

DANMARKS NATIONALBANK'S COMMENTS ON THE ECONOMIC COUNCIL'S DISCUSSION PAPER SPRING 2024

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Danmarks Nationalbank fundamentally shares the Chairmanship's assessment of the outlook for the Danish economy and the balance of risks. Over the past years, interest rates have risen sharply due to high inflation and tighter monetary policy, which has dampened growth in the Danish and international economy. Like the Chairmanship, Danmarks Nationalbank believes that the development of the Danish economy has been characterised by a two-tier economy in recent years. On the one hand, there has been a slowdown in growth in most parts of the domestic economy, while on the other hand, there has been growth in production abroad under Danish ownership, so-called merchanting and processing. The growth of the pharmaceutical industry in recent years has fuelled growth in Danish merchanting and processing activities, but has also led to a significant increase in employment and production within the country, which has contributed to keeping the pressure on the Danish economy. Like the Chairmanship, Danmarks Nationalbank assesses that merchanting and processing activities in themselves have only a minor impact on the domestic economic situation.

The Chairmanship believes that the Danish economy is currently, even more than in recent years, experiencing a boom with great pressure on the labour market measured by the employment gap. Danmarks Nationalbank agrees that there is still significant pressure on the labour market, but believes that the pressure has generally eased in recent years, despite the fact that employment has continued to rise. At the same time, inflation in Denmark has fallen sharply after several years of high inflation.

Danmarks Nationalbank shares the Chairmanship's expectations of high wage increases in the coming years as a result of continued pressure on the labour market. However, Danmarks Nationalbank to a larger degree expects higher wage increases to have some upward pressure on inflation for a longer period. Wage growth typically affects core inflation and especially service prices with some delay.

The Chairmanship notes that fiscal policy has been eased since the autumn and is considered expansionary in the coming years. Based on the assessment of the employment gap, the Chairmanship believes that fiscal policy should be tightened, but does not mention to what extent. However, the Chairmanship notes that the assessment of the employment gap is subject to considerable uncertainty, and that other indicators of labour market pressures show slightly less capacity pressure in the economy.

Like the Chairmanship, Danmarks Nationalbank believes that a tight monetary and fiscal policy is required to keep the inflationary pressure down. However, considerations concerning monetary policy in Denmark and the euro area do not appear to be included in the Chairmanship's recommendation for fiscal policy. Since the summer of 2022, Danmarks Nationalbank has raised interest rates significantly as a result of the tightening of monetary policy implemented by the European Central Bank, ECB, in the euro area to bring down inflation. Fiscal policy in Denmark should be designed to deal with any deviations in the economic situation between Denmark and the euro area, as the monetary policy in the euro area ensures stable wage and price development in the medium term due to Denmark's fixed exchange rate policy when the economic situation is approximately the same.

Danmarks Nationalbank assesses that the capacity pressure in the Danish economy does not deviate significantly from the economic situation in the euro area. Overall, wage and price increases in the Danish economy have not deviated significantly from the euro area, and are expected to remain at a similar level in the coming years. This assessment is supported by the fact that other indicators such as capacity utilisation or labour shortages in Denmark do not deviate significantly from the euro area. There is currently some uncertainty about the activity effect of the defence agreement. In the current economic situation, where, after a period of very high inflation, there is still significant pressure on the labour market and the prospect of some inflationary pressure from high wage increases, fiscal policy should not push demand. Therefore, if policy priorities, such as increased defence spending, significantly increase capacity pressures, they should be countered by measures that reduce capacity pressures elsewhere in the economy.

Finally, Danmarks Nationalbank agrees with the Chairmanship that a uniform carbon tax on emissions generally ensures the cheapest reductions in socio-economic terms. Furthermore, Danmarks Nationalbank notes that predictability of future tax levels contributes to price and financial

stability by clarifying risks associated with emissions-intensive business models.