	0.6	0.2	0.3	0.0
Local currency	4.7	4.1	3.6	2.8	1.8	0.9	1.2	0.5	0.1	-0.2	-0.5
Foreign currency	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.4	0.5
Memo:											
Real GDP growth (percent)	3.7	3.0	1.8	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Inflation (GDP deflator; percent)	1.8	1.3	1.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	5.6	4.3	3.3	3.7	3.4	3.5	3.5	3.5	3.5	3.5	3.5
Effective interest rate (percent)	2.3	2.6	2.9	3.2	3.4	3.4	3.4	3.0	3.1	3.1	3.1

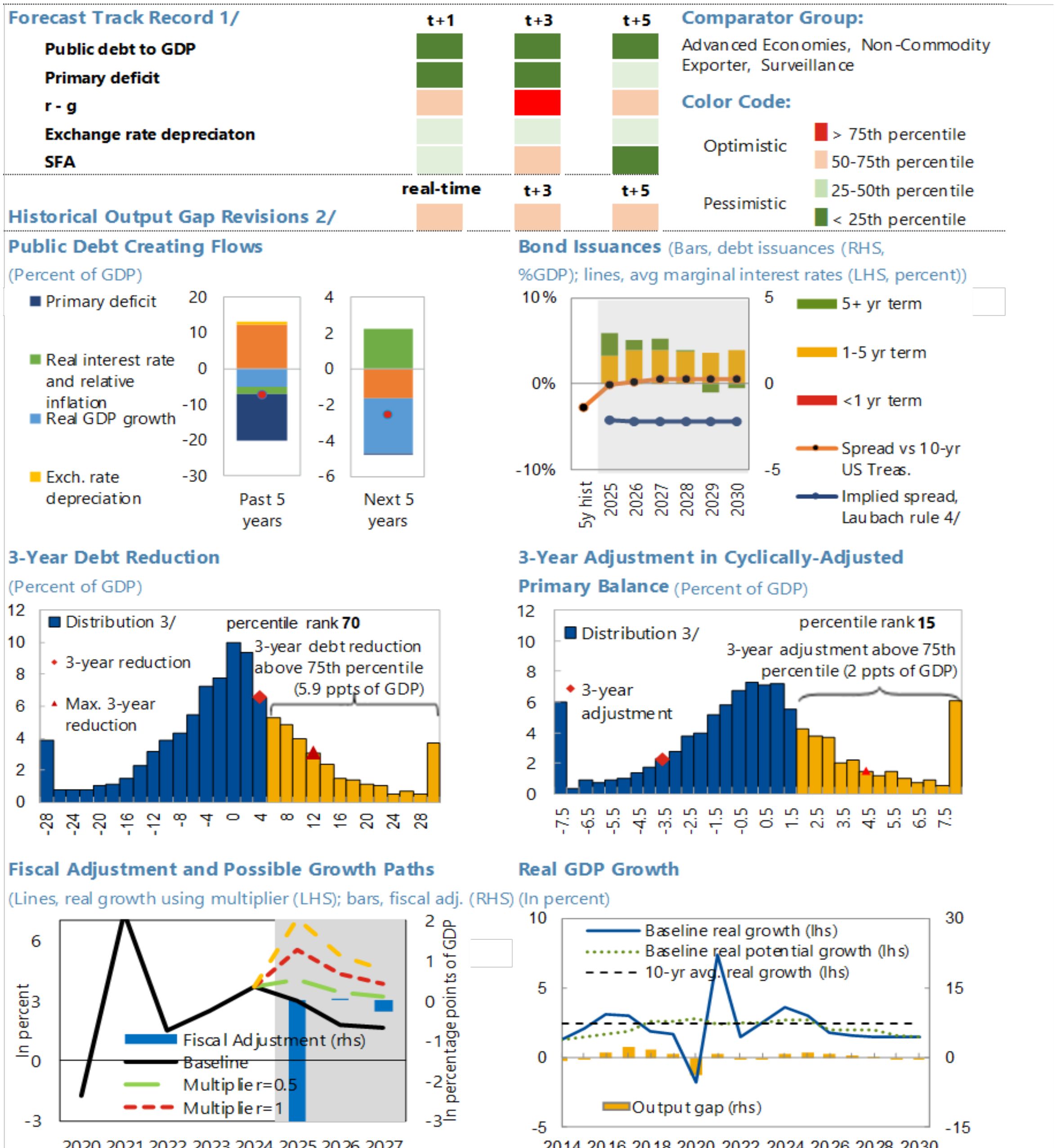
Contribution to Change in Public Debt

(Percent of GDP)



