

ANALYSIS | Outlook for the Danish economy
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Robust Danish economy in an uncertain global landscape

The Danish and global economies have proven robust over the past year in the face of geopolitical and trade policy turmoil. The war in the Middle East is expected to drive up inflation in Denmark this year, but the underlying price development is expected to remain low and stable in the slightly longer term. The outlook is for a balanced growth trajectory, but with slightly lower growth than in recent years. This is because the global economy is facing a slowdown in growth this year due to the war in the Middle East, while continued restraint on the part of Danish households is dampening the growth in private domestic demand. The outlook is subject to significant and persistent uncertainty related to, among other things, geopolitical tensions, the war in the Middle East and trade conflicts.

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The Danish economy is fundamentally strong

The Danish economy is fundamentally well equipped to withstand unexpected economic obstacles. There is a prospect of a balanced growth trajectory in the Danish economy and there are no signs that significant imbalances are building up. Sound public finances, large current account surpluses, well-consolidated households and companies provide a good starting point for withstanding external shocks to the economy.



The incoming government should not push demand further in the Finance Act for 2027

There is limited spare capacity in the Danish economy to increase output without fuelling wage increases and inflation. Due to the war in the Middle East, there is a risk that soaring energy prices will significantly increase inflation. In the Finance Act for 2027, the incoming government should therefore not push demand beyond what was already planned for in the previous government's 2035 plan.



The incoming government should be cautious about using up all the fiscal space

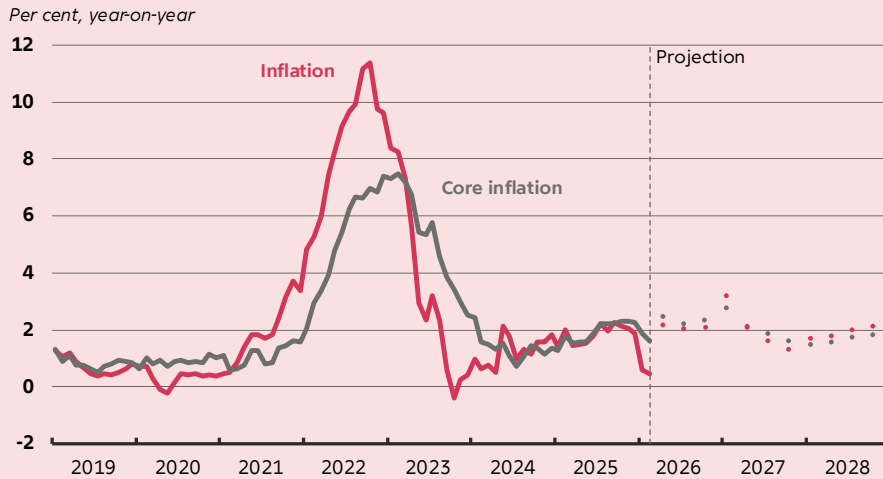
A permanent increase in defence spending to 3.5 per cent of GDP will use up most of the fiscal space, and new policy measures could put pressure on public finances. This is especially true if challenges in the Danish or international economy increase the need for new measures, or if the fiscal space turns out to be less than estimated because assumptions change. This suggests that the incoming government should be cautious about using up all the fiscal space.

Why is it important?

Danmarks Nationalbank continuously oversees the Danish economy to meet its objective of ensuring price stability. The bank therefore assesses developments in a number of areas and makes macroeconomic projections to obtain the best basis for determining whether socio-economic imbalances are building up. Because the bank's interest rates are reserved for managing the krone exchange rate, it is important that other aspects of economic policy are aimed at ensuring a stable economy. We therefore make fiscal policy recommendations.

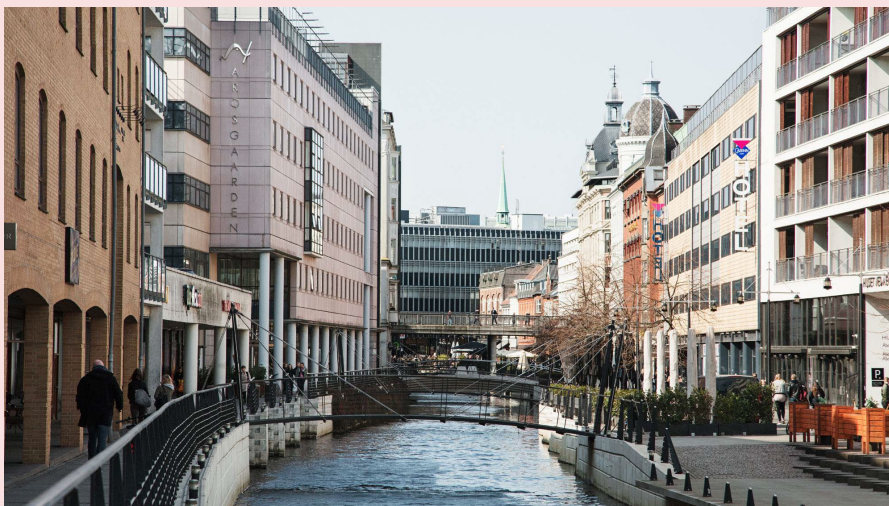
Main chart

Inflation this year will be boosted by higher energy prices, while a number of tax changes will lower overall inflation



Note: The most recent observation is from February 2026. Core inflation is calculated as inflation excluding energy and unprocessed food.

Source: Statistics Denmark and own calculations.



Keywords

Outlook for the Danish economy

Danish economy

Economic policy

01 Highlights



Prospect of a balanced growth trajectory for the Danish economy.

Growth slowdown in the global economy this year

Persistent uncertainty about geopolitics, energy prices and trade characterise the outlook for the global economy. The global economy is facing a growth slowdown this year.

Prospect of subdued growth in exports

Growth in Danish exports will slow this year due to lower growth in export markets. Continued growth in production abroad contributes to an increase in Danish exports.

Continued household restraint

Private consumption is expected to increase due to higher real incomes, but continued uncertainty among households about their financial situation keeps the consumption ratio low.

Approximately neutral capacity pressure

The Danish economy is set for a balanced growth trajectory, but with slightly lower growth than in recent years. Capacity pressure in the Danish economy is currently approximately neutral and is expected to remain so going forward.

War in the Middle East increases inflation

This year, tax changes contributes to reduce actual inflation, while underlying inflation is expected to rise due to the war.

Discouraging risk outlook for growth prospects

Risks are mainly related to geopolitical tensions, energy price developments, the war in the Middle East and trade conflicts.

Key economic variables

Real growth relative to the previous year, per cent	2025	2026*	2027*	2028*
GDP (real), per cent	2.9	1.8	1.8	2.0
Employment, 1,000 people	3,255	3,283	3,295	3,309
Gross unemployment, 1,000 people ¹	88	90	104	104
Balance of payments on current account, per cent of GDP	12.7	10.5	10.0	10.4
Government budget balance, per cent of GDP	3.7	0.9	0.2	0.5
House prices ² , per cent year-on-year	5.7	6.0	2.5	3.0
Consumer prices, per cent year-on-year	1.8	1.8	2.0	1.9
Core inflation, per cent year-on-year	1.9	2.2	2.1	1.7
Hourly wages ³ (manufacturing), per cent year-on-year	3.6	3.4	3.3	3.2

Note: * indicates projection.

Source: Statistics Denmark and own calculations.

¹ Gross unemployment will increase by 14,000 people in 2027 for technical reasons, because reform of the employment support system means that more people will be registered under gross unemployed in the future.

² Nominal prices of a single-family house.

02 Overview and recommendations for economic policy

The Danish and international economies are in a period of significant change, with weakened support for the multilateral economic system, increased fragmentation of global trade and pronounced geopolitical tensions. What these changes have in common is that they have the potential to fundamentally alter economic interactions in the international economy.

The war in the Middle East, along with Russia's invasion of Ukraine in 2022, has resulted in significant human costs and is a destabilising factor for the global economy. For the global economy, the war in the Middle East is primarily weakening the supply of energy and other raw materials. This has already been reflected in significant price increases for gas and oil. The war is expected to have a negative effect on global activity and result in higher inflation, but there is extraordinary uncertainty about both the scale and duration of the indirect economic consequences. International organisations also expect last year's trade policy measures to increasingly feed through to affect growth in world trade this year. Against this background, growth in Danish export markets is expected to slow this year, but in the longer term growth is expected to be moderate.

Higher inflation and lower growth due to the war in the Middle East

In the run-up to the war in the Middle East, inflation in the euro area was around 2 per cent, and the European Central Bank, ECB, has kept monetary policy interest rates unchanged since summer 2025. Denmark has also kept interest rates unchanged due to its fixed exchange rate policy. Since the outbreak of the war in the Middle East, higher energy prices have caused market participants to expect higher policy rates in the euro area over the coming year. Against this background, Danish market rates on e.g. mortgage credit loans have increased. However, there has not been a significant tightening of the overall financial conditions in Denmark. Danish monetary policy and overall financial conditions are currently assessed to be approximately neutral for economic activity.¹ However, increased geopolitical tensions could lead to further interest rate increases and higher risk premia, which could lead to a more pronounced tightening of financial conditions. In its March forecast, the ECB has upwardly revised its expectations for inflation in the euro area by 0.7 percentage points this year and by 0.2 percentage points next year, while the growth estimate has been downwardly revised by 0.3 and 0.1 percentage points respectively for the two years.

Leading up to the outbreak of war in the Middle East, consumer price increases in Denmark, as measured by HICP inflation, were low for the past two years and were 0.5 per cent in February. The lower inflation largely reflects a number of tax changes, including a reduction in the electricity tax.

Going forward, higher energy prices due to the war in the Middle East are expected to push up inflation and dampen activity in Denmark. Price increases

¹ See Danmarks Nationalbank, Renewed global uncertainty and neutral monetary policy, *Danmarks Nationalbank Analysis (Monetary and financial trends)*, no. 3, March 2026.

affect consumer prices first and foremost through higher prices for energy products and then indirectly through higher business costs, which are passed on in consumer prices. GDP growth in Denmark is being dragged down by weaker private consumption and postponed investments due to increased uncertainty, just as weaker growth in export markets is dragging down growth in Danish exports. The increase in oil and gas prices since the outbreak of the war is expected, in isolation, to drive up overall inflation by 1.0 and 0.2 percentage points this year and next year respectively, and to reduce GDP growth by around 0.8 percentage points overall in the period 2026-28.

The impact on consumer prices may be different in the short term in Denmark than in the euro area due to differences in the energy mix in production and consumption, taxes and fixing of energy prices, for example.

It is anticipated that inflation in the Danish economy will increase this year as a result of the rise in energy prices, but that the underlying price development will remain low and stable in the longer term. Overall inflation is affected by a number of tax changes in the coming years, but generally this does not change the fundamental drivers of inflation going forward. Inflation is expected to be 1.8 per cent this year, 2.0 per cent in 2027 and 1.9 per cent in 2028.

There is great uncertainty about the future price and growth trajectories, which depend, among other things, on the duration and scale of the war in the Middle East. In a risk scenario where oil and gas supplies from the Persian Gulf are limited in the coming years due to continued conflict and destruction of infrastructure, and where there are indirect economic effects, Danmarks Nationalbank estimates that inflation could reach 4.5 per cent this year, see table 1. In the same scenario, GDP growth in the Danish economy is reduced by 0.7 percentage points in 2026 compared to the projection. In 2027, inflation is estimated to remain elevated and growth reduced. Although the risk scenario includes a sharp increase in inflation, the increase is not nearly as sharp as in 2022 after Russia's invasion of Ukraine. This is because today's economic starting point is significantly different and the shock to the economy is of a different nature, see box 2 in chapter 3.

TABLE 1

Scenarios for inflation and GDP as a result of the war in the Middle East

Per cent, year-on-year	Inflation			GDP		
	2026	2027	2028	2026	2027	2028
Projection in the absence of higher energy prices	0.8	1.8	2.2	2.3	2.2	1.9
Danmarks Nationalbank's projection	1.8	2.0	1.9	1.8	1.8	2.0
Risk scenario	4.5	3.8	1.0	1.1	1.0	2.0

Note: For a description of the scenario, see box 2 in chapter 3.

Source: Own calculations.

Slightly lower growth in the Danish economy than in recent years

Growth in the Danish economy has been fairly high the past couple of years. This is mainly due to growth in exports and to production abroad by companies under Danish ownership. By contrast, domestic demand has generally been low.

The subdued growth outlook for the global economy as a result of trade conflicts and the war in the Middle East is expected to affect sales opportunities for exporting Danish companies. This gives rise to continued, but subdued,

growth in the domestically produced element of Danish exports, which is expected to increase in line with growth in Danish export markets.

As in recent years, exports of goods produced abroad are expected to make a positive contribution to growth in the Danish economy. This can largely be attributed to the pharmaceutical industry and the increase in the volume of pharmaceuticals sold in the US and other markets. This should be seen in the context of Novo Nordisk's agreement with the US administration last autumn, which on the one hand implies lower prices for pharmaceuticals sold, but on the other provides broader access to the US patient base through public health insurance schemes.² Although the agreement, in isolation, gives rise to higher growth in gross domestic product, GDP, it does not result in a corresponding increase in Danish prosperity measured by gross national income, GNI, because the value of the exports produced decreases.³

The private consumption is supported by continued increases in employment and real wages, as well as policy measures that strengthen household purchasing power. However, households are still expected to hold back on consumption, and propensity to consume is expected to remain low going forward. This should be seen in the context of the war in the Middle East, which is once again deemed to be fuelling uncertainty about the economic situation among households and prices as a result of higher energy prices.

As with households, the continued uncertainty in the global economy means that companies are holding back on investment over the projection period. Commercial construction activity is expected to also gradually slow somewhat as a number of construction projects in the pharmaceutical industry are completed. However, the expectation of continued but subdued growth in the Danish and international economy is supporting investment. Business investment is therefore expected to increase slightly over the next few years.

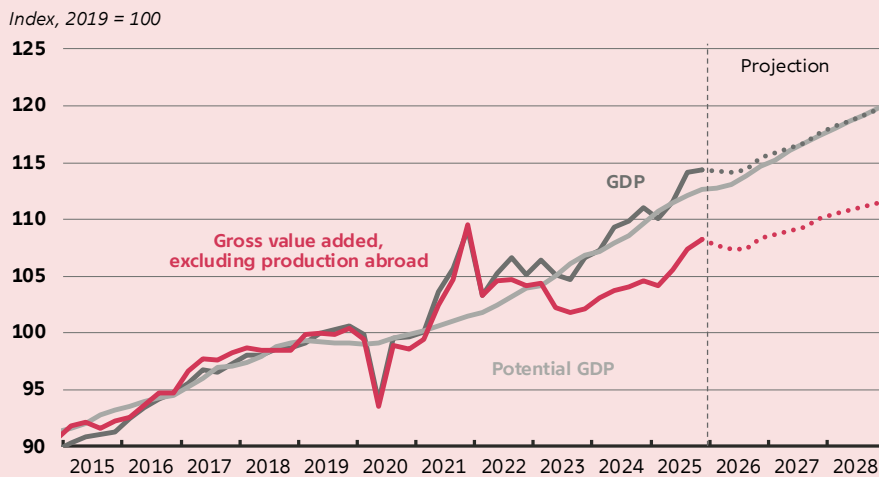
Overall, GDP growth is estimated to slow slightly this year to 1.8 per cent. GDP is expected to increase by 1.8 per cent in 2027 and 2.0 per cent in 2028, see chart 1.

² Last year, Novo Nordisk entered into an agreement with the US administration that, on the one hand, reduces the sales price of selected weight loss and diabetes products by up to 30 per cent and, on the other, provides access to a larger patient base through the public health insurance plans *MediCare* and *MediAid*. The agreement also includes exemption from tariffs for three years. Novo Nordisk has also introduced the first weight loss medication in pill form in the US.

³ This is primarily due to an expectation that the contribution to GDP growth from the output and sales abroad of Danish companies will be concurrent with lower sales prices – including for medicines – reducing earnings. When Danish companies receive lower prices for their exports without a corresponding decrease in the prices of the goods and services that Danish households and companies buy abroad, the overall spending opportunities for Danish households and companies are not improved. See also box 3.

CHART 1

Prospect of a balanced growth trajectory for the Danish economy



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

Source: Statistics Denmark and own calculations.

Pressure in the Danish economy is broadly neutral

Employment has continued to increase in the past year, while unemployment has also risen slightly. The increase in employment is mainly due to more foreigners coming to Denmark to work and more older people staying in the labour market. With the prospect of growth in the Danish economy slowing down, employment growth is also expected to slow down compared to recent years. By the end of 2028, employment is expected to grow by 45,000 people.

Pressure on the labour market has continued to ease, while employment has increased. This is reflected in most indicators of pressure on the labour market, such as labour shortages reported by employers and the number of new job postings. The pressure has eased, even though employment has increased. This is due to the increase in labour supply in recent years, amongst other things.

Danmarks Nationalbank assesses that the overall capacity pressure in the Danish economy is currently approximately neutral, which means that economic activity is not creating increased pressure on prices and wages. However, there is limited spare capacity in the Danish economy to increase production without fuelling wage increases and inflation.

The war in the Middle East is expected to lead to rising energy prices, putting both downward pressure on economic activity and upward pressure on inflation. The disruptions in the Danish and international economy are not necessarily expected to significantly alter the pressure in the Danish economy, and it is anticipated that in the coming years the Danish economy will also be in a situation with an approximately neutral capacity pressure, measured by Danmarks Nationalbank's output gap⁴. Thus, there is still the prospect of a balanced growth trajectory.

⁴See Mikkel Bess, Rasmus Bisgaard Larsen, Filip Rozsypal, Christoffer Jessen Weissert and Theodor Justus Bock, The output gap in the Danish economy: calculation and assessment, *Danmarks Nationalbank Analysis*, no. 2025, September 2025.

With the prospect of approximately neutral pressure in the Danish economy, wage increases in the private labour market are expected to be in line with the agreed wage increases in the collective agreement, which applies up to and including the beginning of 2028.

Capacity pressure in Denmark does not differ significantly from the euro area

If capacity pressure and thus inflation in Denmark develops in line with the euro area, monetary policy in the country will typically be well aligned from a macroeconomic perspective due to the fixed exchange rate policy.⁵ Overall, wage and price increases in the Danish economy have not deviated significantly from the euro area, and they are expected to remain similar throughout the projection. Most indicators point to capacity pressure in Denmark not differing significantly from the euro area.

Significant risks in the projection are particularly linked to developments in the global economy

The growth outlook shows considerable uncertainty, and new major shocks could lead to significantly weaker economic developments than expected in the projection. Risks are particularly related to geopolitical developments, such as the wars in Ukraine and the Middle East, energy price developments, trade conflicts and declining support for the framework of the multilateral economic system, which may change the fundamental assumptions behind the projection. The Danish economy is fundamentally well equipped to withstand unexpected economic headwinds. This is due to there currently being no signs that significant imbalances are building up in the Danish economy. Sound public finances, large current account surpluses, well-consolidated households and companies provide a good starting point for withstanding external shocks to the economy.

