DENMARK

Denmark’s economic freedom score is 76.7, making its economy the 14th freest in the 2019 Index. Its overall score has increased by 0.1 point, with improvements in scores for government spending and labor freedom countering declines in judicial effectiveness and monetary freedom. Denmark is ranked 6th among 44 countries in the Europe region, and its overall score is above the regional and world averages.

Despite political polarization over immigration issues, Denmark’s economy continues to perform notably well in regulatory efficiency. Open-market policies sustain flexibility, competitiveness, and large trade and investment flows. A transparent and efficient legal system buoys robust entrepreneurial activity. Banking regulations are sensible, and lending practices are prudent. Monetary stability is well maintained, and the judicial system provides strong protection for property rights. Regulatory flexibility and strong institutionalization of exceptional business efficiency have counterbalanced some of the shortcomings of heavy social spending.

BACKGROUND: Denmark, a modern economy well integrated into the global marketplace, has been a member of the European Union since 1973. Lars Løkke Rasmussen of the center-right Liberal Party formed a minority government to become prime minister for a second time after parliamentary elections in 2015. The libertarian Liberal Alliance and the Conservative People’s Party joined in 2016 to shore up the minority government. The government has introduced longer waiting periods for family reunification and temporary border controls to reduce migrant arrivals while also ending automatic acceptance of mandatory U.N. refugee resettlement quotas. The economy depends heavily on foreign trade, and the private sector includes many small and medium-size companies and world-leading firms in pharmaceuticals, maritime shipping, and processed foods.
Protection of property rights is strongly enforced, with a trusted, independent, and fair judicial system institutionalized throughout the economy. Intellectual property rights are respected, and enforcement is consistent with world standards. Denmark enjoys a reputation as one of the world’s least corrupt nations and was ranked 2nd out of 180 countries in Transparency International’s 2017 Corruption Perceptions Index.

The top personal income tax rate is 56 percent, and the top corporate tax rate is 23.5 percent. Other taxes include value-added and inheritance taxes. The overall tax burden equals 45.9 percent of total domestic income. Over the past three years, government spending has amounted to 53.4 percent of the country’s output (GDP), and budget deficits have averaged 0.7 percent of GDP. Public debt is equivalent to 36.4 percent of GDP.

Denmark has one of the world’s most attractive business environments, although an increase in the cost of building permits in 2017 has made running a business more expensive. Unemployment is low, and a shortage of skilled workers in some sectors, including construction, has led to labor bottlenecks. Monetary stability is well established, and the government hopes to phase out subsidies on renewable energy by 2030.

The combined value of exports and imports is equal to 103.4 percent of GDP. The average applied tariff rate is 2.0 percent. Denmark implements a number of EU-directed nontariff trade barriers including technical and product-specific regulations, subsidies, and quotas. The financial system is resilient. The banking sector, characterized by relatively prudent lending in a sound regulatory framework, has regained its stability after a period of uncertainty.