Commentary: Public debt will remain broadly stable over the projection horizon. The fiscal balace path will be broadly consistent with the medium-term objective set for 2030.

Annex IV. Figure 5. Denmark: Realism of Baseline Assumptions



Commentary: Realism analysis does not point to major concerns: past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt reduction are well within norms.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

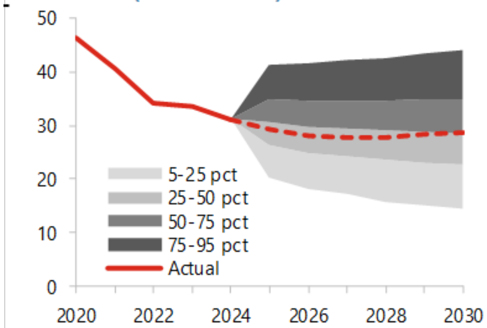
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex IV. Figure 6. Denmark: Medium-Term Risk Analysis

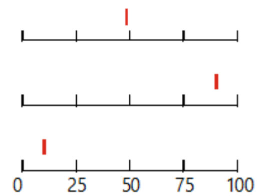
	Value	Contrib 1/	Percentile in peer group 2/

Final Fanchart (Percent of GDP)

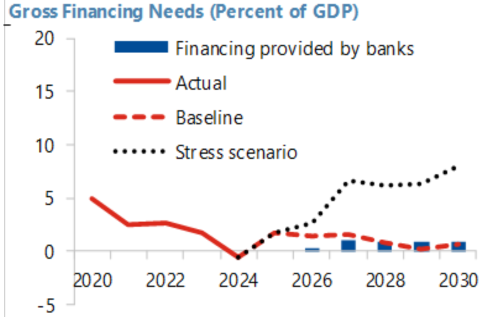


Debt fanchart module

	Value	Contrib 1/
Fanchart width *(percent of GDP)*	29.4	0.4
Probability of debt non-stabilizaiton *(percent)*	74.6	0.6
Terminal debt-to-GDP x institutions index	2.6	0.1
Debt fanchart index (DFI)		1.1
Risk signal: 3/		Low

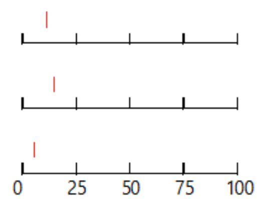


Gross Financing Needs (Percent of GDP)



Gross financing needs (GFN) module

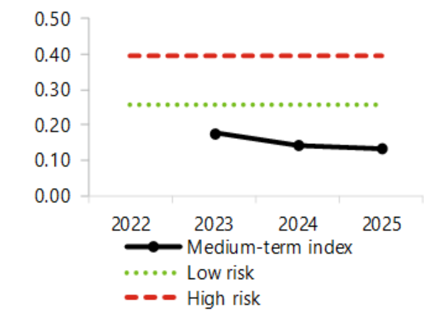
	Value	Contrib 1/
Average baseline GFN *(percent of GDP)*	1.1	0.4
Initial Banks' claims on the gen. govt *(pct bank assets)*	2.2	0.7
Chg. In banks' claims in stress *(pct banks' assets)*	0.1	0.0
GFN financeability index (GFI)		1.1
Risk signal: 4/		Low



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.1	0.2	0.5	0.1
GFN finaceability index	1.1	0.0	0.5	0.0
Medium-term index		0.1		
Risk signal: 5/		Low		
Final assessment:		Low		

Prob. of missed crisis, 2025-2030, if stress not predicted: 0.0 pct.