In the Finance Act for 2027, the incoming government should not push demand beyond what was already planned for

Fiscal policy has been eased considerably this year as a result of such initiatives as the temporary reduction of the electricity tax, payment of the 'food cheque', the phasing-in of the final part of the personal income tax reform and new political priorities such as a boost in consumption expenditure in the budget agreements with municipalities and regions. Defence spending this year has also been increased by around kr. 75 billion compared to the level before Russia's invasion of Ukraine and, according to the government, meets Nato's core objective of spending 3.5 per cent of GDP. For next year, the previous government's plan *DK2035: Et stærkt Danmark i en usikker verden (A strong Denmark in an uncertain world)* provides for further easing of fiscal policy.⁶

Despite the fact that fiscal policy is being eased significantly this year and next year, it is only expected to increase price and wage pressures to a minor extent. This is due to the assumption that a large part of the easing is related to higher defence spending, which in the short term is expected to be spent largely on purchases abroad. Given the current fiscal policy assumptions, capacity pressure is not expected to increase overall in Denmark towards 2028. However, there is considerable uncertainty about how fiscal policy will affect capacity pressure overall in the coming years, as it depends on such factors as the precise implementation of defence spending.⁷

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

⁶ Measured by changes in the structural balance. The projection assumes that the public sector will follow the previous government's plan *DK2035: A strong Denmark in an uncertain world*, also see appendix.

⁷ A lasting and debt-financed increase in defence spending to 3.5 per cent of GDP could moderately increase capacity pressure in the Danish economy. See Kim Abildgren, Dominic Cucic, Rasmus Mose

There is limited spare capacity in the Danish economy to increase output without fuelling wage increases and inflation. Due to the war in the Middle East, there is a risk that soaring energy prices will significantly increase inflation. In the Finance Act for 2027, the incoming government should not therefore push demand beyond what has already been planned for in the previous government's 2035 plan, as this could push inflation further.

Energy price increases can create pressure for political intervention to protect consumers. Subsidies and tax breaks on energy should be avoided, as they only increase prices further and effectively amount to an income transfer via the public finances from energy-importing to energy-exporting countries. If there is nevertheless a political will to help consumers, temporary transfers targeting low-income households that are particularly vulnerable to energy price increases are more appropriate in the short term. In addition, measures that increase capacity pressure should be matched by measures that reduce it. Finally, this should only be deployed in exceptional situations so as not to weaken the incentive to switch away from energy sources. In the longer term, switching to cheaper and more climate-friendly forms of energy is the sustainable solution.

The incoming government should be cautious about using up all the fiscal headroom

Denmark's healthy public finances have so far made it possible to increase defence spending without any major need to deprioritise other areas. The healthy public finances are a result of increased employment in Denmark, while a number of the largest Danish companies have experienced significant growth in international export markets.

The so-called fiscal space is based on a number of assumptions and projections for the development of the Danish economy and is subject to uncertainty. This is especially true in periods when there is considerable uncertainty about future economic developments in Denmark and abroad.

Even after the fiscal space was further increased in the previous government's 2035 plan, the majority of the fiscal space is still available after a permanent increase in defence spending to 3.5 per cent of GDP, a reduction in VAT on food or fruit and vegetables, continuation of current appropriations, etc. The remaining fiscal space will have to cover any additional new policy measures in future Finance Acts, including any desire to finance the full prosperity-adjusted demographic impact.

New political initiatives may put pressure on public finances. This is especially true if challenges in the Danish or international economy increase the need for new measures, or if the fiscal space turns out to be less than estimated because assumptions change. This suggests that the incoming government should be cautious about using up all the fiscal space or further increasing the fiscal space in individual years by weakening the structural balance.

As a small, open economy, Denmark has benefited from the credibility of its public finances, built up over many years. Sound public finances contribute to stable economic development and to the credibility of the fixed exchange rate policy. It is essential that this continues to be the case in future.

Danmarks Nationalbank's recommendations for economic policy

Danmarks Nationalbank assesses that capacity pressure in the Danish economy is approximately neutral and does not differ significantly from that in the euro area.

There is limited spare capacity in the Danish economy to increase output without fuelling wage increases and inflation. Due to the war in the Middle East, there is a risk that soaring energy prices will significantly increase inflation. In the Finance Act for 2027, the incoming government should therefore not push demand beyond what has already been planned in the previous government's 2035 plan, as this could push inflation further.

A permanent increase in defence spending to 3.5 per cent of GDP will use up most of the fiscal space, and new policy measures could put pressure on public finances. This is especially true if challenges in the Danish or international economy increase the need for new measures, or if the fiscal space turns out to be less than estimated because assumptions change.

This suggests that the incoming government should be cautious about using up all the fiscal space or further increasing the fiscal space in individual years by weakening the structural balance.

Sound public finances contribute to stable economic development and to the credibility of the fixed exchange rate policy. It is essential that this continues to be the case in future.

03

Prospect of export slowdown due to war in the Middle East and trade tensions

As a small, open economy, Denmark is heavily dependent on global trade and is heavily influenced by developments in global economic conditions.

The global economy has so far proved resilient to increased tariffs and persistent geopolitical uncertainty, supported by public investment and investment in artificial intelligence, AI.

The global economy is expected to enter a phase of slower growth this year. First and foremost, this reflects the assumption that the war in the Middle East will have a negative impact on the global economy, even though there is extraordinary uncertainty regarding the scale and duration of the associated economic consequences. At the same time, international organisations assess that trade policy measures introduced last year will increasingly weigh on growth of global trade this year.

Growth in Danish exports is nevertheless expected to continue, albeit at a slower pace than in recent years. Over the longer term, export growth is expected to pick up again. This outlook reflects an expectation that most of the Danish export sector will be affected by the global growth slowdown. Exports of goods will continue to be supported by a positive contribution from exports of goods produced abroad under Danish ownership, including sales and production in the pharmaceutical industry.

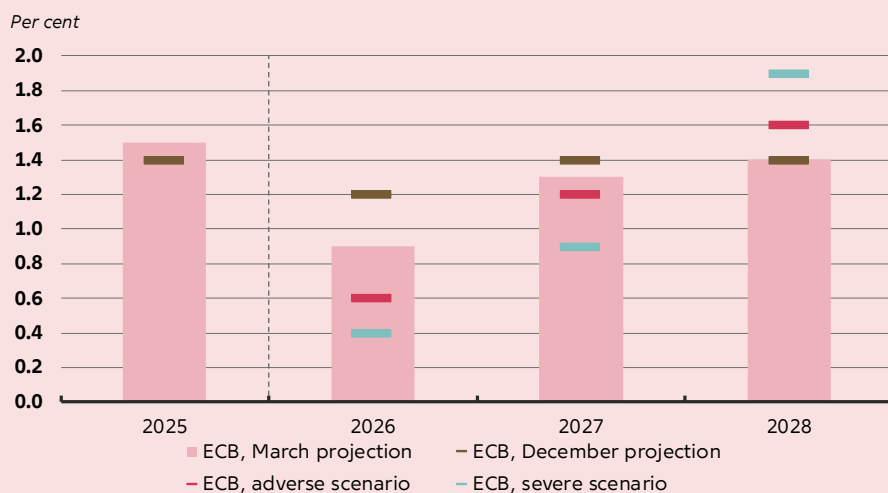
The war in the Middle East reduces growth in the global economy

Over the past year and a half, the global economy has been characterised by heightened geopolitical tensions, trade conflicts and weakening support for the multilateral, rules-based system. The war in the Middle East has rapidly emerged as a new destabilising factor for the global economy, not least because it is causing persistent disruptions in energy supply and production, with adverse consequences for companies and households. There is currently extraordinary uncertainty about the scale and duration of the associated economic spillovers.

Due to the high uncertainty, the ECB published, alongside its March projections, two alternative scenarios for GDP growth in the euro area, which primarily differ in the assumptions regarding the duration of the war and, consequently, the extent of disruptions to energy supplies from the Middle East, see chart 2. In the risk scenario, the ECB estimates that euro area growth will be reduced by 0.3 percentage points in 2026 relative to the baseline scenario, while the downward revision is larger in the severe risk scenario.

CHART 2

The ECB expects the war in the Middle East to lead to lower GDP growth in the euro area



Note: The ECB's forecast is based on the latest energy prices up to 11 March and does not include any further assumptions about disruptions to energy supplies. The risk scenario assumes that oil and gas supplies from the Strait of Hormuz will fall by 40 per cent in Q2 2026, and that supply disruptions will continue through to and including Q3, after which prices and volumes will gradually normalise from Q4 onwards. In the severe risk scenario, it is assumed that oil and gas supplies will fall by 60 per cent in Q2 and that disruptions will persist throughout the year, exacerbated by the destruction of energy infrastructure. A slow normalisation will not begin until 2027. Both risk scenarios assume that there is no monetary policy response.

Source: ECB.

Danmarks Nationalbank's projection for the Danish economy is based on the latest available information on global developments in the context of the war in the Middle East, as well as assessments from, among others, the ECB. The latest developments are considered to be more closely aligned with the ECB's⁸ risk

⁸ The ECB's data set was compiled up to and including 11 March. The data basis for Danmarks Nationalbank's projection is calculated up to 18 March.

scenario than with its baseline projection. This is supported by Danmarks Nationalbank's own calculations of recent developments in energy prices.⁹ Against this background, the war is estimated to have a negative effect on growth in the global economy and to cause a slowdown in growth in Danish export markets this year. However, the war does not change the fundamental picture of growth in Danish export markets. Export market growth is expected to be 1.7 per cent this year, 2.5 per cent next year and 2.6 per cent in 2028, see table 2. Growth will be driven primarily by neighbouring markets such as Sweden and Germany, while the US will contribute to a lesser extent than before the trade conflict in 2025.

Increases in oil and gas prices constitute a key transmission channel through which the economic impact of the war in the Middle East is felt, as higher prices erode household purchasing power and raise firms' production costs. The assumptions for the development in energy prices during the projection period are based on the futures markets for oil and gas. Oil prices are therefore assumed to gradually decline from their current high levels and, by the end of 2028, to be broadly in line with prices prevailing immediately before the outbreak of the war.

TABLE 2

International assumptions in the projection

	2025	2026	2027	2028
Export market growth (per cent, year-on-year)	3.8	1.7	2.5	2.6
Oil price (dollars per barrel)	68.0	89.3	77.4	73.6
Gas price (euro per MWh)	36.8	47.8	38.4	27.2
Electricity price (euro per MWh)	82.0	108.4	88.0	69.3

Note: Wholesale prices for oil, gas and electricity follow the average of futures prices from 16-18 March. See also chart 30 and 31, box 2 and appendix.

Expectation of subdued global growth

The war in the Middle East comes at a time when the world economy has for an extended period been characterised by persistent trade conflicts and significant geopolitical uncertainty, inter alia reflecting shifting tariff announcements from the US and changing conditions for global trade. This was evident, for example, when the US Supreme Court invalidated the use of certain tariff measures.¹⁰ Nevertheless, average tariffs on US imports remain at a high level, see chart 3.

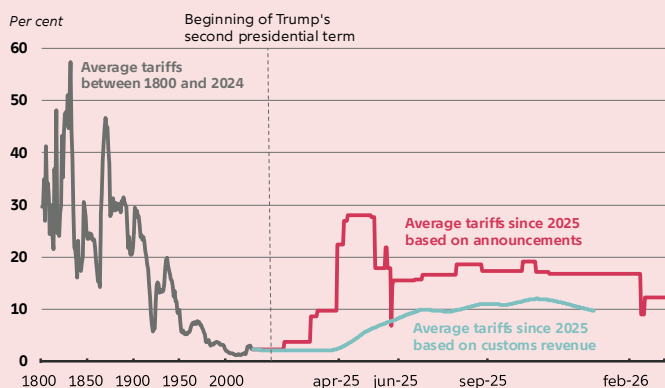
Despite the high level of conflict and uncertainty surrounding trade policy conditions, the global economy has proved resilient over the past year. Business confidence, measured by the PMI index, pointed to continued progress in the largest economies until the beginning of the war, see chart 4. Such progress should especially be seen in the light of relatively solid growth during 2025, supported by robust labour markets and accommodative financial conditions. In addition, strong trade activity driven by Chinese exports and high levels of investment in technology, including AI-related investments, has helped sustain economic activity despite elevated tariffs, see box 1.

⁹ Model calculations have been made in the *Global Integrated Monetary and Fiscal Model* from the International Monetary Fund.

¹⁰ The court's rejection concerns tariffs adopted under the International Emergency Economic Powers Act (IEEPA), including the general global tariff, country-specific tariffs and parts of the tariffs that have been attached to trade agreements. Sector-specific tariffs, including on steel, aluminium and cars, remain in place. In addition, the US administration has introduced a temporary global tariff of 10 per cent based on other legislation.

CHART 3

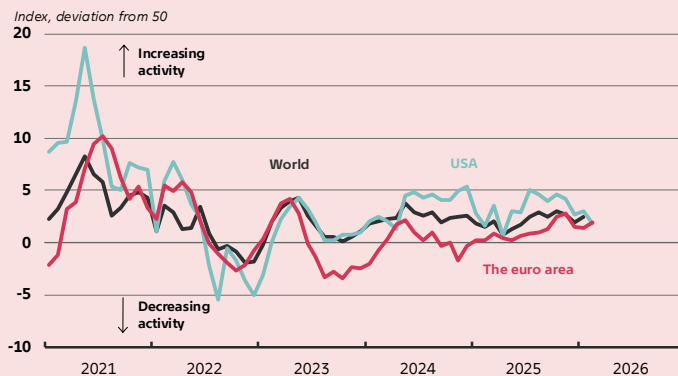
Average tariffs on US imports have risen to a high level



Note: Average tariff rates since 2025 based on announcements are calculated on the assumption that US import shares from individual countries remain unchanged from the 2024 level. Average tariff rates since 2025 based on tariff revenue are calculated as tariff revenue relative to total import value.
Source: US Bureau of Economic Analysis, US Census Bureau, US Department of Treasury, Yale Budget Lab and own calculations.

CHART 4

Business confidence points to an improvement in activity in the largest economies



Note: The chart shows the PMI index for the whole economy. The most recent observation is February.
Source: S&P Global and own calculations.

Uncertainty surrounding global trade remains elevated and is expected to continue weigh on global growth prospects going forward. The US administration maintains that trade policy measures will continue to be used with the aim of reducing the country's trade balance deficit. After about a year of increased tariffs, the deficit is roughly at the same level as in 2024, but the composition has changed, with smaller deficits vis-à-vis China and the EU and larger deficits vis-à-vis several Asian countries.

Basically, it is assumed that growth in the global economy will be subdued in the coming years. Global growth is estimated to slow compared to 2025 due to the war in the Middle East and because continued trade policy uncertainty and higher tariffs will increasingly weigh on world trade this year.¹¹ By contrast, trade diversion towards Asia and high levels of investment in technology and AI are expected to support growth. However, it is too early to speak of tangible productivity gains from the use of AI. Studies point to positive effects, but there is considerable uncertainty about their size and the timing of when such gains will be reflected in productivity figures.¹²

¹¹ Current US tariffs on imports of European goods include a global tariff of 10 per cent, sector-specific tariffs on i.e. steel, aluminium and automobiles, and the general WTO tariffs applied according to *the Most Favored Nation principle*. Overall, this means that the USA's effective tariff rate for the EU is just below 15 per cent, similar to the level established in last year's trade agreement.

¹² See Kim Abildgren and Rasmus Mose Jensen, Artificial intelligence can boost productivity in the Danish economy, *Danmarks Nationalbank Analysis*, forthcoming.

BOX 1

Chinese exports and high investments in technology have supported growth in the global economy over the past year

The global economy developed more robustly than expected in 2025. This is due in particular to two factors: stable global trade despite changing trade patterns and high levels of investment in technology and AI.

Global trade appeared stable overall in the autumn, although that covers regional differences, see chart. *On the one hand*, US foreign trade has fallen significantly, partly because the temporary boost from front-loaded imports earlier in the year has normalised, and because of a sharp decline in imports of Chinese goods. *On the other hand*, China's foreign trade has continued to grow, supported by a broad-based increase in exports to several regions, which more than offsets the decline in exports to the US. In particular, several Asian economies have increased their shares in China's exports, while at the same time gaining larger shares in US imports. This may indicate that Chinese goods are increasingly being routed via neighbouring countries, acting as intermediaries in trade with the US.¹ The export pattern also points to closer integration in regional production chains, where countries in Asia are increasingly processing or assembling Chinese intermediate inputs before re-exporting them. This combination of trade diversion and closer production integration has significantly boosted China's exports to the rest of Asia. Imports from China have also increased in the EU and Denmark but at a more subdued pace than in Asia.² The ECB assesses that, so far, there are only limited evidence that Chinese goods are being sent to the EU as a result of the US tariff increases.

High levels of investment in technology and AI were another driver of activity in 2025. Strong AI-related investments globally boosted demand for technology-related equipment and supported exports of microchips in Asian economies, which has helped to sustain global trade. AI and technology were particularly prominent in the US, where technology-related investments made an unusually large contribution to growth. However, a large part of the AI-related equipment was imported, meaning that the overall GDP impact was more subdued than the level of investment in isolation would indicate.³ The high level of investment activity in IT has also been seen in several other advanced economies, including in the euro area, underscoring that this is a broader international trend.⁴

¹ See Julien Le Roux and Tajda Spital, Global trade redirection: tracking the role of trade diversion from US tariffs in Chinese export developments, *ECB Economic Bulletin*, no. 1, box 1, February 2026. A similar trend was observed after the US imposed tariffs on Chinese goods in 2018. See Victoria Havsteen Branner, Oliver Hammershøj Bentsen, Madeleine Sophia van Deurs and Amy Yuan Zhuang, Fragmentation of global trade could challenge the Danish economy, *Danmarks Nationalbank Analysis*, no. 16, October 2024.

² Denmark's imports originating from China are higher than the official figures, because a significant part of Danish imports from China go through other EU countries and are therefore registered as imports from these countries in the statistics. See Pernille Leth Hougaard, Özge Burcu Köprülü and Emil Flyger Andersen, Kinesiske varer importeres ofte via EU-lande (Chinese goods are often imported via EU countries, in Danish only), *Statistics Denmark Analysis*, no. 11, December 2025.

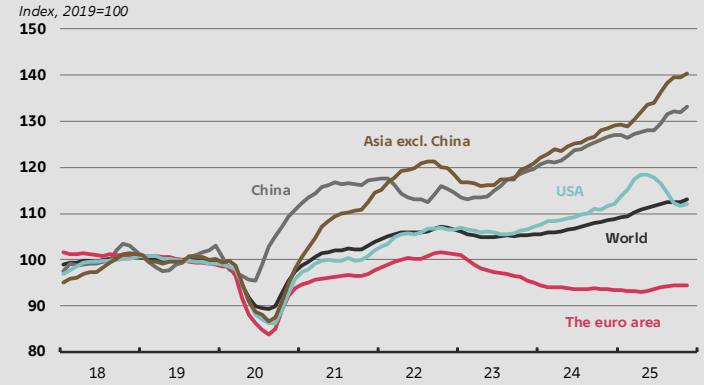
³ See OECD, Resilient Growth but with Increasing Fragilities, *Economic Outlook*, December 2025.

⁴ See IMF, Global economy: steady amid divergent forces, *World Economic Outlook Update*, January 2026.

CHART

Global trade continued to grow in 2025, partly driven by trade shifts towards Asia

Total Danish foreign trade for selected regions



Note: The chart shows Danish foreign trade measured in volume as an average of goods imports and goods exports for the world, the euro area, the US, China and Asia excluding China. The chart shows a 6-month moving average.

Source: CPB World Trade Monitor and own calculations.