Prob. of false alarms, 2025-2030, if stress predicted: 75.0 pct.

Commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to moderate level of risk, while the GFN Financeability Module suggests low level of risk. In the banking stress scenario, debt and GFN would increase relatve to the baseline, given Denmark's large banking sector (as share of GDP). But still, they would remain at relatively low levels.

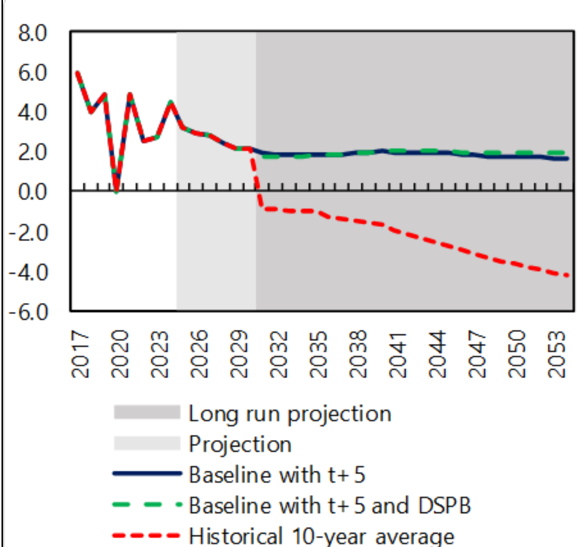
Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

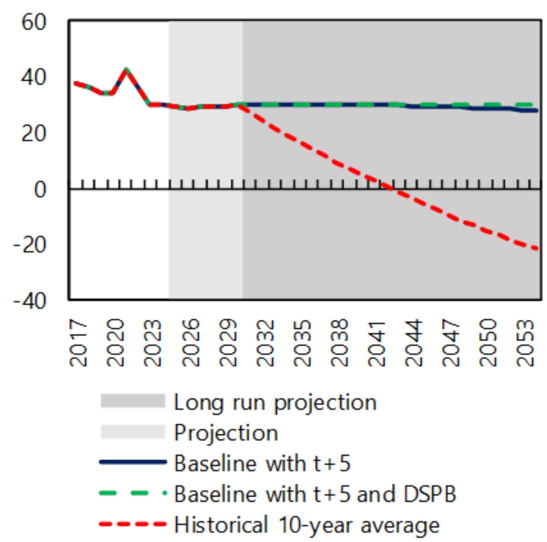
Annex IV. Figure 7. Denmark: Long-Term Risk Analysis

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: Long-term risks from large amortizations are not observed.

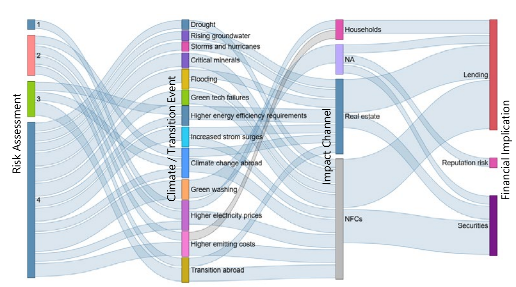
Annex V. Climate Change Risks and Data Gaps in the Financial Sector

This annex examines Denmark's current initiatives to identify data gaps that could inform financial stability assessments regarding climate change risks. To enhance these efforts, Danish authorities could expand publicly available indicators in alignment with the international and regional initiatives, tailor indicators for the nonbank financial institutions (NBFIs), and provide banks with guidance to enhance the comparability of their Pillar 3 disclosures.

1. **Climate change poses risks to financial stability, requiring continued efforts to enhance climate change data and indicators for systemic risk assessment**. In Denmark, rising sea levels, floods, and storms are expected to increasingly impact the economy and infrastructure, exposing financial institutions to physical risks (Boest-Peterson and others, 2021; Bartholomeusz, 2022; DTU, 2024). Denmark is also expanding its carbon taxes across various sectors, including agriculture. While these mitigation efforts contribute to addressing climate change, they also impose transition costs on the economy. Effectively measuring and managing physical and transition risks to the financial sector relies on robust climate change data and indicators. Various international and regional initiatives seek to improve the quality and availability of the data and indicators to inform policymaking.[1] These efforts emphasize the need for financial institutions and supervisors to close data gaps, incorporate climate considerations into risk assessments, and ensure resilience against climate challenges.

2. **In recent years, Danmarks Nationalbank (DN) has intensified its analysis of climate risks to financial system stability**. DN published its first report on the impacts of climate change on macroeconomic and financial stability in December 2019 (DN, 2019), followed by a series of studies, including transitional risk stress testing (DN, 2020) and flood risk assessment (DN, 2021; DN, 2022). More recently, DN has focused on risk identification and mapping, indicator development, and developing new methodologies for analyzing financial risks related to climate change and the green transition, aligning with initiatives by other central banks in advanced economies, including the European Central Bank (ECB).

Most Significant Risks
(2024)



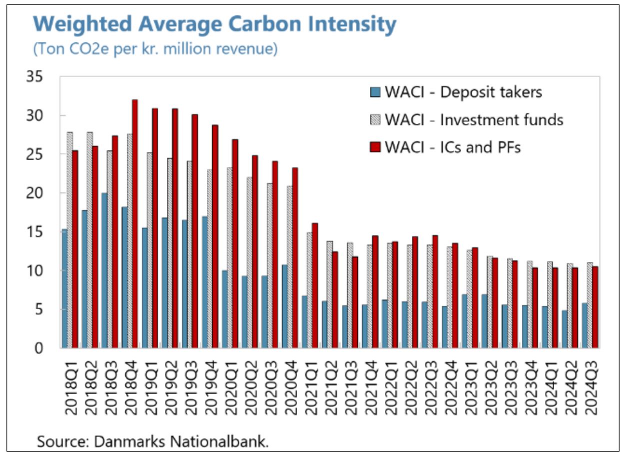
Source: Danmarks Nationalbank.

- **Risk identification and mapping**. DN (2024a) outlines a mapping of climate-related events that could adversely impact the exposures of credit institutions (i.e., banks and mortgage credit institutions). This includes the identification of events related to climate change and the green transition (e.g., severe weather events, the implementation of carbon taxes), qualitative assessments of their impact on economic sectors

[1] Key initiatives include the G-20 Data Gaps Initiative III, the Financial Stability Board's analytical framework for assessing climate-related vulnerabilities, and the European Central Bank's climate change-related indicators.

(such as real estate, households, corporates, and financial markets), and the financial implications for credit institutions (including credit, market, and liquidity risks). The mapping exercise focuses on events that may create significant risks for credit institutions over the next 10 years.

- **Indicator development**. DN has developed a set of green transition indicators for financial sector investments in listed equities, corporate bonds, and Danish mortgage bonds.[2] These indicators show that the weighted average carbon intensity (WACI)—which measures the average carbon intensity of portfolio exposures—has declined in recent years.



- **New analytical methodology**. DN is developing a new analytical methodology to assess risks to the Danish economy and financial system arising from the green transition (DN, 2024b). In collaboration with the Danish Research Institute for Economic Analysis and Modelling (DREAM), DN uses the GreenREFORM model to assess the impacts of selected risk scenarios on economic and financial stability.[3] DN (2025) indicates that, although some credit institutions are more vulnerable, they are well prepared to withstand losses resulting from the carbon tax on agriculture.

3. The Danish Financial Services Authority (DFSA) is addressing climate change risks within its supervisory framework. In June 2022, it conducted a self-assessment of these risks across credit institutions, insurance companies, and pension funds. The results highlighted uncertainties in data, models and scenarios that hindered comparability. In 2023, the DFSA issued an executive order on risk management for credit institutions, requiring banks to incorporate climate-related risks into their credit risk assessments and associated internal processes. The DFSA monitors climate change risks through the supervisory review process.

4. While enhancing their analytical and supervisory capacity on climate risks, DN and DFSA have increasingly paid attention to credit institutions' risk management and disclosure practices. Systemically important banks (SIBs) continue enhancing climate risk modeling and working to incorporate risk assessments into disclosures.[4,5] Pillar 3 disclosures indicate that SIBs

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[2] Access the relevant indicators and information here.