The war in the Middle East could result in even lower growth and higher inflation

There is a risk of lower growth and higher inflation in both the Danish and international economy than assumed in the projection. The risk is mainly related to the duration and scale of the war in the Middle East, including the destruction of energy infrastructure and associated economic effects from lower supply and higher energy prices, as well as the monetary policy response. In a risk scenario described in box 2, Danmarks Nationalbank estimates that inflation could reach 4.5 per cent in 2026 if oil and gas supplies from the Persian Gulf are limited in the coming years. This is an additional increase in inflation of 2.7 percentage points in 2026 compared to the projection. In the same scenario, GDP growth in the Danish economy is reduced by 0.7 percentage points in 2026 compared to the projection.

The risk scenario presents a different picture of the effects on inflation and economic growth than observed in 2022 following Russia's invasion of Ukraine. The difference is due to the fact that the nature of the shock is different, and it is currently mainly the price of crude oil that is increasing, while it was mainly gas and electricity prices that increased in 2022. Furthermore, inflation in 2022 occurred in the wake of the reopening after the coronavirus pandemic, when economic activity was high.

BOX 2

Risk of higher inflation and lower growth during a prolonged war in the Middle East

A prolonged and widespread war in the Middle East with destruction of energy infrastructure and significant associated economic effects from lower supply and higher energy prices could increase inflation and reduce GDP growth beyond what is projected. The countries around the Persian Gulf are important for the global production of oil and gas. Together, they account for approximately 25 per cent of the global supply of oil and 15 per cent of the global supply of natural gas.

The following presents a risk scenario in which the supply of energy from the Persian Gulf countries is restricted in the coming years.¹ In this scenario, the price of crude oil rises to almost USD 160 per barrel and the wholesale price of natural gas rises to around EUR 115 per MWh in Q2 2026, see chart. After that, energy prices gradually decrease but remain at an elevated level over the projection horizon. The decrease after Q2 2026 is due to assumptions that other countries will gradually increase their production in 2026 and that supplies from the Persian Gulf will gradually recover in 2027. The increase in gas prices causes the spot price of electricity to rise to around 215 euro per MWh, as gas is often the marginal input factor in global electricity production and thus acts as a price setter.²

Danmarks Nationalbank's calculations show that increases in energy prices push up inflation by 2.7 percentage points in 2026 and 1.8 percentage points in 2027 compared to the main scenario, see table. At the same time, GDP growth is reduced by 0.7 percentage points in 2026 and 0.8 percentage points in 2027.

The higher inflation in the risk scenario is due to both the direct effect of higher energy prices on consumer prices and the indirect impact of increased production costs as a result of higher energy prices being passed on to consumer prices.³ In addition, it is assumed that second-round effects in prices and wages push up inflation further, especially in 2027. Second-round effects are that higher energy costs spread to other goods, services and wages, further increasing price pressure.

The increased reduction in economic activity in the risk scenario is due to reduced consumption and production as a result of lower real wages and higher input costs. The reduction is also due to central banks, as an integral part of the model, tightening monetary policy as a result of higher inflation.

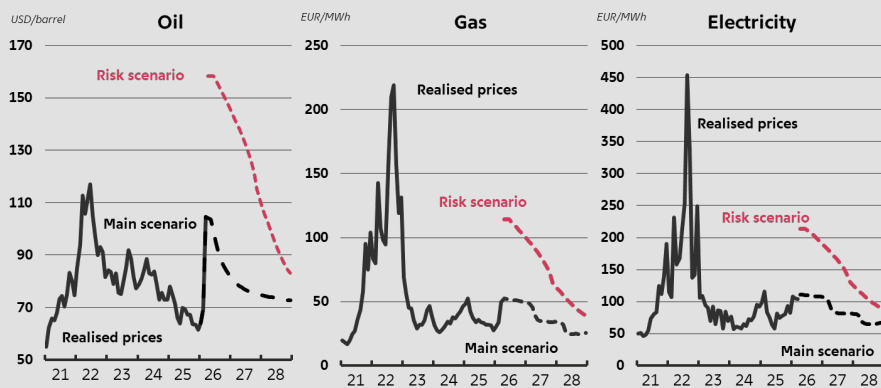
The impact on Danish inflation in the risk scenario is smaller than in 2022, when Russia's invasion of Ukraine and an unusually hot European summer limited European energy supply. The difference in effects compared to 2022 is due to the fact that the shock is different and that the economy is coming from a significantly different starting point. In the risk scenario, it is mainly the price of crude oil that increases, while gas prices are lower than the level in 2022. This is in contrast to 2022, when it was gas and electricity prices in particular that increased. Furthermore, inflation in 2022 occurred in the wake of the reopening after the coronavirus pandemic, when household consumption was strong, economic policy was accommodative and the labour market was tight. By comparison, consumption appetite is currently low and monetary policy and labour market pressures are estimated to be roughly neutral.⁴

Continues ...

... continued

CHART

Scenarios for oil, gas and electricity prices



Note: *Main scenario* shows the trajectory that underlies Danmarks Nationalbank’s projection. Realised prices are average monthly prices. For March 2026, realised prices for oil and gas are the average prices for 16-18 March. The most recent observation is 18 March 2026.

Source: Macrobond and own calculations.

TABLE

Scenarios for the Danish economy with altered energy price assumptions

Per cent, year-on-year	Risk scenario			Difference relative to projection (percentage points)		
	2026	2027	2028	2026	2027	2028
GDP	1.1	1.0	2.0	-0.7	-0.8	0.0
Consumer prices	4.5	3.8	1.0	2.7	1.8	-0.9
Core inflation	2.4	3.7	2.2	0.2	1.5	0.6

Note: Change in percentage points compared with the projection.

Source: Own calculations.

¹ The price increases for oil and natural gas, as well as the global macroeconomic effects, are calculated in the *Global Integrated Monetary and Fiscal Model* from the International Monetary Fund. The scenario assumes that all exports of oil and natural gas from Iran cease. Exports of crude oil from Kuwait, Qatar, Saudi Arabia and the United Arab Emirates are curtailed by 70 per cent, and the remaining 30 per cent is assumed to be rerouted via pipelines to alternative shipping ports. All natural gas exports from these countries are assumed to cease.

² The impact of a given supply constraint is assumed to be twice as strong for gas as for oil. This is intended to reflect that the countries around the Persian Gulf are important exporters of liquefied natural gas, LNG, and that LNG is often the marginal source of supply in the global natural gas market, see Victoria Havsteen Branner and Marcus Mølbak Ingholt, Denmark risks a period of energy price fluctuations, impacting inflation and monetary policy, *Danmarks Nationalbank Analysis*, no. 15, November 2023.

³ The assumption is intended to reflect that energy price increases typically affect consumer prices more than price decreases, and that large changes in energy prices typically affect consumer prices more than small changes, see Victoria Havsteen Branner, Increases in energy prices could have a stronger effect on consumer prices than decreases, *Danmarks Nationalbank Analysis*, no. 7, October 2024.

⁴ See Asbjørn Westmose Klein, Andreas Kuchler, Emil Holst Partsch and Morten Spange, The persistent decline in the consumption to income ratio: causes and drivers, *Danmarks Nationalbank Analysis*, no. 4, March 2026, and Danmarks Nationalbank, Renewed global uncertainty and neutral monetary policy, *Danmarks Nationalbank Analysis (Monetary and financial trends)*, no. 3, March 2026.

Growth in Danish exports has been driven by goods produced both inside and outside the country's borders

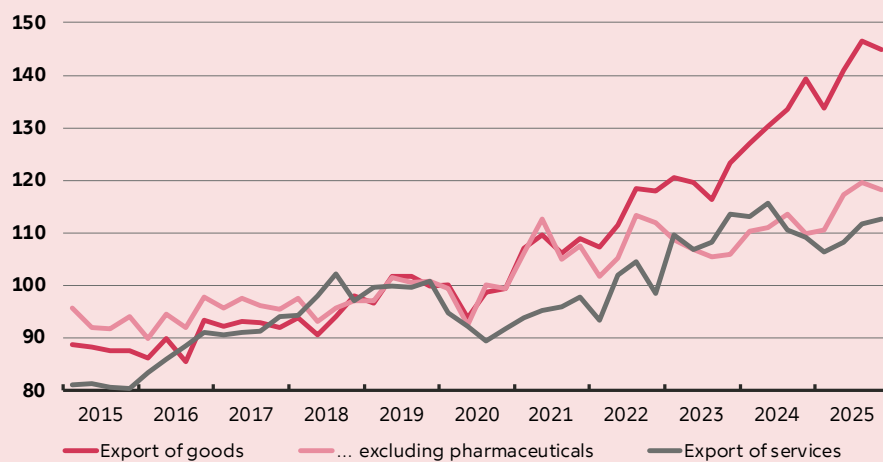
Danish exporters have continued to grow despite the past year's geopolitical and trade policy turmoil in the global economy. Total exports of goods increased by 6.8 per cent last year, while exports of services have increased slightly over the past year, see chart 5. Exports of non-pharmaceutical goods have contributed more to overall goods export growth than in previous years, with, inter alia, increased exports of machinery and transport equipment. Growth has thus become more broadly based compared with recent years, when the increase in the pharmaceutical industry's output abroad was the primary driving force.

The growth in Danish exports should primarily be seen in the context of the global economy having proved quite resilient to the past year's geopolitical and trade policy turmoil. This is also reflected in overall business confidence, which has only fallen slightly over the past year and was still above its historical average prior to the outbreak of the war in the Middle East. The decline in overall business confidence is largely attributable to the manufacturing sector, likely reflecting lower earnings expectations in such sectors as the pharmaceutical industry.

CHART 5

Export growth has become more broadly based

Index, 2019 = 100



Note: Calculated at fixed prices.
 Source: Statistics Denmark and own calculations.

There are currently no clear signs that the increased US tariffs have had a significant overall impact on Danish companies. This is due to the fact that only a small part of Danish goods exports is actually subject to the higher tariffs, as a large part of exports to the US is already produced there.¹³ It may also be because Danish companies directly affected by the tariffs generally have good opportunities to sell their goods in other markets and thereby avoid the higher tariffs. Historically, there are indications that Danish exporters expand their

¹³See Danmarks Nationalbank, The outlook is for lower wage increases and stable inflation despite uncertain times, *Danmarks Nationalbank Analysis (Outlook for the Danish economy)*, no. 9, March 2025.

network of trading partners when tariffs increase, which may reflect strategies to avoid markets with tariffs – either by moving exports to alternative destinations or by rerouting goods through intermediate countries. This adaptability may have reduced the impact of higher tariffs on the Danish economy.¹⁴

Exports of pharmaceuticals to the US have not been directly affected by the tariff increases during 2025. This is because pharmaceuticals were initially exempt from the tariff increases. A large part of Danish pharmaceutical exports is already produced in foreign factories, especially in the US, known as *merchandising and processing*, and goods produced in the US are not subject to tariffs.

Exports of pharmaceuticals have also contributed to the increase in total Danish goods exports in 2025, although increased competition in the US market has meant that Novo Nordisk has lost market share in the market for weight-loss medicines. Export volumes of pharmaceuticals have been able to increase even though Novo Nordisk has lost market share, reflecting the fact that the market for diabetes and weight loss medicines in the US is growing rapidly. However, falling sales prices and the weakening of the US dollar in 2025 meant that Danish exports of pharmaceuticals have remained roughly unchanged in nominal terms, although sales volumes have increased.

Prospect of lower growth in Danish exports in the coming years

The growth in goods exports is expected to continue, but at a slower pace than in recent years, see chart 6. This development reflects an expectation that most of the Danish export sector will be affected by the global growth slowdown. Exports of goods will continue to be supported by a continued positive contribution from exports of goods produced abroad under Danish ownership, including pharmaceutical industry sales and production:

Growth in *the domestically produced* part of Danish goods exports is expected to slow slightly. This should be seen in light of the war in the Middle East and higher tariffs dampening growth prospects in Danish export markets this year. However, overall good competitiveness puts Danish exporters in a favourable position to continue to benefit from the subdued expansion in Danish export markets. Goods exports excluding output abroad under Danish ownership are expected to grow approximately in line with overall export market growth over the projection period.

Contributions from goods produced abroad should in particular be seen in the light of the expected development in the pharmaceutical industry and Novo Nordisk's agreement with the US authorities last autumn. The agreement, which takes effect from 2026, involves a reduction of up to 30 per cent in the sales price of selected weight loss and diabetes products, while providing access to a larger patient base through the public health insurance programmes *Medicare* and *Medicaid*.¹⁵ The agreement also includes exemption from tariffs for three years. Both Novo Nordisk and equity analysts expect that the effect of lower sales prices on the company's revenues will to some extent be offset by increased sales and production of pharmaceuticals in the US market, which should also be seen in the context of its introduction of the first weight-loss drug in pill form.

¹⁴ See Andersen and Krause, Tariffs and Danish exports: Insights from three decades of microdata, *Danmarks Nationalbank Economic Memo*, no. 4, December 2025.

¹⁵ Novo Nordisk stated the following in its press release *Novo Nordisk announces agreement with the U.S. Administration to bring GLP-1s to more Americans at a lower cost*, dated 6 November: "Novo Nordisk currently expects an estimated negative low single-digit impact on global sales growth in 2026".

Overall, developments in the pharmaceutical industry are expected to have a positive impact on growth in real goods exports, while nominal exports are negatively affected due to the simultaneous price decline.¹⁶ The increase in the production of pharmaceuticals is expected predominantly to take place in the US and to be recorded as merchanting and processing activities in the calculation of Danish exports and GDP. The development in pharmaceutical sales is not expected to be affected quite as much as the rest of Danish exports by the turmoil in the global economy as a result of the war in the Middle East. Total exports of merchanting and processing contribute 1.3 percentage points to overall growth in goods exports this year.¹⁷

Growth in Danish service exports is expected, like domestically produced goods exports, to be somewhat more subdued over the next few years, with maritime transport in particular being affected by lower growth in world trade.

As a result, total exports are expected to increase by 2.8 per cent this year, 2.0 per cent next year and 2.4 per cent in 2028.

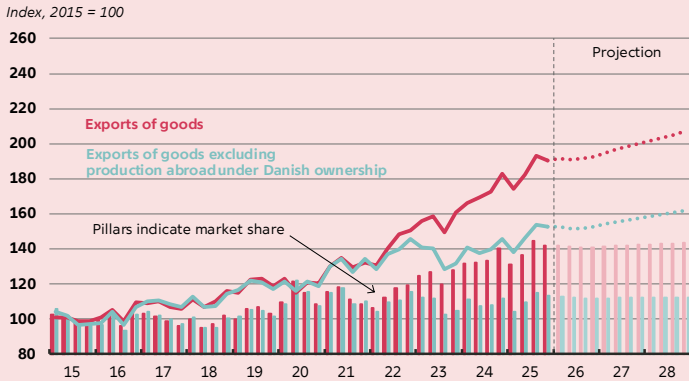
The increase in real exports is, however, expected to occur at the same time as a further deterioration in the Danish terms of trade due to lower prices for such products as pharmaceuticals. Since 2020, the terms of trade for goods have weakened by approximately 10 per cent, partly due to a weakening specifically in pharmaceuticals: The prices of the pharmaceutical industry's output have remained approximately unchanged during this period, while import prices have increased by around 25 per cent. The terms of trade for goods excluding energy are also expected to weaken in 2026, due to falling prices for pharmaceuticals, while prices for the remainder of goods exports are expected develop more evenly. Overall, prices for total goods exports (excluding energy) are expected to decline by 1.5 per cent. Since 2020, maritime transport prices have also caused large fluctuations in the terms of trade, but expectations for freight rates, based on futures prices, have only increased slightly as a result of the war in the Middle East and are not expected to contribute significantly to the development in the terms of trade going forward, see chart 7. The terms of trade are expected to be broadly unchanged in 2027 and 2028.

¹⁶ There is considerable uncertainty about how sales trends affect the calculation of GDP and exports at constant and current prices, respectively, in the national accounts in the short term. Since production is expected to predominantly take place in the USA and to be recorded as merchanting and processing activities, it should not affect the assessment of capacity pressures in the Danish economy through the projection. See also Simon Juul Hviid, Rasmus Rold Sørensen, Morten Spange, Tobias Renkin and Mia Renee Herlev Jørgensen, The increasing importance of the largest companies, *Danmarks Nationalbank Analysis*, no. 8, March 2025.

¹⁷ The expectation of a positive contribution from the pharmaceutical industry and output abroad under Danish ownership is based on equity analysts' expectations for nominal sales in the largest Danish pharmaceutical companies and expected price trends in the pharmaceutical industry. The estimate is currently subject to extraordinary uncertainty.

CHART 6

Subdued growth in goods exports



Source: Statistics Denmark and own calculations.

CHART 7

Terms of trade deteriorate slightly this year

Terms of trade



Note: The terms of trade are calculated on the basis of the price deflator for exports relative to imports.

Source: Statistics Denmark and own calculations.

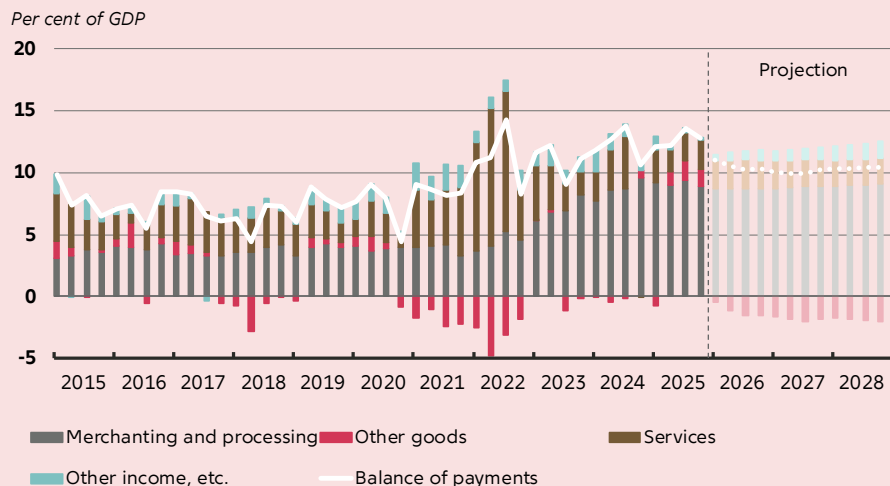
Continued high current account surplus

The current account surplus has increased slightly throughout 2025 and in Q4 2025 amounted to around 13 per cent of GDP, see chart 8. The surplus is mainly driven by the positive trade balance. The large current account surpluses reflect primarily that Denmark has a high level of saving relative to GDP, while investment levels are broadly in line with those of comparable countries.

There is a prospect of the current account surplus remaining high in the coming years but is expected to decline to around 10 per cent in 2028. The decline reflects the fact that the country as a whole is saving less than before, including in particular a decrease in the public balance surplus, partly due to the purchase of defence equipment abroad. The continued large current account surpluses reflect an expectation of continued high savings among households. Denmark's energy imports are broadly equal to its energy exports, and fluctuations in energy prices as a result of the war in the Middle East are therefore not expected to affect the surpluses on the balance of payments to any significant extent. The situation is different for the euro area, which is a net importer of energy.

CHART 8

The current account surplus is expected to decline slightly over the coming years



Source: Statistics Denmark and own calculations.

04

Subdued growth in domestic demand

Aggregate domestic demand has been weak in recent years, but it is expected to strengthen a little going forward.