[3] GreenREFORM is an environmental and climate-economic model for the Danish economy. The main purpose of the model is to assess the socio-economic, climate, and environmental effects of climate policy proposals.

[4] The DN notes that small and mid-sized banks are still developing their frameworks.

[5] Danish credit institutions are required to publish information in accordance with the Corporate Sustainability Reporting Standards, the EU Taxonomy regulatory requirements, and the European Banking Authority's Pillar 3 rules

(continued)

evaluate the vulnerability of their residential and commercial real estate portfolios to physical risks, particularly floods and rising sea levels.[6] Their assessments of transition risks analyze the potential implications of carbon taxes. Disclosures highlight significant challenges related to risk measurement, coverage of climate and transition events, data availability and quality, which hinder comparability. SIBs emphasize limitations in emissions data, particularly for nonfinancial corporations and agricultural emissions, as well as energy performance certificates for properties.

5. Despite significant progress made, efforts should continue to improve source data, indicators and disclosures.

- **Climate-related macro-level indicators**. DN could broaden its suite of climate change indicators beyond the existing emission indicators for listed equities, corporate bonds, and Danish mortgage bonds. Indicators developed by the ECB to assess the impact of climate change on the financial system could provide a foundation for this effort (Table 1). This is critical to increase awareness of climate change risks and guide mid- to small-sized financial institutions, which often have concentrated exposures and limited resources, making them particularly vulnerable to climate change impacts.
    - **Green transition indicators**. DN is focused on developing emission indicators for the loan portfolio, which constitutes a significant portion of the banking sector's exposures. Tracking the carbon intensity trends of loans is crucial for assessing transition risks in the sector.
    - **Physical risk indicators**. Future damage estimates based on Fornino and others (2024) show that flood-related damages in Denmark may increase, exceeding those of many other European countries.[7] To enhance understanding of physical risks in the financial sector, DN could develop and publish physical risk indicators on its website, similar to green transition indicators.
    - **Climate risk assessment of NBFIs**. Given the substantial size of NBFIs within the Danish financial sector, DN could consider prioritizing the development of macro-level indicators that are specifically tailored to the unique risks (e.g., underwriting) associated with their activities.[8,9]

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concerning ESG risks reporting and disclosures. The CRR3/CRD6 package further specifies requirements for credit institutions regarding the measurement, management and monitoring of climate-related financial risks.

[6] Pillar 3 disclosures provide market participants with relevant information to assess a bank's material risks and capital adequacy.

[7] Under the SSP5–8.5 scenario that refers to a fossil fueled development with high emissions, resulting in severe global warming.

[8] Financial Stability Board (2025) provides a list of metrics aimed at enhancing the monitoring of climate-related financial risks.

[9] Amendments to the Solvency II Directive to be implemented in 2027 require insurance companies to assess material climate change risks and conduct climate change scenario analysis.

- **SIBs' Pillar 3 disclosures**. Pillar 3 disclosures need improvement. To address data limitations, SIBs are collaborating to close climate change data gaps. A particularly important initiative is "e-nettet," which aims to facilitate data sharing and enhance transparency.[10] The DFSA could provide additional guidance to SIBs (e.g., hazards and transition event coverage) to reduce divergence among the Pillar 3 disclosures, thereby enhancing their comparability.[11]

Annex V. Table 1. List of ECB's Carbon Emission and Physical Risk Indicators and Availability for Denmark