Growth in private consumption is expected to primarily be driven by rising incomes and high employment. A number of policy measures will contribute to higher disposable incomes in 2026, while the rate adjustment will result in a substantial increase in transfer incomes. By contrast, the consumption ratio is expected to remain low due to persistently high uncertainty about the economic situation and higher energy prices as a result of the war in the Middle East.

The housing market is characterised by high activity, with strong demand and shrinking supply. Nationally, house prices have risen in line with interest rates and incomes. However, there are large regional differences, and price increases for owner-occupied flats in Copenhagen over the past year have been greater than the development in interest rates and incomes would suggest. The price of single-family houses is expected to rise in line with income developments in the coming years.

Investment is expected to increase slightly over the next few years and will be particularly affected by persistent uncertainty about developments in the global economy, the trade policy framework conditions, as well as lower growth in the sales markets for companies.

Higher public demand, partly due to higher defence spending, contributes to a large extent to the increase in domestic demand. Higher public sector demand is expected to be met by higher imports.

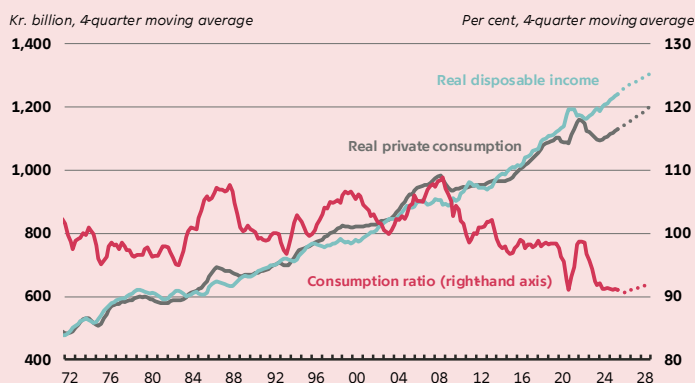
Private consumption has been weak in recent years

Danish households have held back on consumption in recent years. This restraint is reflected in the consumption ratio – which shows consumption as a share of households’ disposable income – which fell during 2022 and has since remained at a very low level, see chart 9. The consumption ratio has been approximately unchanged in recent years, and growth in consumption has been in line with developments in disposable income.

Restraint among households is not a specifically Danish phenomenon, and the consumption ratio has also fallen in several other comparable countries in recent years, see chart 10. However, the decline has been greater in Denmark.

CHART 9

The consumption ratio has been low in recent years

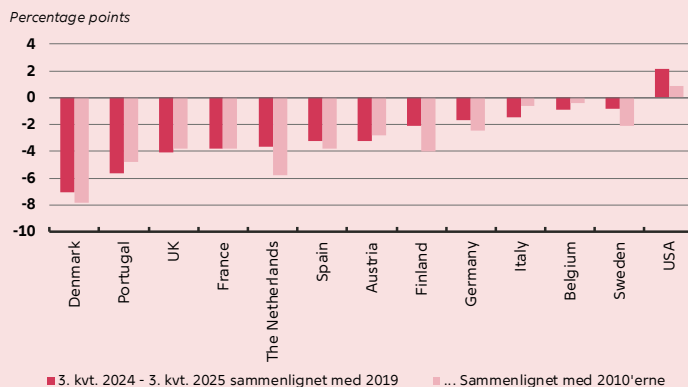


Note: The latest observation is Q4 2025 for private consumption and Q3 2025 for disposable income and the consumption ratio.

Source: Statistics Denmark and own calculations.

CHART 10

The consumption ratio has fallen in several countries



Note: The consumption ratio is calculated as total private consumption as a percentage of disposable income for each country.

Source: Macrobond, Eurostat, national sources and own calculations.

The weak consumption of recent years cannot be explained by historical correlations between consumption, income, wealth and unemployment, which have traditionally explained a large part of the trend. There is no clear explanation for the change in household consumption behaviour, and the trend is probably a combination of several factors:¹⁸

Greater uncertainty and pessimism among households is considered to be the most important factor behind the restrained consumption. Higher uncertainty due to among others large fluctuations in inflation and Russia’s invasion of Ukraine in 2022 is deemed to have contributed to increasing savings and postponing consumption in Denmark. The decline in the consumption ratio is also consistent with changes in consumer confidence, which has been low in Denmark and in the euro area since the beginning of 2022.

The younger and older households have reduced the consumption ratio the most. For younger households, this may reflect that their job situation is often more uncertain and that they face a longer time horizon with potential risks. It is also particularly the younger generation who have become less optimistic in their

¹⁸ See Asbjørn Westmose Klein, Andreas Kuchler, Emil Holst Partsch and Morten Spange, The persistent decline in the consumption to income ratio: causes and drivers, *Danmarks Nationalbank Analysis*, no. 4, March 2026.

assessment of their future financial situation. Rising house prices may additionally have made it necessary for younger households to increase their savings for longer than previously to gain a foothold in the housing market, which will also pull down the consumption ratio. *For older households*, the decline in the consumption ratio is deemed to be related to later retirement, which has raised income without leading to a corresponding increase in consumption.

Incomes since 2019 have increased slightly more for high-income groups than for the population as a whole. This drags down the overall consumption ratio, as high-income households are less likely to translate higher earnings into consumption than the population as a whole. In relation, asset income has made up more of the total income in recent years, where the propensity to consume is also assumed to be lower than, for example, for wage income. However, shifts in income are only deemed to explain a limited part of the weakness in consumption.

Households are expected to continue to hold back on consumption

Looking ahead, private consumption is expected to increase by 1.9 per cent in 2026, 1.9 per cent in 2027 and 2.2 per cent in 2028. This is due to an expectation that household incomes and wealth will increase further. Continued restraint means that going forward households are expected to spend roughly the same proportion of their income on consumption as they did last year:

Household real income is expected to rise relatively strongly this year, partly as a result of high adjustments to transfer income, a number of tax and duty reductions, and the payment of 'food cheques'. Moderate growth in employment and real wages will also contribute to increasing household incomes over the projection period.

The consumption ratio is expected to remain roughly unchanged this year and next year. This should be seen in the context of the war in the Middle East, which is once again deemed to be fuelling uncertainty about the economic situation among households and price developments as a result of higher energy prices. This is expected – in line with developments following the outbreak of the war in Ukraine – to contribute to a dampening of consumer appetite going forward. In 2028, the consumption ratio is expected to start rising slightly as the events that initially contributed to the decline in consumption appetite become more distant. Persistently high uncertainty therefore means that the consumption ratio is expected to remain low in a historical context.

The assumptions behind the expectation of the continued low consumption ratio are subject to uncertainty. This is mainly because it is uncertain how the driving forces contributing to pessimism among households will actually affect them in the future. For example, the war in the Middle East could further contribute to the restraint due to a longer period of high prices and general uncertainty about the economic situation than assumed in the projection. By contrast, large savings in households can support consumption during a period when rising living costs due to such factors as higher energy prices can put pressure on budgets. Household restraint may therefore prove both more and less persistent than predicted in the projection.

House prices have increased in the past year

While households are holding back on consumption, there is still considerable activity in the housing market. In 2025, house prices nationwide increased by 5.7 per cent.¹⁹ The high price increase is due to among others a decreasing number

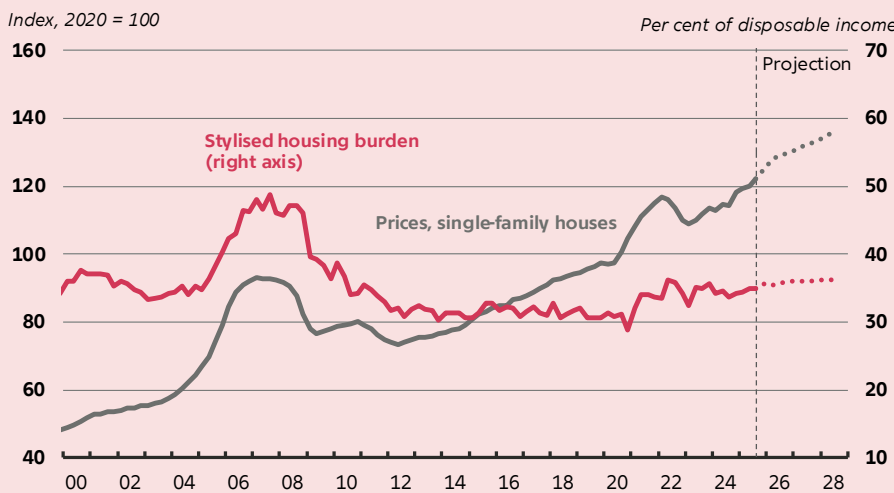
¹⁹ The rise in house prices is based on Statistics Denmark's calculations, which cover up to and including Q3 at the time of publication. Q4 is projected based on published data from Boligsiden.

of homes for sale and high demand, while overall activity in the housing market has also increased: Last year, about 15 per cent more houses were sold than in 2024. Meanwhile, price reductions have been low. In an international context, house price increases in Denmark have also been higher than in several comparable countries in the past year.

House price increases nationwide can largely be explained by underlying driving forces in the Danish economy: House price increases have coincided with rising household incomes, and interest rates have fallen slightly since the end of 2024. When taking changes in income into account, the price level for houses nationwide has not risen over the past year. This is reflected in the housing burden, which has remained unchanged throughout 2025, see chart 11. Housing investment has been low in recent years and has only increased to a limited extent in 2025. Housing investment has therefore not helped counteract the price pressures from the supply side.

CHART 11

House prices are expected to rise in the coming years



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

Source: Statistics Denmark, Finance Denmark and own calculations.

House prices are rising fastest in and around Copenhagen

In Copenhagen, prices of owner-occupied flats have risen sharply by up to 24 per cent in the past year, see chart 12. Owner-occupied flats account for around one fifth of the total housing stock in Copenhagen.²⁰ Prices of owner-occupied flats in Copenhagen have increased more than can be explained by developments in

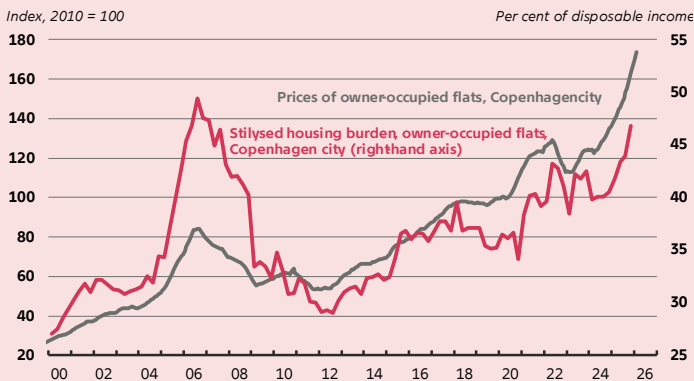
²⁰ For further discussion of developments in the Copenhagen housing market, see Henrik Yde Andersen, Cecilie Walsted Gaarskær, Simon Juul Hviid, Asbjørn Westmose Klein, Rikke Rhode Nissen and Emil Toft Vestergaard, Twin speed housing market, *Danmarks Nationalbank Analysis*, no. 27, November 2025.

incomes and interest rates, and the stylised housing burden for owner-occupied flats in Copenhagen has increased in recent years to approximately the same level as around the financial crisis. At the same time, housing debt as a share of income has started to increase for home buyers to a greater extent in Copenhagen than in the rest of the country, see chart 13.

The price development in owner-occupied flats in Copenhagen does not necessarily mean that house prices are overvalued. For example, an increased preference for living in the metropolitan area in combination with limited opportunities to expand the supply of housing may mean that the price development in owner-occupied flats in Copenhagen may continue to exceed the general price development in the housing market, as has been the case for a number of years. However, the current extraordinary rate of price increases of over 20 per cent may in itself be a sign that prices have become expectation-driven and must be considered unsustainable.

CHART 12

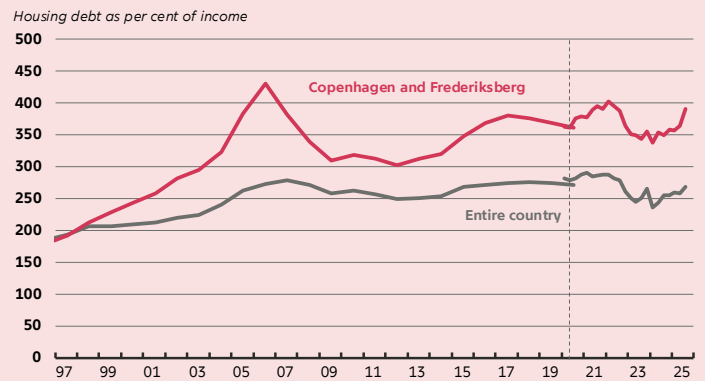
The prices of owner-occupied flats in Copenhagen have risen sharply



Note: Nominal house prices of owner-occupied flats in the region City of Copenhagen. The housing burden for owner-occupied flats in the City of Copenhagen is calculated as in chart 11, except that the average disposable income of homeowners in the City of Copenhagen is used.
 Source: Boligsiden, Statistics Denmark, Finance Denmark and own calculations.

CHART 13

The debt-to-income ratio of home buyers in Copenhagen has increased recently



Note: The chart shows the median housing debt as a percentage of income for home buyers in the quarter in question. The vertical line indicates a data break when switching from Statistics Denmark's annual register data to more detailed quarterly data from Danmarks Nationalbank's credit register. Most recent observation is Q3 2025.
 Source: Danmarks Nationalbank's credit register and Statistics Denmark's register data.

House prices in and around Copenhagen have not risen to quite the same extent as prices of owner-occupied flats, but there is a tendency for house prices in areas around Copenhagen to have increased more than in other parts of the country over the past year, see chart 14. This may indicate that price increases in Copenhagen are gradually causing home buyers to look towards other, nearby areas when prices rise sharply in Copenhagen. On the one hand, these areas can act as a stabilising mechanism for the areas where demand increases the most. On the other hand, an unfavourable development in Copenhagen driven by overoptimism about future house prices could spread to other parts of the country.

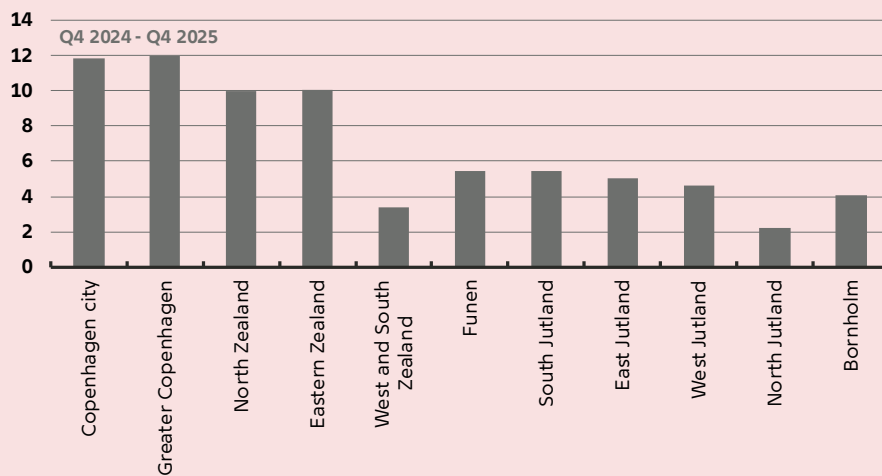
The high rates of price increases in and around Copenhagen, coupled with increasing credit growth, entails an increased build-up of risk in the Copenhagen

housing market with the risk of significant price drops. At the same time, the current significant price increases in Copenhagen increase the risk of a self-reinforcing dynamic. That self-reinforcing dynamic may spread to the rest of the country²¹ and increase the risk of macroeconomic imbalances through homeowners' consumption and borrowing behaviour, which may also challenge financial stability.

CHART 14

House price increases in 2025 were highest in and around Copenhagen

Change in house prices, per cent



Note: House price increases from Q4 2024 to Q4 2025. The data underlying the chart are Statistics Denmark's house price index extended with developments from Boligsiden's price data for Q4 2025.

Source: Statistics Denmark, Boligsiden and own calculations.

House prices are expected to rise in line with incomes going forward

Looking ahead, house prices nationwide are expected to increase further, but at a slightly slower pace than seen over the past year, see chart 11. The slower pace is a consequence of the fact that rising housing investments contribute to an increase in supply, that housing taxes in 2027 will be adjusted based on price developments, and that mortgage interest rates are assumed to rise.²² By contrast, continued growth in household incomes helps to support house price increases.

In 2026, house prices are expected to rise by 6 per cent, after which price growth will fall to 2.5 per cent in 2027 and end at 3.0 per cent in 2028. The relatively strong price developments for 2026 as a whole must be seen in the light of high growth at the end of 2025 and the beginning of 2026, which affects the annual growth rate. However, price rises during 2026 are expected to ease compared with 2025.²³ Over the slightly longer term, house prices are expected to broadly follow trends in incomes.

²¹ See Simon Juul Hviid, A regional model of the Danish housing market, *Danmarks Nationalbank Working Paper*, no. 121, November 2017.

²² See Danmarks Nationalbank, Renewed global uncertainty and neutral monetary policy, *Danmarks Nationalbank Analysis (Monetary and financial trends)*, no. 3, March 2026.

²³ Growth during 2026, measured by price developments from Q4 2025 to Q4 2026, is estimated at 4.3 per cent.

Business investment is expected to increase moderately over the next few years

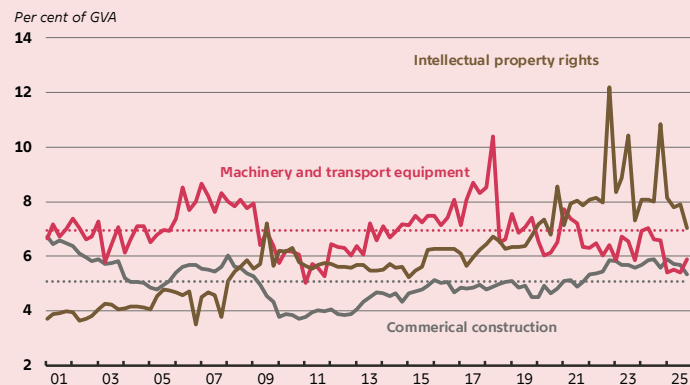
Business investment weakened in 2025, falling by 7.4 per cent. However, part of the decline reflects several large one-off investments in intellectual property rights and aircrafts in late 2024, and excluding these one-offs, investment weakened only slightly. The decline in business investment has occurred particularly in machinery and transport equipment, while there has been continued growth in commercial construction and intellectual property rights.

The total investment ratio, i.e. that between investment and gross value added, is close to a long-term average in 2025, but there is a significant difference between the different types of investment: *commercial construction* is significantly above a long-term average, *intellectual property rights* continues to follow high trend growth, while *equipment investment* is now below a long-term average after the decline in 2025, see chart 15.

CHART 15

Business investment weakened in 2025 as a result of lower investment in machinery and transport equipment

Investment ratios



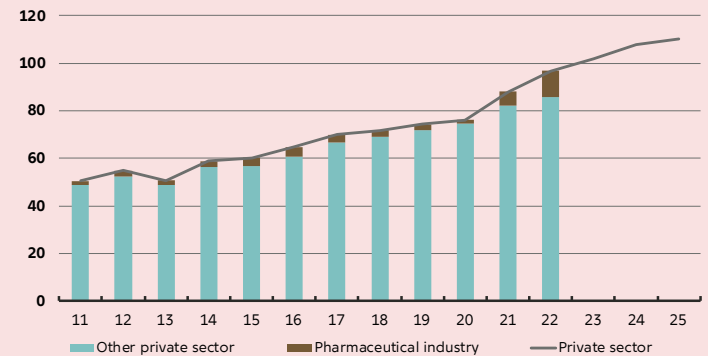
Note: GVA: Gross value added. Own estimate of investment in *machinery and transport equipment* and *intellectual property rights* in the private sector. The sum of *machinery and transport equipment* and *intellectual property rights* is based on a special provision from Statistics Denmark.

Source: Statistics Denmark and own calculations.

CHART 16

The pharmaceutical industry contributed to the increase in commercial construction in 2021 and 2022

Billion 2020-kr.



Note: Commercial construction cannot yet be broken down by industry after 2022.

Source: Statistics Denmark and own calculations.

Commercial construction has probably been supported by large investments in the pharmaceutical industry in recent years. Investment in the pharmaceutical industry contributed significantly to the increase in total commercial construction in 2021 and 2022, see chart 16. The level of investment in the pharmaceutical industry may well have remained high or increased further since then: among other things, accounting information from Novo Nordisk shows that its total investment in land, buildings and equipment increased further in the following years.²⁴ Large investments in the pharmaceutical industry may help to explain high levels of commercial construction in some years, when high interest rates would otherwise point to a moderation of investment. The high level of

²⁴ Not all of these investments are included in the national accounts. For example, the accounting information does not distinguish between investments in Denmark or abroad, but Novo Nordisk currently has a number of large construction projects in Denmark. The accounting information also includes purchases of land that are not included in investment in the national accounts.

commercial construction, together with a stronger trend in intellectual property rights, is among the explanations for total investment having increased more in Denmark than in the euro area since the years before the pandemic.

The decline in *equipment investment* may be linked to uncertainty about trade policy conditions in the US market, and several studies find that an increase in political uncertainty can lead to a decline in investment, with the effect peaking after 2 years.²⁵ Equipment investment is expected to be affected by uncertainty more rapidly, as it can be put on hold faster than longer-term ongoing projects within construction or research. By contrast, longer-term projects within, for example, construction may weaken later as ongoing projects are completed and fewer new projects are initiated.

Business investment is expected to increase slightly over the next few years. The continued uncertainty in the global economy is expected to contribute to a degree of caution among companies, which will result in postponed investments. Commercial construction activity is expected to also gradually slow somewhat as a number of capital projects in the pharmaceutical industry are completed. By contrast, the prospect of continued progress in the Danish and global economy helps to support business investments. Monetary policy and overall financial conditions are currently deemed to be neutral for the Danish economy, including for investments.²⁶

Business investment is expected to increase by 3.0 per cent this year, 1.1 per cent in 2027 and 0.7 per cent in 2028.

Higher public sector demand as a result of increased defence spending

Public sector demand is expected to be high in the coming years and is assumed in the projection to follow the path in the previous government's plan *DK2035: A strong Denmark in an uncertain world*. High public sector demand must be seen in light of the fact that a broad majority in the Danish Parliament has agreed to significantly increase public sector spending on defence. From this year, funds of around 3.5 per cent of GDP have been allocated to defence,²⁷ which corresponds to the level that Denmark has committed to spending under Nato from 2035 (the 'core target').²⁸ This means that, according to the Ministry of Finance, the structural balance will weaken from 1.1 per cent of GDP in 2025 to -0.3 per cent of GDP in 2026. The planned balance profile currently implies a further easing of the structural balance in 2027 to -0.9 per cent of GDP, which is close to the Budget Act's deficit limit of -1.0 per cent of GDP.²⁹ Fiscal policy in 2028 is currently planned to be marginally tightened.

Fiscal policy increases capacity pressure by 0.5 per cent in 2026 and 0.7 per cent in 2027 (measured by the output gap), according to the Ministry of Finance's latest calculation of the one-year fiscal effect. According to the Ministry of Finance itself, the calculated fiscal effects are considered to be an overestimate.³⁰ This is because major acquisitions of military equipment typically have a higher

²⁵ See Mikkel Bess, Erik Grenestam, Alessandro Tang-Andersen Martinello and Jesper Pedersen, Uncertainty and the real economy: Evidence from Denmark, *Danmarks Nationalbank Working Paper*, no. 165, 24 September 2020, or Juan M. Londono, Ma Sai and Anne Wilson Beth, Costs of Rising Uncertainty, *FEDS Notes*, April 2025.

²⁶ See Danmarks Nationalbank, Renewed global uncertainty and neutral monetary policy, *Danmarks Nationalbank Analysis (Monetary and financial trends)*, no. 3, March 2026.

²⁷ See the answer to Finance Committee question L 224 no. 9 (general part) of 3 September 2025.

²⁸ It has also been agreed that an additional 1.5 per cent of GDP will be earmarked for defence-related expenditure in a broader sense. No agreement has yet been reached on what costs are included in the supplementary Nato target. However, the supplementary target is likely to cover costs that most countries already incur to some extent. Nor has a Danish agreement been reached on the specific funding of defence expenditure under the Nato agreement.

²⁹ Last summer, the government activated the National Escape Clause in the fiscal rules, which means that public sector expenditure may exceed the level in Denmark's fiscal and structural policy plans – which have been approved by ECOFIN – by 1.5 per cent of GDP, in principle for a period of four years.

³⁰ See the previous government's 2035 plan, *DK2035: A strong Denmark in an uncertain world*.

import content than that assumed in the calculation of the fiscal effects. In an illustrative calculation of the fiscal effects, assuming a higher import content in public sector consumption and investment, the one-year fiscal effects are reduced to 0.3 in 2026 and 0.4 in 2027.

The easing also contributes to the actual public sector balance sheet being expected to weaken over the course of the projection period. However, this must also be seen in the context of a high expected surplus on the public sector balance sheet in 2025 of 3.7 per cent, and surpluses on the public sector balance sheet are still expected going forward. Danmarks Nationalbank expects a surplus on the public sector balance sheet in 2026 of 0.9 per cent of GDP, decreasing to 0.2 per cent of GDP in 2027 and 0.5 per cent of GDP in 2028.

05

Approximately neutral capacity pressure in the Danish economy

Growth in the Danish economy is expected to slow slightly this year. This is due to an expectation of lower growth in Danish export markets in the wake of the war in the Middle East and that trade policy measures will have a greater impact on global growth this year. Households are continuing to hold back on consumption, which together with postponed business investment, contribute to subdued growth in private domestic demand.

Employment has continued to increase and is expected to continue to do so in the future. Employment growth will slow slightly compared to recent years due to slightly lower growth in the Danish economy.

Capacity pressure in the Danish economy has eased and is currently broadly neutral. This is reflected in most indicators of pressure on the labour market, while wage growth has declined and price increases are low.

Going forward, capacity pressure, measured by the output gap, is expected to be approximately unchanged, and the Danish economy will remain in a situation with broadly neutral capacity pressure in the coming years.

Prospect of a balanced growth trajectory in the Danish economy

Growth in Danish gross domestic product, GDP, is expected to slow slightly this year as a result of the expected development in demand described in chapters 3 and 4.

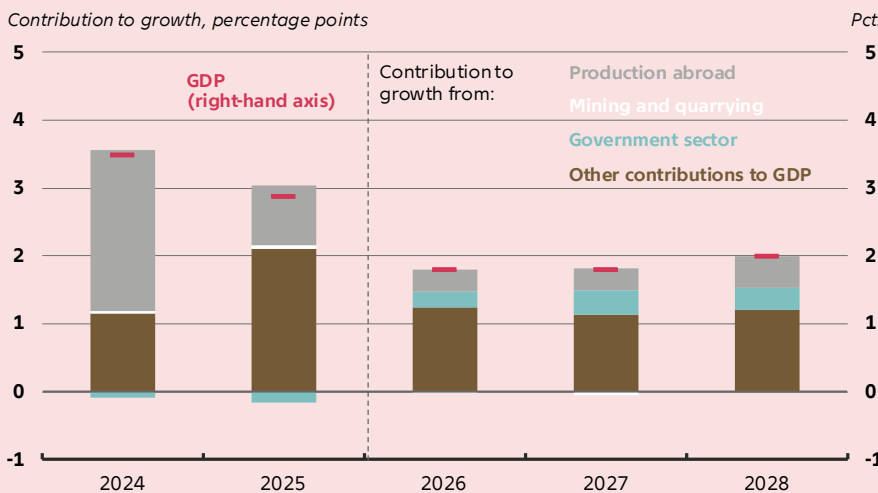
The slowdown in global economic growth due to the war in the Middle East and trade conflicts is expected to affect most Danish export companies, and the domestically produced part of exports is expected to increase moderately in line with developments in the Danish export markets. Danish-owned production abroad, particularly within the pharmaceutical industry, is expected to continue to contribute to the expansion.

Private domestic demand is expected to remain subdued in the coming years. Continued growth in household incomes is driving growth in private consumption. However, as a result of the war in the Middle East, renewed uncertainty about the economic situation among households is contributing to their propensity to consume remaining low. Caution among companies contribute to an expectation of a weak rise in business investment.

Overall, GDP is estimated to increase by 1.8 per cent this year and by 1.8 per cent in 2027 and 2.0 per cent in 2028, see chart 17. Production abroad under Danish ownership is expected to contribute 0.3 percentage points to GDP growth in 2026 and 2027, and 0.5 percentage points in 2028.

CHART 17

Production abroad under Danish ownership is also expected to contribute to GDP growth in the coming years, while domestic growth is more subdued



Source: Statistics Denmark and own calculations.

The increase in prosperity in the Danish economy has not been quite as strong as the high GDP growth suggests

The high growth in GDP in recent years has not resulted in a correspondingly large increase in Danish prosperity measured by real gross national income, GNI, see box 3. This is because strong real GDP growth has occurred at the same time as falling export prices. When the price of goods and services sold abroad by

Danish companies falls relative to the prices Danish consumers and companies buy abroad, Denmark's spending opportunities for goods and services purchased abroad do not increase, even though real GDP increases. This is reflected in a deterioration in Denmark's terms of trade.

Denmark's terms of trade have weakened since 2022 primarily as a result of a decline in international freight rates, leading to a decrease in the price of Danish services exports. During that period, the price developments for exports of goods have also contributed slightly to the weakening of Denmark's terms of trade, which reflects price declines in Danish pharmaceutical exports among others.

The increase in GDP in 2026 is, as in recent years, not expected to provide the same increase in prosperity measured by GNI, and GNI is expected to develop more weakly than GDP. This is primarily due to an expectation that the contribution to GDP growth from Danish companies' production and sales abroad will occur simultaneously with lower sales prices for products such as pharmaceuticals. This weakens the terms of trade slightly further, see also chapter 3. In the longer term, developments in GDP and GNI are expected to align.

BOX 3

Weaker development in GNI than in GDP indicates that the development of prosperity in the Danish economy has not been quite as strong as the high GDP growth suggests

In recent years, the high real growth in the Danish economy, as measured by GDP, has taken place against a backdrop of falling export prices. GDP growth does not therefore reflect a corresponding increase in economic prosperity, as measured by real Gross National Income, GNI, see chart. GNI is a measure of the total income that accrues to the country's citizens and companies, while GDP measures the value creation through the production of goods and services from Danish workplaces, regardless of whether the income accrues to citizens and companies in Denmark or abroad.¹

The calculation of GNI is based on GDP but is adjusted for wage and asset income as well as production taxes and subsidies from abroad (net). Real GNI also takes into account changes in the terms of trade, i.e. how export prices develop relative to the price of imports. The terms-of-trade adjustment thus reflects the fact that a country's spending opportunities for imported goods and services weaken when the prices of exported goods and services fall. This makes GNI a better measure of a country's prosperity compared with GDP.² GDP, on the other hand, is often more closely linked to developments in employment, although this relationship has become weaker in recent years.³

The fact that GNI growth has been weaker than GDP growth over the past two years is mainly due to a weakening in the terms of trade, while wage and asset income and taxes have not contributed significantly to the difference in development.

In recent years, changes in Denmark's terms of trade have been governed by specific conditions in maritime transport and the pharmaceutical industry: *In maritime transport*, large fluctuations in international freight rates have led to fluctuations in the price of Danish service exports. The price of maritime transport has fallen markedly since 2022, contributing significantly to weakening Denmark's terms of trade. But this trend followed a sharp increase in the price of maritime transport in the preceding years, when Denmark's terms of trade improved. *In the pharmaceutical industry*, export prices have also fallen. This reflects a more general trend to a greater extent and is less characterised by large year-on-year fluctuations. From a longer-term perspective, it is particularly the price declines in Danish exports of pharmaceutical products that have led to weaker developments in real GNI than in GDP.

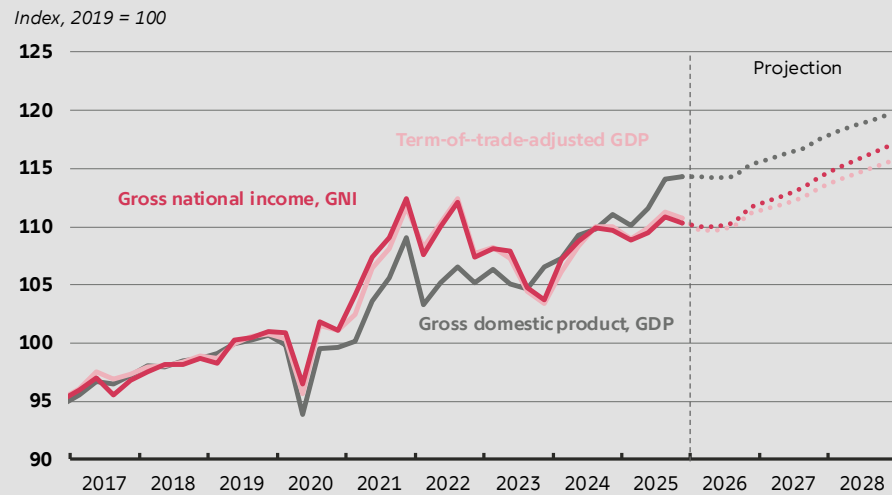
This year, too, the increase in GNI is expected to be more subdued than in GDP. As in recent years, this is primarily because the terms of trade are weakening on the back of falling prices for exports of pharmaceutical products. In the longer term, developments in GDP and GNI are expected to align, see also chapter 3.

Continues ...

... continued

CHART

In recent years, developments in real GNI have been weaker than in real GDP, as export prices have increased by less than import prices



Note: Most recent observation is Q4 2025.
 Source: Statistics Denmark.

¹ GDP includes value creation through merchandising and processing, where part of the value creation linked to patents and other production rights for example, takes place in Danish workplaces, even though production may take place in factories abroad, as a resident Danish workplace has ownership of the production rights and finished goods.

² See Joseph E. Stiglitz, Amartya Sen and Jean-Paul Fitoussi, *Report by the Commission on the Measurement of Economic Performance and Social Progress*, Commission on the Measurement of Economic Performance and Social Progress, 2009.

³ See Simon Juul Hviid, Rasmus Rold Sørensen, Morten Spange, Tobias Renkin and Mia Renee Herlev Jørgensen, The increasing importance of the largest companies, *Danmarks Nationalbank Analysis*, no. 8, March 2025.

Employment growth will continue

Employment continues to increase in the labour market and unemployment remains low, see chart 18. In 2025, employment increased by 38,000 persons, which is slightly more than in the past two years. Employment growth has been relatively broad-based across industries in the private sector, while higher public sector employment has also contributed to developments.

Employment also continues to increase in the euro area, but at a slower pace than in Denmark, see chart 19. Employment growth in the US slowed towards the end of 2025.

CHART 18

Employment continues to rise

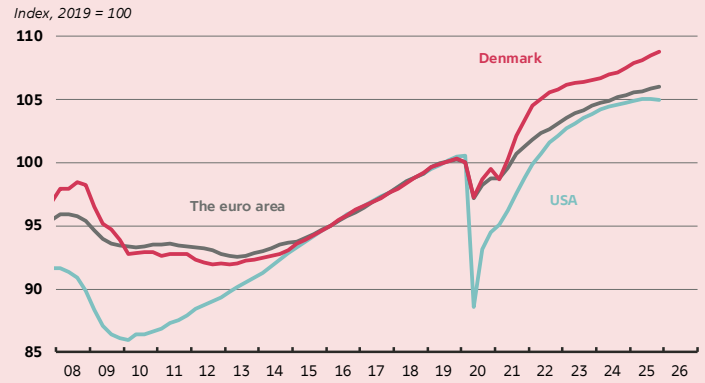


Note: The calculation of gross unemployment will be affected in 2027 by the reform of the employment support system, which, due to changes to the assessment categories in the employment system, means that more people will be registered as gross unemployed in future.

Source: Statistics Denmark and own calculations.

CHART 19

Employment is increasing faster in Denmark than in the US and euro area



Note: Most recent observation is Q4 2025.
Source: Statistics Denmark and own calculations.

The increase in employment in Denmark has been driven by more older people remaining in the labour market and by an increase in the influx of foreign labour:

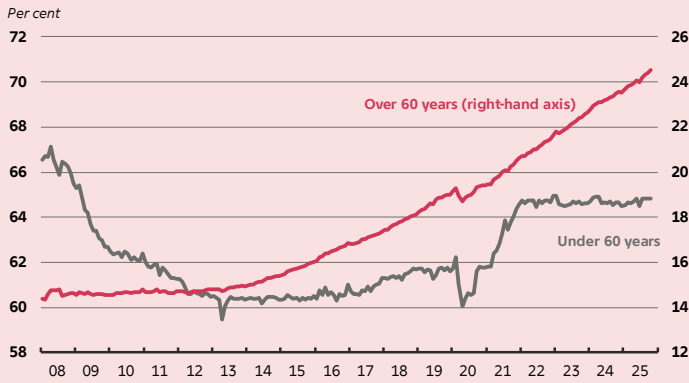
More older people have remained in the labour market since the mid-2010s. This increase is driven by a number of labour market reforms which have included raising the retirement age and the age for early retirement. This has caused the labour force participation rate for people over 60 to increase steadily, while the participation rate for people under 60 has been flat since 2022, see chart 20. People above the state pension age have also increasingly remained in employment and have thereby contributed to the improvement in the labour market. Incentives to work for people close to retirement age will also be affected in 2026, when a new additional employment tax credit for seniors close to retirement age and an expansion of the senior premium are introduced.

The influx of foreign labour to Denmark continued in 2025. Foreign labour, defined as foreign nationals working in Denmark, accounted for more than half of the employment growth in 2025, and employment among foreigners has increased by more than 200,000 people since 2013, see chart 21. The free movement of labour within the EU has helped ensure that labour can come to the country when there is demand for it and leave again if demand falls.

Non-Danish citizens currently account for approximately 14 per cent of total employment. However, there are large differences in foreign workers' attachment to the Danish labour market. Almost 20 per cent of all employed foreigners had lived in Denmark for less than 3 years in 2024, while almost half had lived in Denmark for more than 10 years, see box 4. Historically, employed foreigners have had a low propensity to leave Denmark once they have already been in the country for a long time.