Theme	Indicator	Description	Availability for Denmark
Carbon Emission	Financed emissions	Tracks the amount of total carbon emissions from nonfinancial corporations that can be linked to funding from financial institutions, based on securities and loan portfolios.	Available for listed equities, corporate bonds, and Danish mortgage bonds.
	Weighted average carbon intensity	Calculated as the greenhouse gas emissions of a debtor/issuer divided by the debtor's/issuer's total revenue and weighted by the value of the creditor's/holder's investment as a share of its total investment portfolio.	Available for listed equities and corporate bonds.
Physical risks	Risk scores	Sorts portfolio exposures according to the location of the debtor, with locations being assigned a score from 0 (no risk) to 3 (high risk).	Not available.
	Potential exposure at risk	Compiled as a sum of risk scores for each hazard.	Not available.
	Normalized exposure at risk (NEAR)	Measures the losses that financial institutions are expected to incur should their debtors not be able to repay their loans following a natural event that damages their physical assets.	Not available.
	Collateral-adjusted exposure at risk	Similar to NEAR but also takes into account the mitigating effect of collateral pledged with a loan commitment.	Not available.

Notes: These indicators are available on the ECB website for 19 countries. The ECB also publishes sustainable finance indicators which are not covered in the table. See ECB (2024) for further details.

[10] E-nettet, founded in 1988 and owned by the financial sector, collects and processes publicly available ESG data and provides property data and prices, and other related products for the financial institutions.

[11] EBA's ESG Dashboard provides a set of indicators to compare banks' Pillar 3 disclosures.

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Annex VI. Authorities' Response to Past FSAP Recommendations[1]

Denmark: Key FSAP Recommendations

Recommendations and Authority Responsible for Implementation	Time[1]	Authorities' Actions
Systemic Risk Oversight and Macroprudential Policy		
Give the chair of the SRC the ability, enshrined in law, to make proposals for a recommendation after due consultation with other SRC members without the need to strive for consensus (MIBFA).	MT	Not Implemented There are no plans to introduce such legislation.
Introduce national legislation to include borrower-based tools (limits on LTVs, DTIs, and DSTIs) in the policytoolkit (MIBFA).	MT	Not Implemented There are no plans to introduce such legislation.
Introduce a stricter LTV limit to safeguard against large house price shocks (MIBFA).	MT	Not Implemented There are no plans to introduce such legislation.
Introduce a binding income-based macroprudential measure that limits lending to households above a certain DTI (MIBFA).	MT	Not Implemented There are no plans to introduce such legislation.
Issue recommendations to responsible authorities to reduce debt bias, simplify rental regulations, and relax supply constraints on housing (SRC).	MT	Not Implemented There are no plans to introduce such legislation. The recommendation is assessed as being outside the mandate of the Systemic Risk Council.
Close data gaps, including by enhancing the coverage and quality of commercial real estate data (DN).	MT	Partially Implemented With the implementation of the credit register, some critical data gaps are closed, and the authorities have better data on commercial real estate (CRE) related debt and information on the credit institutions' property valuations. Statistics Denmark is also working on improving their CRE price index. In addition, DN is now systematically collecting aggregate market data on transactions, rents, yields and vacancy rates across locations and segments. DN has also acquired CRE transaction data and is currently evaluating the extension of the contract.
Develop macroprudential stress tests that take feedback loops between financial system and real economy fully into account while incorporating contagion effects across financial institutions (DN).	MT	Not Implemented In 2021, DN started working on developing a macroprudential stress test model. However, due to prioritization of other stress test related projects, this recommendation has been given a lower priority and paused.
Banking and Insurance Supervision		
Enhance the operational independence of the DFSA including by, for example, lengthening the terms of the	MT	Not Implemented There are no plans to introduce such legislation.

[1] Please refer to Denmark Financial System Stability Assessment 2020 for the full set of FSAP recommendations. The description of authorities' actions in this table was based on inputs from the Danish authorities. I = Immediate (within 1 year); ST = Short Term (within 1–2 years); MT = Medium Term (within 3–5 years). MIBFA stands for Ministry of Industry, Business, and Financial Affairs; SRC, Systemic Risk Council; DN, Danmarks Nationalbank; and DFSA, Danish Financial Supervisory Authority.