CHART 20

Labour force participation among older people has increased sharply

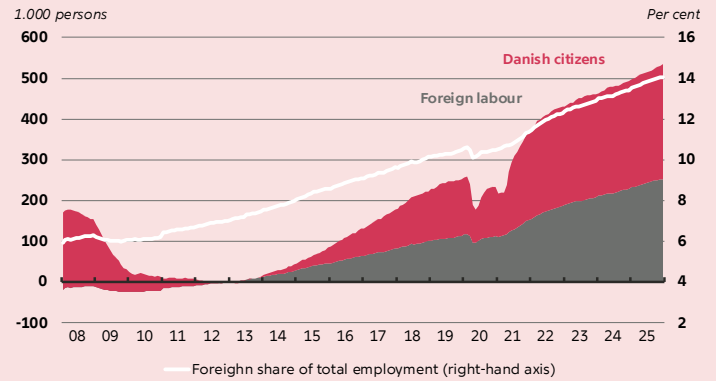


Note: Calculated on the basis of full-time employment. The labour force participation rate for people over 60 is calculated relative to people up to and including 80 years of age.

Source: Statistics Denmark, Jobindsats and own calculations.

CHART 21

Foreign labour accounts for almost half of employment growth since 2013



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

Source: Statistics Denmark, Jobindsats and own calculations.

In the coming years, employment is expected to continue to increase, but at a slower pace than last year. The weaker development in employment reflects, among other things, an expectation that growth in the Danish economy will slow down slightly. The development in employment also reflects an expectation that hourly productivity in both total and domestic production is expected to increase gradually in the coming years, and that average working hours are expected to decrease slightly in line with a longer-term trend. Overall, this means that employment is expected to increase by 45,000 people toward the end of 2028. The inflow of foreign labour and more older people remaining in the labour market are expected to continue to contribute to the labour supply.

Unemployment is expected to remain broadly unchanged throughout the projection. However, the calculation of gross unemployment is affected by the reform of the employment support system which, due to changes to the categorisation of jobseekers in the employment system, means that more people will in future be registered as gross unemployed. This mechanically increases the number of gross unemployed people by 14,000 in 2027 but does not affect the underlying situation in the labour market.³¹

Labour market pressures have eased

Pressures in the labour market have eased, while employment has continued to increase. This is seen, for example, in labour shortages reported by companies, which have fallen further in Denmark and the US, while developments in the euro area have been flatter, see chart 22. Other indicators, such as job vacancies per unemployed person and the number of employed people changing jobs, have remained largely unchanged over the past year, see chart 23. Common to all pressure indicators, however, is that they have fallen markedly in recent years and are now at a level indicating approximately neutral pressure in the labour market. This is also reflected in current wage growth, which has slowed significantly.

³¹ See also box 4.2 in *Economic Survey*, December 2025.

The pressure on the labour market has been able to ease while employment has increased, because the labour supply has risen and has been able to absorb the demand for more labour. The higher labour supply should be seen in the light of the fact that more older people have remained in the labour market, while an increased influx of foreign labour has also contributed to the improvement in the labour market.³²

BOX 4

A large proportion of employed foreigners are expected to stay in Denmark for a long time

Foreign nationals have contributed to almost half of employment growth since 2013 and by the end of 2025 accounted for approximately 14 per cent of total employment (around 450,000 people), see chart 22 in the main text. Free movement within the EU has helped enable workers to come to the country when demand exists and again if demand falls. The influx of foreign labour increased especially after the EU expansions in 2004 and 2007.¹

Around half of the increase in foreign employment since 2013 is due to citizens from EU/EEA countries, of which those from Romania and Poland account for almost 40 per cent. Among citizens from third countries, the increase in employment is more spread out across several countries. However, Ukrainian citizens account for around 16 per cent of the employment growth among third-country nationals.

Employed immigrants can be divided into two main groups according to the duration of their stay in Denmark: One group has stayed in Denmark for a long time, and in 2024 almost 50 per cent of employed immigrants had been in Denmark for over 10 years, see chart A.² However, there is also a significant group of almost 20 per cent of employed immigrants in 2024 who have had a relatively short stay in Denmark of less than 3 years.

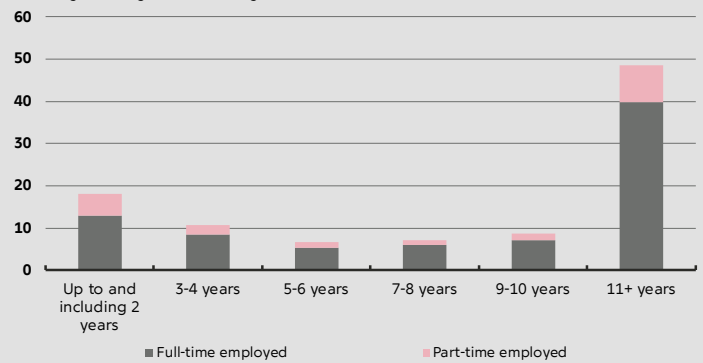
The length of a foreigner’s stay in Denmark has a major impact on whether that person leaves Denmark again. The likelihood that a non-Danish citizen will leave Denmark decreases with the length of their stay. For foreigners who have resided in Denmark for more than 10 years, the probability that they will leave Denmark within a quarter is less than 1 per cent when historical migration patterns are considered, see chart B. For those staying less than 3 years, the probability is significantly higher.

Continues ...

CHART A

Almost half of employed foreigners have stayed in Denmark for a long time, but a significant proportion are also here for a short time

Percentage of foreign labour residing in Denmark



Note: The chart shows the breakdown of employed immigrants in 2024 by the duration of their stay in Denmark. The figures do not include persons residing outside the country who are employed in Denmark. *Part-time workers* are defined as people who work fewer than 120 hours per month.
 Source: Own calculations based on register data from Statistics Denmark.

³²See Mikkel Bess, Rasmus Bisgaard Larsen, Filip Rozsypal, Christoffer Jessen Weissert and Theodor Justus Bock, The output gap in the Danish economy: calculation and assessment, *Danmarks Nationalbank Analysis*, no. 2025, September 2025.

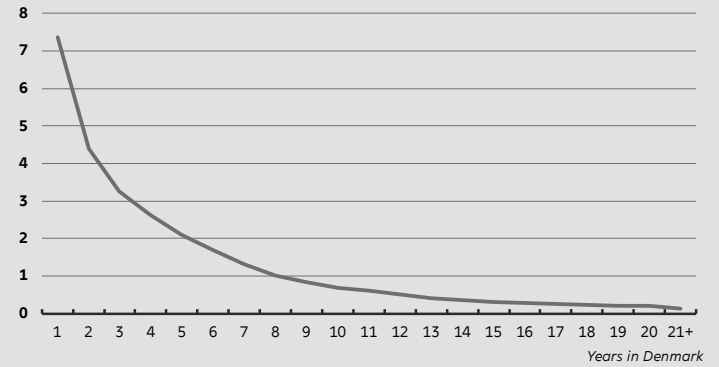
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Since non-Danish citizens who have resided in Denmark for more than 10 years are very unlikely to leave Denmark and the Danish labour market, they can be regarded to a greater extent as part of the domestic labour supply, as they are more likely to remain in Denmark in the event of unemployment. By contrast, the group of foreigners with a short stay can be regarded to a greater extent as part of a group that came to the country when there was demand for them but will leave again in the event of unemployment if the demand for labour falls. Employed persons with shorter stays in Denmark are also more likely to be in part-time employment. This is partly because this group consists to a greater extent of people with a looser attachment to the labour market, such as students.

CHART B

The propensity to leave Denmark falls to a low level once people have stayed in Denmark for a long time

Probability of leaving Denmark within the next quarter, per cent

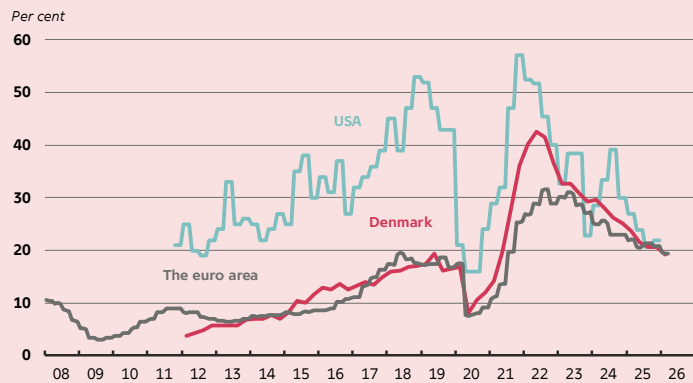


Note: The chart shows the probability that immigrants aged 15-64 will leave Denmark within the next quarter, conditional on the length of their stay in the country. The estimates are averages based on data for 2008-24.
Source: Own calculations based on register data from Statistics Denmark.

¹ See Jakob Feveile Adolfsen and Rasmus Mose Jensen, Intra-EU labour mobility dampens cyclical pressures, *Danmarks Nationalbank Analysis*, no. 1, January 2019.
² In charts A and B, foreign labour is defined as employed persons born abroad whose parents are neither Danish citizens nor born in Denmark. Chart 22 in the main text includes all foreign nationals employed in Denmark, regardless of their place of residence. Around 14 per cent of those employed in Denmark with foreign citizenship in 2024 are cross-border workers who work in Denmark but live abroad. These are not included in the figures in charts A and B. The measure of foreign labour in the charts only includes immigrants employed in Danish companies. To the extent that Danish companies pay for services from foreign companies, the extent of foreign labour in Denmark is underestimated.

CHART 22

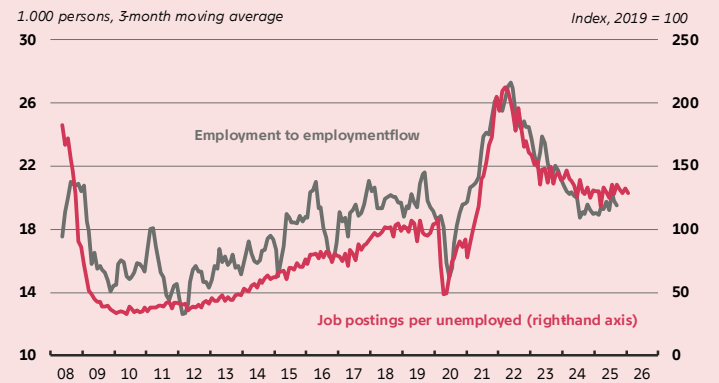
Labour shortages are declining in Denmark and the US and are unchanged in the euro area



Note: The chart shows the percentage of surveyed companies that state that labour shortage is a production constraint. All series show the development of the entire economy.
Source: Statistics Denmark, Eurostat, Macrobond and own calculations.

CHART 23

Job-to-job moves and job postings per unemployed person both show a flat trend at a more normalised level



Note: Employment-to-employment flow indicates the number of employed people who change jobs in a given month.
Source: Statistics Denmark and Macrobond, Jobindex, E-indkomst and own calculations.

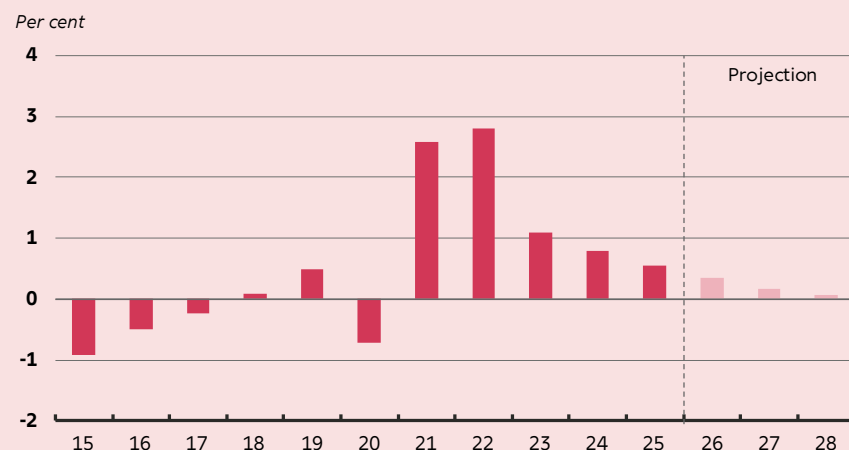
Capacity pressure is expected to remain broadly neutral over the next few years

Danmarks Nationalbank estimates that the overall capacity pressure in the Danish economy is currently approximately neutral. This is reflected in the fact that the output gap – the difference between what the economy actually produces and what it can produce without putting pressure on prices and wages – is estimated to be slightly positive, see chart 24.³³ Danmarks Nationalbank assesses that the capacity pressure in Denmark currently does not differ significantly from the capacity pressure in the euro area. This assessment is supported by the fact that most indicators of capacity pressure in Denmark are more or less in line with the euro area.

CHART 24

Capacity pressure is expected to remain broadly neutral

Output gap



Note: The output gap is defined as the difference between actual output in the economy measured by GDP and potential output. Danmarks Nationalbank defines potential output as the level of output in a fictitious economy where prices and wages have fully adjusted to current economic conditions.

Source: Own calculations.

Going forward, Danmarks Nationalbank expects capacity pressure to remain approximately neutral. The war in the Middle East is expected to lead to rising energy prices, putting both downward pressure on economic activity and upward pressure on inflation. The projection expects energy price increases to have a limited effect on capacity pressure, which is expected to be around neutral. However, how much the output gap is affected depends on how much of the higher energy costs companies pass on to consumers.³⁴ However, the

³³ For an elaboration of the output gap, see Mikkel Bess, Rasmus Bisgaard Larsen, Filip Rozsypal, Christoffer Jessen Weissert and Theodor Justus Bock, The output gap in the Danish economy - calculation and assessment, *Danmarks Nationalbank Analysis*, no. 22, September 2025, and Simon Juul Hviid, Rasmus Rold Sørensen, Morten Spange, Tobias Renkin and Mia Renee Herlev Jørgensen, The increasing importance of the largest companies, *Danmarks Nationalbank Analysis*, no. 8, March 2025.

³⁴ The effect of an energy price shock on the output gap depends, among other things, on the pass-through to other prices in the economy and could in theory lead to a decrease in the output gap, see

current situation with war in the Middle East, continued war in Europe and increased geopolitical and trade tensions is creating extraordinary uncertainty, which also applies to the assessment of capacity pressure.

06

Higher energy prices increase inflation, while tax changes blur the underlying price development

The rate of wage increases in Denmark has slowed in line with the latest collective wage agreements in the private sector labour market and is expected to be just over 3 per cent in the next few years. The expected wage development reflects the expectation that pressure in the labour market is approximately neutral. Wage increases in Denmark are slightly higher than the ECB's expectations for wage developments in the euro area.

Up until the outbreak of the war in the Middle East, inflation in Denmark had been low. The sharp increases in oil and gas prices are expected to be passed on to overall consumer prices and to some extent to core inflation, which excludes energy and unprocessed food prices. There is great uncertainty about future price development, which depends, among other things, on the duration and scale of the war in the Middle East.

Inflation in the coming years will be affected by tax changes, including the temporary reduction in the electricity tax. This makes headline inflation less informative about the underlying price development.

The underlying price development in the Danish economy is expected to increase this year due to the rise in energy prices but is expected to remain low and stable in the long term and roughly in line with inflation over the past few years.

Stable wage increases in the next few years

The rate of wage increases in the Danish labour market has come down in line with last year's collective wage agreements in the private sector labour market. In Q4 2025, wages in the manufacturing industry increased by 3.6 per cent according to the Confederation of Danish Employers' wage index, see chart 25. Wage increases in the Danish labour market are slightly lower than in several of Denmark's most important export markets, including Germany. Higher wage growth in the euro area is mainly due to the fact that actual wage increases were above the wage increases agreed in collective wage agreements at the end of last year.

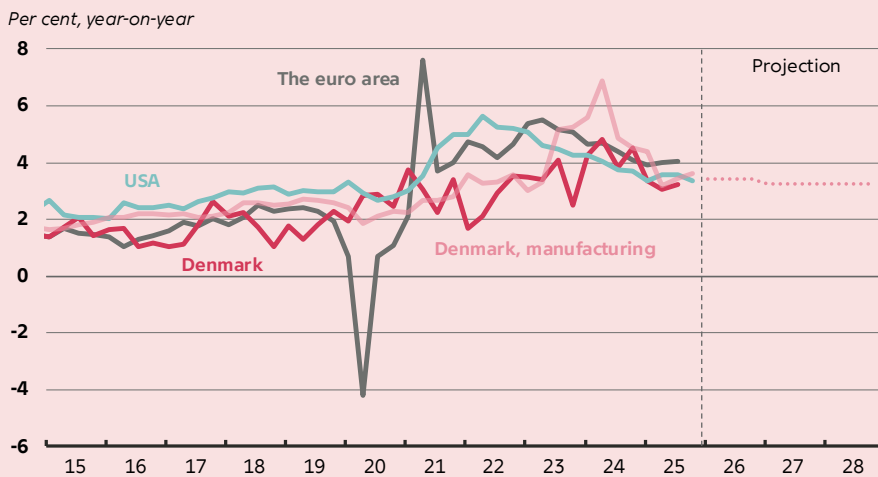
Wage increases in industry are expected to fall to just over 3 per cent over the next few years in line with the agreed increases in the collective wage agreement, which applies up to and including the beginning of 2028. The expected wage rises reflect an expectation that the pressure on the labour market is approximately neutral. Wage increases correspond approximately to expected changes in hourly productivity plus underlying price developments in the Danish economy. For the euro area, for example, the ECB's forecasts also indicate that wage growth will gradually ease and will be slightly lower than that in the Danish economy.

In the public sector, the new collective wage agreements from the beginning of 2026 imply a total financial framework of around 9 per cent over three years.

CHART 25

Prospects for stable wage developments over the next few years

Wage developments in DK, EA and US, including Danish projection



Note: The series for Denmark and the euro area shows payroll per employee for the whole economy, and the series for the US shows the *employment cost index* for the whole economy. The pink line shows wages in manufacturing industry measured by the Confederation of Danish Employers' wage index, which is the wage concept used by Danmarks Nationalbank. The dotted line is Danmarks Nationalbank's projection.

Source: Confederation of Danish Employers, ECB and US Bureau of Labor Statistics.

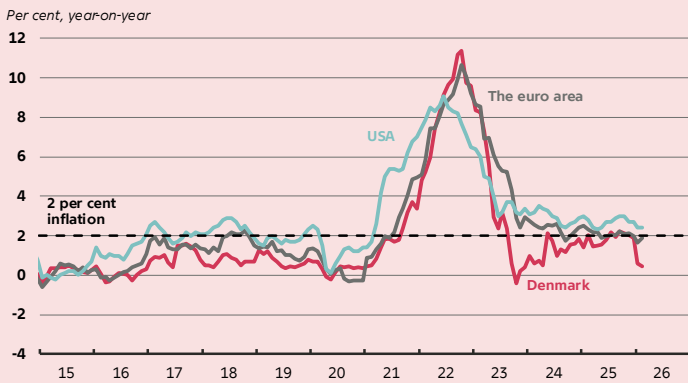
The temporary reduction in the electricity tax pulled inflation down at the beginning of the year

Headline inflation in Denmark has been low for the past two years and was 0.5 per cent in February. The low inflation largely reflects a number of tax changes, including a reduction in the electricity tax. Excluding tax changes, inflation was around 1.3 per cent, which is slightly lower than in the euro area. Inflation in the US, as in Denmark and the euro area, has declined significantly since the peak in 2022, see chart 26, but was slightly higher in February than in Denmark.