Recommendations and Authority Responsible for Implementation	Time[1]	Authorities' Actions
Board members and clearly stating in law the reasons for the dismissal of a DFSA Director General (MIBFA).		
Expand the budget envelope for the DFSA to recruit and retain quality staff across a full range of skills and experience and with a focus on non-financial risks (MIBFA).	ST	Partially Implemented Since the FSAP recommendations in 2020, the general budget of the DFSA has been increased.
Develop more detailed guidance on risk assessments to support supervisory judgment and ensure consistent outcomes (DFSA).	ST	Implemented Internal guidelines for the Supervisory Review and Evaluation Process have been expanded significantly, providing further guidance for line supervisors.
Enhance approaches to confirm explicitly the veracity of supervisory data and information received (DFSA).	MT	Implemented The DFSA is continually improving the verification of quantitative data. Internal procedures for verification of data received during inspections and continuous supervision have been strengthened in policies and procedures. The DFSA policy for supervisory reactions, as well as the underlying procedures, has been updated to formalize the verification of information received. Validation of supervisory reporting has been improved, to include more automated controls. In addition, regular data-quality reporting has been introduced to track validation of individual companies.
Increase the number of insurance on-site inspections guided by a finalized risk assessment framework and strengthen the supervision of cross-border business (DFSA).	ST	Partially Implemented Risk assessment framework has been expanded to include more non-financial risks, and internal processes have been changed to allow for more frequent inspections. However, more specialized inspections and further increasing their frequencies would require more resources. Moreover, internal procedures have been revised to improve supervision of cross-border business.
Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)		
Test, finalize, and implement the DFSA's new institutional risk assessment model (DFSA).	ST	Implemented The new manual for AML/CFT risk assessment has been implemented and is in regular use.
Intensify AML/CFT on-site inspections of higher-risk financial institutions (DFSA).	ST	Implemented The strategy for AML/CFT supervision has been revised to allow for deep-dives into the most important risk areas.
Consider, select, and pursue next-stage options for the regional consolidation of AML/CFT supervision (MIBFA).	MT	Partially Implemented The regional consolidation of AML/CFT supervision group (Nordic-Baltic Stability Group) has been established and is functioning with the aim of improving information sharing between financial regulators and responding more efficiently to cross-border financial crimes.
Systemic Liquidity		
Complete the framework for accepting credit claims as non-standard collateral (DN).	ST	Implemented DN has successfully implemented the IT-system, BMPANT, in August 2023, which allows banks to pledge non-standardized

Recommendations and Authority Responsible for Implementation	Time[1]	Authorities' Actions
		collateral in the form of credit claims through an automated process. BMPANT can be activated by the DN and has significantly improved operational efficiency and robustness in contingency scenarios.
Seek greater domestic interagency information sharing and collaboration to enhance the operational preparedness for non-standard liquidity support (DN, DFSA).	ST	Implemented Intensified collaboration between liquidity experts at DN and the DFSA has been established, the process was based on lessons learned from the market turmoil during COVID-19. Relevant data (e.g., liquidity buffers, unencumbered assets eligible for central bank support, loans data) are being shared between the institutions. Bilateral and biannual meetings between liquidity experts are set up.
Financial Crisis Management and Safety Nets		
Strengthen the autonomy of FSC, including by limiting the decision power of the MIBFA in resolution to situations when fiscal support is needed (MIBFA).	ST	Not Implemented There are no plans to introduce such legislation.
Expedite the resolvability of SIFIs, particularly by finalizing the priority areas for resolution planning (DFSA, FSC).	ST	Implemented The DFSA (in collaboration with the FSC and DN) has finalized and improved resolution plan for all SIFIs. The Danish resolution authority expects to fully develop resolution plans for all systemically important institutions in place by the end of 2024. EBA guidelines for institutions and resolution authorities on improving banks' resolvability are currently under implementation. In addition, the resolution plans have been supplemented by several dry run testing with the perspective of making them operational in crisis situations.
Define strategies for liquidity assistance to institutions in resolution (DN, DFSA, FSC, MIBFA, MOF).	ST	Implemented The DFSA, the FSC and DN have formally described existing access to liquidity assistance for SIFIs before and after resolution.
Develop and test a system-wide contingency and crisis communication plan (DFSA, DN, FSC, MIBFA, MOF).	ST	Implemented The Coordination Committee on Financial Stability conducted a crisis simulation exercise in 2021. This formed the basis for ongoing work to develop a contingency plan.