Inflation in the euro area has eased, partly because import prices are being dampened by a stronger euro and increased Chinese exports to Europe. The slightly higher inflation in the US should be seen in relation to last year's tariff increases and the weakening of the dollar last year. Several studies show that foreign exporters have only adjusted their prices to a limited extent as a result of the tariffs, which means that the economic burden has largely been shifted to American importers.³⁵ The International Monetary Fund, IMF, assesses that higher import prices have not yet been fully passed on to consumer prices, partly because companies have absorbed part of the cost increases through lower profit margins, and the IMF expects the higher tariffs to be passed on to a greater extent to consumer prices this year.³⁶

CHART 26

Low inflation in Denmark, the euro area and the US

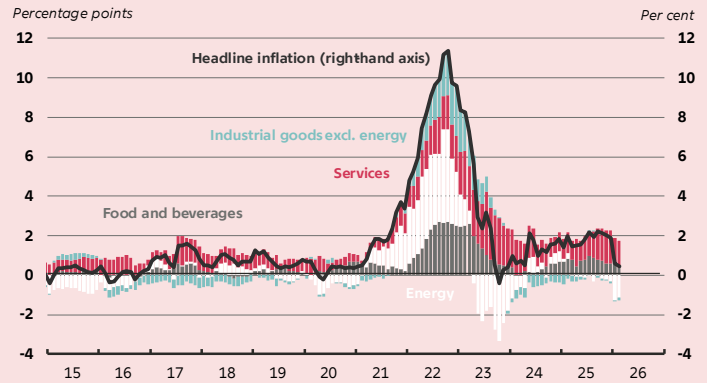


Note: HICP inflation for Denmark and the euro area. CPI inflation for the US. The most recent observation is February 2026. The US Federal Reserve uses the PCE- deflator as a gauge of inflation. The PCE- deflator differs from the CPI and HICP, which may result in minor differences in inflation expressed by the different indices. However, the CPI is more comparable with the HICP than with the PCE deflator.

Source: Macrobond.

CHART 27

In February, price increases for services and food pushed inflation up, while price decreased for energy pulled inflation down



Note: Decomposition of HICP inflation, including indirect taxes, for Denmark. Contributions to inflation are shown on the left-hand axis. The most recent observation was made in February 2025.

Source: Macrobond and own calculations.

³⁵ The studies are based on aggregated estimates and cover significant heterogeneity across sectors, products and countries of origin. It is also noted that it is still early to assess the effects, and that the results primarily reflect short-term effects. See Mary Amity, Chris Flanagan, Sebastian Heise and David E. Weinstein, Who is paying for the 2025 U.S. tariffs?, Federal Reserve Bank of New York *Liberty Street Economics*, February 2026, Gita Gopinath and Brent Neiman, The incidence of tariffs: rates and reality, *National Bureau of Economic Research*, February 2026, and Julian Hinz, Aaron Lohmann, Hendrik Mahlkow and Anna Vorwig, America's own goal: who pays the tariffs, *Kiel Policy Brief*, no. 201, January 2026.
³⁶ See IMF, Global economy in flux, prospects remain dim, *World Economic Outlook*, October 2025, and IMF, Global economy: steady amid divergent forces, *World Economic Outlook Update*, January 2026. Note that the IMF's latest forecast was prepared before the US Supreme Court struck down the use of IEEPA tariffs.

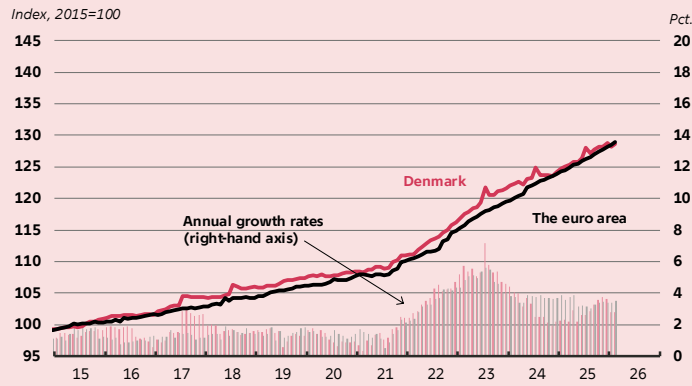
Up until the outbreak of the war in the Middle East, the rise in headline inflation in Denmark had been driven on the one hand primarily by price increases in services and to a lesser extent, food, see chart 27. On the other hand, falling energy prices pushed inflation down at the beginning of this year³⁷ – even when excluding the reduction in the electricity tax. However, the war in the Middle East has led to a significant increase in both oil and gas prices in early March, which is not reflected in the latest inflation figures for February.

Services price increases are currently 2.8 per cent and contributes 1.3 percentage points to inflation, see chart 28. A similar pattern is also evident in the euro area. This should be seen in continuation of the higher wage increases that began to pick up in 2023 and 2024 as a result of the high price increases in 2022. However, wage increases in themselves are not considered to be the driver of the inflation,³⁸ and wage-earners' share of total value creation is fairly stable. Some of the increases can be attributed to categories with a certain degree of indexation or regulation, including rent, wastewater and childcare, which together raised service price inflation by around three-quarters of a percentage point in February.³⁹

Price increases for food and non-alcoholic beverages have eased over the past six months, after a sharp rise in late 2024 and early 2025, see chart 29. The prices of these goods have increased by around 2.3 per cent over the past year and currently contribute 0.4 percentage points to headline inflation. Over a longer horizon, food prices have generally increased less in Denmark than in other countries, including the euro area.

CHART 28

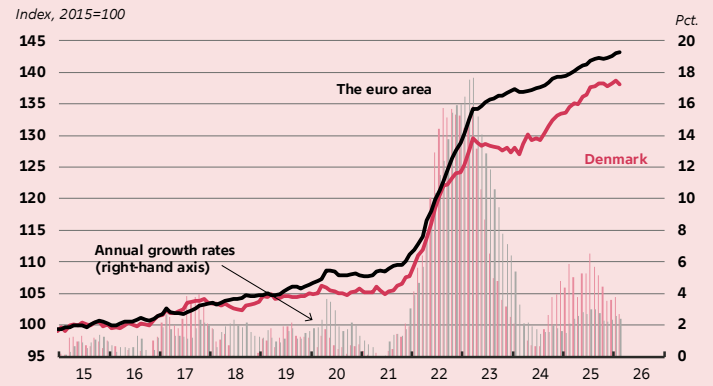
Service prices have evolved in broadly similar ways in Denmark and the euro area



Note: The chart shows the seasonally adjusted net price index (HICP-CT) for services in Denmark and the euro area. The most recent observation for Denmark is February 2025.
 Source: Macrobond.

CHART 29

The rate of price increases for food and non-alcoholic beverages has eased, both in Denmark and in the euro area



Note: The chart shows the seasonally adjusted net price index (HICP-CT) for food and non-alcoholic beverages in Denmark and the euro area. The most recent observation for Denmark is February 2025.
 Source: Macrobond.

³⁷ The latest published figures for developments in consumer prices are for February 2026.
³⁸ See box 2 in Danmarks Nationalbank, Prospect of lower wage increases and stable inflation despite uncertain times, *Danmarks Nationalbank Analysis (Outlook for the Danish economy)*, no. 9, March 2025.
³⁹ Rent contributed 0.6 percentage points, wastewater collection contributed 0.11 percentage points, and childcare contributed 0.11 percentage points to overall service price inflation in February.

The development in food prices is primarily driven by global factors.⁴⁰ The price increases over the past year are mainly due to higher prices for meat, coffee and chocolate, due to poor harvests, low supply and strong global demand. Energy is an important input in food production, and higher energy prices as a result of the war in the Middle East may put upward pressure on food prices going forward.

BOX 5

New categories in the consumer price index

On 1 January 2026, the underlying categories for the overall consumer price index changed as a result of the transition from the COICOP1999 classification to the COICOP2018 classification. The change has no retroactive effect on the overall consumer price index, and no major changes are expected in the dynamics of overall inflation going forward.

However, transition to the new classification system means that certain calculations, such as contribution calculations as presented in chart 27 in the main text, will change, also retrospectively. This is because COICOP2018 introduces new categories and removes some existing ones compared with COICOP1999. Weighting for all categories is also changed. Among the new categories introduced with COICOP2018 is gambling (e.g. lottery, sports betting and online gambling), where net expenditure, i.e. the total stake minus the total winnings paid out, constitutes 1.9 per cent of an average Danish household's consumption expenditure.

The transition to COICOP2018 also has an impact on the calculation of Danmarks Nationalbank's domestic market-determined index, IMI. In connection with the transition to COICOP2018, the calculations of IMI have been updated so that the new classification system will be used going forward. The transition to COICOP2018 is not expected to change IMI significantly.

Inflation driven up by the war in the Middle East

Inflation will be influenced by several factors in the future. First and foremost, higher energy prices due to the war in the Middle East are expected to push inflation up. At the same time, inflation will be affected by a number of tax changes up to 2028 that decouple actual inflation from the underlying drivers, see box 6. The assessment is that there is no prospect of an independent and significant contribution to inflation from the labour market, and wage developments, seen in isolation, are expected to be consistent with low, stable inflation.

Due to the war in the Middle East and the closure of the Strait of Hormuz, *energy prices* have increased significantly since the end of February, see chart 30 and 31. The assumptions for the development in energy prices during the projection period are based on the futures markets for oil and gas. The price of oil is therefore assumed to fall gradually, but it will not be until the end of 2028 that it will be at approximately the same level as immediately before the outbreak of the war.⁴¹

The sharp increases in oil and gas prices affect consumer prices both directly through higher prices for energy products and indirectly through the pass-through of higher production costs for companies to consumer prices. In addition, second-round effects – i.e. higher energy costs spreading to other goods and services, and possibly wages, thereby also increasing price pressure – can lead to further increases in inflation. Against this backdrop, higher energy prices are also expected to feed through to core inflation.

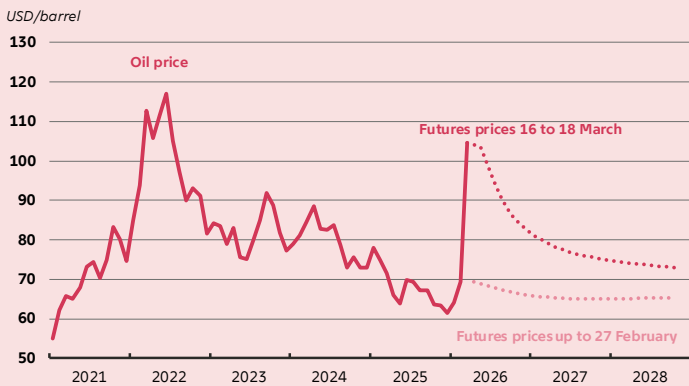
⁴⁰ See Oliver Hammershøj Bentsen, Christoffer Jessen Weissert and Amy Yuan Zhuang, Global factors are driving high food prices in Denmark and abroad, *Danmarks Nationalbank Analysis*, no. 20, September 2025.

⁴¹The assumptions behind the projection are described in the appendix to the analysis.

The increase in the assumed oil and gas prices since the outbreak of the war, taken in isolation, raises headline inflation by 1.0 and 0.2 percentage points this year and next year respectively, while core inflation is driven up by 0.6 and 0.3 percentage points in 2026 and 2027 respectively.

CHART 30

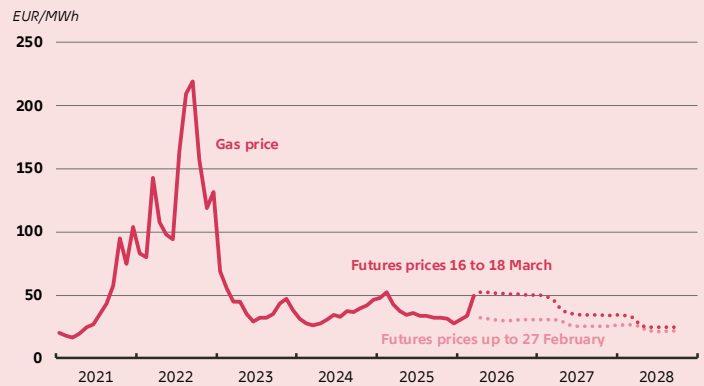
Oil prices have risen significantly as a result of the war in the Middle East ...



Note: Dotted lines indicate futures prices. Futures prices up to 27 February indicate the average of futures from February up to and including 27 February 2026. Futures prices 16-18 March indicate the average of futures from 16 to 18 March 2026. Brent crude oil (ICE) FOB.
Source: Macrobond.

CHART 31

... while gas prices have increased to a lesser extent



Note: Dotted lines indicate futures prices. Futures prices up to 27 February indicate the average of futures from February up to and including 27 February 2026. Futures prices 16-18 March indicate the average of futures from 16 to 18 March 2026. TTF natural gas index (TTFI).
Source: Macrobond.

A number of tax changes will affect inflation over the next few years. However, the tax changes do not change the fundamental drivers of inflation. Instead, they give rise to temporary, mechanical changes in consumer prices. In 2026, inflation is reduced mainly by the temporary reduction in the electricity tax, while in 2028 inflation is raised by the planned reintroduction. The implementation of ETS2 under the auspices of the EU⁴² will further raise consumer prices in 2028, while the projection assumes that the VAT rate for food or fruit and vegetables will reduce the inflation rate in 2028.⁴³

It is assessed that the underlying price development in the Danish economy will increase slightly this year as a result of the increases in energy prices, but that the underlying price development will remain low and stable in the longer term. Excluding the tax changes, inflation is estimated at 2.7 per cent this year, falling to 2.0 per cent in 2027 and 1.2 per cent in 2028. Core inflation is also expected to be just over 2 per cent in 2026 and 2027, falling to 1.7 per cent in 2028.

Including tax changes, consumer prices are expected to increase by 1.8 per cent in 2026, rising to 2.0 per cent in 2027 and 1.9 per cent in 2028, see chart 32.

The inflation development is marked by extraordinary uncertainty due to the prospective developments in energy prices. A longer and more extensive war than assumed in the projection can lead to a longer period of high energy prices

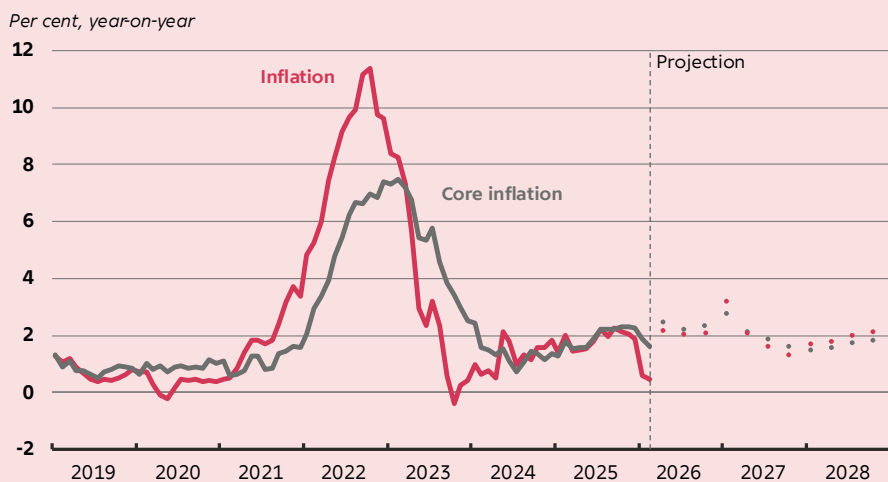
⁴² Emissions Trading System 2, which is an extension of the EU's existing CO₂ emissions trading system.

⁴³ A total of kr. 6 billion has been allocated annually from 2028 onwards within a framework for reducing VAT on food or fruit and vegetables. No agreement has been reached on the specific implementation model.

and further increase inflation, see box 2 in chapter 3. In a risk scenario where oil and gas production in the Persian Gulf is constrained in the coming years, inflation is estimated to reach 4.5 per cent in 2026. The risk scenario also assumes that part of the increase in headline inflation is due to energy price increases leading to significant indirect and second-round effects. In the risk scenario, core inflation therefore rises to 2.4 per cent this year and 3.7 per cent in 2027.

CHART 32

Both inflation and core inflation are around 2 per cent in the coming years



Note: The most recent observation is February 2026. Core inflation is calculated as inflation excluding energy and unprocessed food.

Source: Statistics Denmark and own calculations.

BOX 6

Tax changes will affect consumer prices in the coming years

Over the next couple of years, changes in a number of taxes will affect consumer prices. However, those tax changes do not, in themselves, alter the fundamental drivers of inflation. They give rise to mechanical, temporary changes in the annual rate of increase of the consumer price index instead. This box provides an overview of the tax changes included in the projection and compares the projection for overall inflation with an illustrative path in which taxes are not changed.

The table provides an overview of the tax changes included in the projection that will come into effect in 2026, 2027 and 2028. The chart compares the projection for inflation with tax changes and the illustrative path that disregards tax changes.

The removal of the electricity tax with effect from 1 January 2026 will significantly curb the increase in consumer prices this year, while the reintroduction of the tax in 2028 will, by contrast, raise them accordingly. The phasing-in of ETS2 in 2028, which is an extension of the EU’s existing CO₂ emissions trading system, will also contribute to increases in consumer prices. This is partly offset by the expectation that a lower expected VAT rate for food or fruit and vegetables will pull consumer prices down. In 2027, the registration tax on electric vehicles in particular will contribute to raising consumer prices.

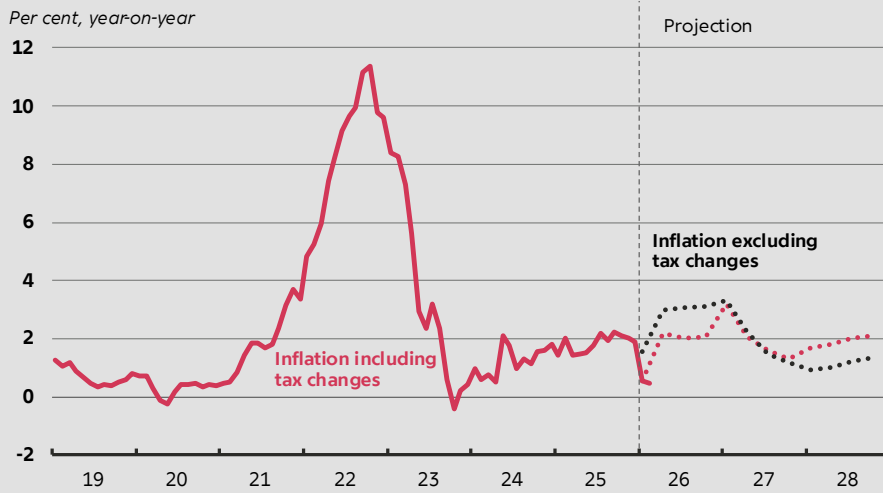
The chart below also shows that inflation is estimated to be more stable throughout the projection period in the absence of tax changes. Inflation excluding tax changes is expected to be 2.7 per cent this year, falling to 2.1 per cent in 2027 and 1.2 per cent in 2028.

Continues ...

... continued

CHART

The rise in inflation without tax changes is estimated to be low and stable in the coming years



Note: *Inflation including tax changes* indicates Danmarks Nationalbank's projection for the actual development in inflation as measured by the HICP index. *Inflation excluding tax changes* indicates Danmarks Nationalbank's estimate of the development in inflation in a scenario where the tax changes in the table below are not implemented.

Source: Statistics Denmark and own calculations.