Annex VII. Data Issues

Data Adequacy Assessment Rating 1/

A

Questionnaire Results 2/

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A

Detailed Questionnaire Results

Data Quality Characteristics	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency
Coverage	A	A	A	A	B	
Granularity 3/	A		A	A	A	
			A		A	
Consistency			A	A		A
Frequency and Timeliness	A	A	A	A	A	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision is adequate for surveillance purposes. Recognizing the importance of the pharmaceutical sector, the authorities provide extra data such as expedited preparation of gross value added estimates for the sector ahead of the rest of the economy. The government's desire to maintain liquidity in the government debt market despite fiscal surpluses leads to accumulation of financial assets. This accounts for the relatively high level of stock-flow adjustments in Denmark. Regarding monetary and financial statistics, it should be noted that Denmark does not report data for other financial corporations (money market funds, insurance corporations and pension funds) to the IMF's Financial Soundness Indicators database.

Changes since the last Article IV consultation. The broad assessment of data adequacy is uncahnged from the previous Article IV Consultation.

Corrective actions and capacity development priorities. Not applicable.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.

Other data gaps. Further enhancing CRE data would strengthen vulnerability assessment of the sector. Improvements in source data and indicators would bolster the financial stability assessment concerning climate change risks.

Annex VII. Figure 2. Denmark: Data Standards Initiatives

Denmark adheres to the Special Data Dissemination Standard (SDDS) Plus since January 2017 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

(As of May 28, 2025)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Denmark[8]	Expected Timeliness[6,7]	Denmark[8]
Exchange Rates	28-May-25	28-May-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Apr-25	May-25	M	M	M	M	1W	NLT 1W
Reserve/Base Money	Apr-25	May-25	M	M	M	M	2W	NLT 1W
Broad Money	Apr-25	May-25	M	M	M	M	1M	NLT 1M
Central Bank Balance Sheet	Apr-25	May-25	M	M	M	M	2W	NLT 1W
Consolidated Balance Sheet of the Banking System	Apr-25	May-25	M	M	M	M	1M	NLT 1M
Interest Rates[2]	28-May-25	28-May-25	D	D	D	...	...	...
Consumer Price Index	Apr-25	May-25	M	M	M	M	1M	NLT 2W
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2024	Mar-25	A	A	A/Q	Q	2Q/12M	12M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	2024	Mar-25	A	A	M	M	1M	NLT 1M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Apr-25	May-25	M	M	Q	M	1Q	NLT 1M
External Current Account Balance	Mar-25	May-25	M	M	Q	M	1Q	NLT 7W
Exports and Imports of Goods and Services	Mar-25	May-25	M	M	M	M	8W	40D
GDP/GNP	2025Q1	May-25	Q	Q	Q	Q	1Q	60D
Gross External Debt	2024Q4	Mar-25	Q	Q	Q	Q	1Q	1Q
International Investment Position	2024Q4	Mar-25	Q	Q	Q	Q	1Q	1Q

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

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

[3] Foreign, domestic bank, and domestic nonbank financing.

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

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

DENMARK

June 16, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By European Department

CONTENTS

FUND RELATIONS

As of May 31, 2025

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

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	3,439.40	100.00
Fund holdings of currency (Exchange Rate)	2,501.62	72.73
Reserve Tranche Position	937.79	27.27
Lending to the Fund		

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	4,827.98	100.00
Holdings	5,014.69	103.87

Outstanding Purchases and Loans: None

Latest Financial Commitments: None

Projected Payments to Fund[1]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming			
	2026	2027	2028	2029
Principal	…	…	…	…
Charges/Interest	0.02	0.02	0.02	0.02
Total	0.02	0.02	0.02	0.02

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

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

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

Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on September 13, 2024. The staff report (IMF Country Report No. 24/292) was published with Press Release No. 24/327 (September 13, 2024).

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

Press Conference: None.

Publication: The staff report will be published.

Technical Assistance: None.

Resident Representative: None.