TABLE

Overview of tax changes included in the projection

Tax change	Effective dates
Temporary reduction of the electricity tax	1 January 2026 and 1 January 2028
VAT on commercial teaching activities	1 January 2026
Manufacturer's responsibility for packaging*	1 January 2026 and 1 January 2028
Gambling package 1	1 January 2026, 1 January 2027, 1 January 2028
Registration tax on electric vehicles**	1 January 2026, 1 January 2027, 1 January 2028
Passenger tax on flights	1 January 2026, 1 January 2027, 1 January 2028
Removal of VAT on books	1 July 2026
Rationalisation of excise duties	1 July 2026
Reduction of VAT on food or fruit and vegetables	1 January 2028
Entry into force of the EU Emissions Trading System 2	1 January 2028

Note: The total effect of the agreement on wastewater charges is assumed to be zero, which is why the change is not shown in the table.

*Including temporary relief from the volume-based packaging tax.

**Including an increase in basic deduction in registration tax for zero-emission vehicles and a postponement of the electricity tax for electric vehicles.

Source: FIU 14 2025-26, Ministry of Taxation, Agreement text on *Spilpakke 1*.

07

The risk outlook is affected by trade barriers and geopolitical tensions

Global risks are primarily related to geopolitical developments where, among other things, a longer and more extensive war in the Middle East than anticipated could lead to even higher energy prices, disrupt global supply chains, and significantly increase inflation and contribute to lower activity. Trade conflicts and declining support for the multilateral economic system can also fundamentally change the basic assumptions behind the projection.

Domestic risks are linked to the expected development in domestic demand, where increased defence spending on the one hand may result in increased capacity pressure, while the restraint among households on the other may prove to be more or less permanent than assumed.

Danmarks Nationalbank assesses that the Danish economy is fundamentally well equipped to withstand sudden economic changes. This is because there are currently no signs that significant macroeconomic imbalances are building up in the Danish economy that could exacerbate an unforeseen setback. Sound public finances, large current account surpluses and well-consolidated households provide a good platform for withstanding unexpected economic headwinds if some of the risks materialise.

Downside risks to growth in a more fragmented and geopolitically uncertain global environment

The key risks for the global and Danish economies are particularly related to a further weakening of support for the multilateral economic system, increasing geopolitical and trade tensions and increased fragmentation of world trade. In the past few years, the US in particular, but also other major economies, have taken several steps towards more protectionist-oriented economic policies, including increased use of tariffs, trade restrictions and industrial policy measures. What a number of the risks have in common is that they have a more structural and far-reaching nature that can affect behaviour and economic interactions beyond normal cyclical developments. Risks to the growth outlook for the Danish economy are therefore deemed to be to the downside.

The war in the Middle East has quickly become a new destabilising factor for developments in the global economy, as it has the potential to create even more noticeable disruptions to energy supply and production, with negative consequences for the finances of companies and households. There is currently extraordinary uncertainty about the scale and duration of the economic consequences of the war. The impact on GDP and consumer prices may be different in the short term in Denmark than in the euro area due to differences in the energy mix in production and consumption, taxes and regulated energy prices, for example.

A prolonged and more extensive war in the Middle East than assumed in the projection could disrupt global supply chains, increase inflation and affect inflation expectations, see box 2 in chapter 3. This could be due to increased fluctuations in energy and commodity prices, lower global supply of oil and gas, new bottlenecks on key trade routes, or higher transport costs and monetary policy tightening. In a risk scenario where oil and gas supplies from the Persian Gulf are restricted in the coming years, inflation is estimated to end this year at 4.5 per cent, which is 2.7 percentage points higher than expected in the projection.

Persistent trade policy uncertainty increases the risk of weaker global and Danish growth and may pull price developments in different directions

As a small, open economy, Denmark is closely linked to international economic cooperation and a well-functioning, rules-based trade and financial system. Although trade policy uncertainty has generally decreased over the past six months, frequent changes in statements from the US administration and others continue to create an unpredictable global economic environment. Less stable framework conditions and increased fragmentation can curb international trade and investment. At present, the ongoing trade conflict is not expected to derail growth of the Danish economy, but a further escalation of trade policy tensions between the US, China and the EU could quickly affect global demand and Danish exports.

Strengthening multilateral cooperation can help reduce uncertainty and support economic activity. The EU's latest trade agreements with India and the South American trade bloc Mercosur among others, which have not yet been formally approved, may contribute to more stable framework conditions. An analysis from Danmarks Nationalbank⁴⁴ also shows that further strengthening of the EU's single market can, in certain cases, more than offset the consequences of other trade restrictions.

⁴⁴ See Oliver Hammershøj Bentsen, Madeleine van Deurs and Amy Yuan Zhuang, Fewer barriers in the EU single market could increase Danish welfare, *Danmarks Nationalbank Analysis*, no. 17, August 2025.

Price developments also entail opposing risks in light of the ongoing trade conflict, where it is possible that the higher tariffs have not yet been fully reflected in prices. If a new escalation of the trade conflict between the EU and the US leads to European retaliatory tariffs on American goods, it could increase Danish import prices. By contrast, increased Chinese exports to Europe, if trade between the US and China is restricted, could put further downward pressure on consumer prices in Denmark and the euro area.

Global value chains are vulnerable to geopolitical tensions

A particular risk factor is linked to ongoing geopolitical tensions, including between the US and China and in the Middle East. Such tensions could limit access to critical inputs and energy and could increase vulnerability in global supply chains.

An example of challenges related to critical vulnerability is China's export restrictions on rare earths in 2025.⁴⁵ Those measures led to supply disruptions in several industrial sectors in Europe, and the risk of further measures remains, even though implementation was postponed until the end of 2026. Any tightening of Chinese restrictions could hit the European economy harder than the US economy, as the EU imports around 98 per cent of its rare earth magnetic materials from China, compared with around 75 per cent in the US.⁴⁶

However, ongoing geopolitical tensions may also push in the direction of a faster transition to alternative sources of supply. This may trigger increased investment, but the effect on activity will depend on costs and the pace of the transition.

AI investments carry downside and upside risks

The development of AI-related investments has been a major driver of global activity over the past year, particularly in the US. Going forward, this development could promote or constrain growth:

On the downside, investment could decline if expectations of productivity gains are not met, which, according to the IMF, could curb global growth by around 0.4 percentage points in 2026.⁴⁷ Weaker activity abroad may impact the Danish economy through lower demand in Danish export markets. A correction in the valuation of technology stocks may also have negative wealth effects for Danish households, which have significant exposures to the largest American technology companies, the so-called Mag-7 companies, through pension savings and freely investable funds. A price correction of technology companies could also lead to lower risk appetite in the financial markets in Denmark and abroad. However, the direct knock-on effects on Danish share prices are expected to be limited in the event of such a correction.⁴⁸

On the upside, a faster-than-expected spread of AI could boost productivity and thereby growth, while helping to alleviate capacity pressures. Productivity gains can be achieved if the use of AI increases efficiency and frees up resources that can be better utilised elsewhere in the economy. Higher productivity growth increases potential growth because companies can produce more with the same

⁴⁵Rare magnetic materials are a group of metals that are used in such applications as electric vehicles, wind turbines and advanced electronics. China accounts for the majority of global mining, processing and magnet production. In April 2025, China introduced licensing requirements for the export of selected rare earths. In October, the scheme was expanded so that foreign companies must seek approval to export products containing even small amounts of Chinese rare earths or components manufactured with Chinese technology.

⁴⁶ See European Parliament, *China's rare-earth export restrictions*, European Parliamentary Research Service, November 2025, and US Department of Commerce, *BIS Section 232 investigation: Sintered NdFeB permanent magnets import data*, May 2025.

⁴⁷ See IMF, *Global economy: steady amid divergent forces*, *World Economic Outlook Update*, January 2026.

⁴⁸ See box 2 in Danmarks Nationalbank, *Renewed global uncertainty and neutral monetary policy*, *Danmarks Nationalbank Analysis (Monetary and financial trends)*, no. 3, March 2026.

resources, reducing capacity pressure for a given demand. However, in the short term, the AI transition also requires more investment, which can pull in the opposite direction. The overall effect on capacity pressure is therefore not clear-cut in the coming years, as it depends on the timing between AI-driven demand and realised productivity gains.⁴⁹

Increased defence spending may increase capacity pressures and put pressure on public sector finances in time

Denmark and a number of European countries are planning significant increases in defence budgets to meet Nato's core target of 3.5 per cent of GDP by 2035. But most countries still need to specify what their announced increases will be spent on.

There is still considerable uncertainty about how much higher defence spending will increase capacity pressures over the next few years, as it depends on such factors as how much is covered by imports. A more sudden need for military build-up than assumed in the projection could also further increase activity and capacity pressures in Denmark and in the rest of Europe.

The build-up in several European countries is financed primarily through increased debt, which can raise debt ratios from already elevated levels. Although the debt build-up has not given rise to significant problems so far, the IMF and OECD assess that it may limit the fiscal policy room for manoeuvre and increase the need for gradual adjustments to ensure debt sustainability.⁵⁰ For countries with existing high debt levels, postponing such adjustments could make it more difficult to deal with future shocks.

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

Global risk factors that do not affect capacity pressures differently in Denmark than in the euro area will generally be counteracted by the ECB's monetary policy, which, due to the fixed exchange rate policy, will also have an effect in Denmark. Accordingly, and from a cyclical stabilisation perspective, there is no reason to change fiscal policy in Denmark. Danmarks Nationalbank assesses that there are no significant differences in the risk outlook for Denmark and the euro area. However, a number of factors could cause capacity pressure in the Danish economy to develop differently from that in the euro area:

Firstly, Danish defence spending has increased more rapidly than in the euro area. This could risk resulting in a greater increase in capacity pressure in Denmark than in the euro area. To date, a large part of defence spending has been financed through imported goods and transfers abroad, which only draw on Danish capacity to a limited extent. But it is possible that defence spending will absorb Danish capital and labour to a greater extent going forward.

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

⁴⁹ See Kim Abildgren and Rasmus Mose Jensen, Artificial intelligence can boost productivity in the Danish economy, *Danmarks Nationalbank Analysis*, forthcoming.

⁵⁰ See IMF, Global economy in flux, prospects remain dim, *World Economic Outlook*, October 2025, and OECD, Resilient Growth but with Increasing Fragilities, *Economic Outlook*, December 2025.

households may prove more persistent than assumed in the projection, thereby easing capacity pressure in Denmark.

Finally, greater dependence of the Danish economy on a few large companies could result in GDP developments that are either stronger or weaker than expected in the projection. A weaker development could occur, for example, if the pharmaceutical industry fails to increase sales and production of diabetes and weight loss medicines to meet stronger global demand. Although this may result in a different path for GDP than predicted in this projection, it will have less impact on capacity utilisation in the Danish economy.⁵¹

The Danish economy is well equipped to withstand unforeseen obstacles

Danmarks Nationalbank assesses that the Danish economy is fundamentally well equipped to withstand sudden economic changes. This is because there are currently no signs of significant macroeconomic imbalances building up in the Danish economy that could amplify an unforeseen downturn. Sound public finances, large current account surpluses and well-consolidated households and companies provide a good platform for withstanding unexpected economic headwinds if some of the risks materialise.

⁵¹ See Simon Juul Hviid, Rasmus Rold Sørensen, Morten Spange, Tobias Renkin and Mia Renee Herlev Jørgensen, The increasing importance of the largest companies, *Danmarks Nationalbank Analysis*, no. 8, March 2025.

TABLE 3

Key economic variables

Real growth relative to the previous period, per cent	2025						
	2025	2026*	2027*	2028*	Q2	Q3	Q4
GDP	2.9	1.8	1.8	2.0	1.3	2.3	0.2
Private consumption ¹	2.0	1.9	1.9	2.2	0.1	0.6	0.1
Public consumption	0.7	5.7	4.1	2.3	0.4	1.2	5.6
Residential investments	0.7	3.0	1.8	2.1	-1.5	2.0	-3.1
Public investments	8.2	10.6	8.9	1.8	5.1	-7.3	3.8
Corporate investments	-7.4	3.0	1.1	0.7	-1.0	3.1	-4.1
Inventory investments etc. ²	0.0	-0.4	0.0	0.0	-0.1	-1.1	-0.4
Exports	3.2	2.8	2.0	2.4	4.1	3.6	-0.5
Manufactured exports	7.0	3.7	2.9	3.5	4.6	6.0	-1.4
Imports	-0.6	4.8	3.3	2.4	2.7	-0.1	-0.4
Employment, 1,000 people	3,255	3,283	3,295	3,309	3,249	3,259	3,268
Gross unemployment, 1,000 persons ³	88	90	104	104	87	88	89
Balance of payments on current account, per cent of GDP	12.7	10.5	10.0	10.4	12	13.6	12.8
Government budget balance, per cent of GDP	3.7	0.9	0.2	0.5	4	3.8	3.9
House prices ⁴ , per cent year-on-year	5.7	6.0	2.5	3.0	4.6	6.8	5.6
Consumer prices (HICP), per cent year-on-year	1.8	1.8	2.0	1.9	1.6	2.1	2.0
Core inflation, per cent year-on-year	1.9	2.2	2.1	1.7	1.7	2.2	2.3
Hourly wages ⁵ (manufacturing), per cent year-on-year	3.6	3.4	3.3	3.2	3.2	3.4	3.6

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

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

³ Gross unemployment will, for technical reasons, increase by 14,000 people in 2027 as a result of the reform of the employment support system, which means that in future more people will be registered as gross unemployed.

⁴ Nominal prices of single-family houses.

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

Note: * indicates projection.

Source: Statistics Denmark and own calculations.

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

The projection is prepared using Danmarks Nationalbank's macroeconomic model, MONA, and is based on available economic statistics, including Statistics Denmark's quarterly national accounts for Q4 2025. The projection is based on statistics published up to and including 18 March 2025. The projection also includes a number of assumptions concerning the international economy, financial conditions, labour force developments and fiscal policy.

International economy

The assumptions about the international economy are based on the latest OECD forecast from December 2025, which includes explicit assumptions about Denmark's export market growth and competitor prices abroad. The assumptions have been adjusted based on forecasts and economic data from other international organisations since then, including the latest forecast from the European Central Bank, ECB, and calculations of the effects of energy price developments in the IMF's GIMF model. Export market growth is assumed to be 1.7 per cent in 2026, 2.5 per cent in 2027 and 2.6 per cent in 2028, see table A1. Wage increases abroad are assumed to gradually decrease from 4.1 per cent in 2025 and 3.7 per cent in 2026 to 3.0 per cent in 2027 and 3.1 per cent in 2028. Prices of imported goods and services are assumed to increase by 3.8 per cent in 2026, 0.3 per cent in 2027 and 0.7 per cent in 2028.

Interest rates, exchange rates and energy prices

Developments in short-term and long-term interest rates in the projection are based on the expectations of future developments that can be derived from the yield curve in the financial markets. The money market interest rate measured by DESTA is therefore assumed to be 1.8 per cent in 2026, 2.2 per cent in 2027 and 2.3 per cent in 2028.

In the projection, the effective krone and dollar exchange rates are assumed to remain constant at their current levels.

Energy prices are generally expected to follow the development in oil prices, which are assumed to follow futures prices during the projection period. The oil price in the projection is determined based on an average of futures prices from 16 March to 18 March, corresponding to 3 days prior to the cut-off date of the projection. The average oil price from 16 to 18 March was around USD 104 per barrel and is predicted to fall to USD 73 per barrel by the end of 2028.

In common with oil prices, gas prices are assumed to follow futures prices going forward. They are assumed to fall from the current level of approximately 49 euro per MWh to approximately 25 euro per MWh by the end of 2028. The electricity price is assumed to follow developments in the gas price.

Fiscal policy assumptions

The projection is based on preliminary estimates from the national accounts for consumption and investment in the public sector as well as the *Economic Survey*, December 2025, and the medium-term trajectory in *DK2035 – Et stærkt Danmark i en usikker verden (A strong Denmark in an uncertain world)*. Against this background, real public consumption is assumed to increase by 5.7 per cent in 2026, 4.1 per cent in 2027 and 2.3 per cent in 2028. Public investments are assumed to increase by 10.6 per cent in 2026, 8.9 per cent in 2027 and 1.8 per cent in 2028. The projection assumes that the agreements on the removal of VAT on books and the restructuring of excise duties will enter into force on 1 June 2026, even though the legislative work has lapsed in connection with the calling of the 2026 general election. It is also assumed that the electricity tax will be reintroduced in 2028, and that the VAT rate on food or fruit and vegetables will be implemented in 2028, corresponding to revenue of kr. 6 billion, cf. the medium-term trajectory in *DK2035*.

TABLE A1

Overview of projection assumptions

	2025	2026	2027	2028
International economy				
Export market growth, per cent, year-on-year	3.8	1.7	2.5	2.6
Foreign price, per cent, year-on-year ¹	0.7	3.8	0.3	0.7
Foreign hourly wages, per cent, year-on-year	4.1	3.7	3.0	3.1
Financial conditions etc.				
Money market interest rate, per cent, p.a.	1.8	1.8	2.2	2.3
Average bond yield, per cent, p.a.	2.8	3.0	3.3	3.5
Effective krone rate, 1980 = 100	106.2	106.7	106.7	106.7
Dollar exchange rate, DKK per USD	6.6	6.5	6.5	6.5
Oil price, Brent, USD per barrel	68	89.3	77.4	73.6
Fiscal policy				
Public consumption, per cent year-on-year	0.7	5.7	4.1	2.3
Public investments, per cent, year-on-year	8.2	10.6	8.9	1.8
Public-sector employment, 1,000 persons	884	891	896	903

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

Revisions in relation to the previous projection

The estimate for GDP growth is revised downwards by 0.2 percentage points in 2026 and upwards by 0.1 percentage points in 2027. The adjustments reflect changed assumptions about the development of the international economy, the pharmaceutical industry and updated data including for foreign wages and prices.

Changed data and assumptions about i.e. export market growth and foreign wages and prices from 2025 contribute to higher growth in both 2025 and 2026.

In 2026, the two factors contribute to an increase in GDP growth of 0.9 percentage points, see table A2. Some of this can be attributed to lagged model effects from the effects of changed assumptions in 2025.

The estimate of the rate of increase in consumer prices, HICP, has been revised upwards by 0.7 percentage points in 2026 and 0.2 percentage points in 2027. Changed assumptions about export market growth and wage and price developments abroad also contribute, in isolation, to higher inflation, but are counteracted by *Other factors*, which may reflect that the pass-through from foreign wages and prices has not taken place to the extent indicated by the model calculations and a changed data basis in 2025.

TABLE A2

Changes in the projection

Per cent, year-on-year	GDP			Consumer prices, HICP		
	2025	2026	2027	2025	2026	2027
Projection from September	2.0	2.0	1.7	1.9	1.1	1.8
Contribution to revised estimate from:						
Export market growth	0.3	0.1	-0.1	0.0	0.1	0.1
Development in interest rates	0.0	-0.1	-0.1	0.0	0.0	0.0
Exchange rates	0.0	0.2	0.0	0.0	0.1	0.1
Oil prices	0.0	0.0	0.0	-0.1	0.5	0.0
Foreign wages and prices	0.3	0.8	-0.1	0.1	0.5	0.4
Other factors	0.3	-1.2	0.4	-0.1	-0.4	-0.4
This projection	2.9	1.8	1.8	1.8	1.8	2.0

Note: Rounding may mean that the transition from the most recent to the current projection does not add up.

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The analysis consists of a Danish and an English version. In case of doubt regarding the correctness of the translation the Danish version is considered to be binding.

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