

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

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Danmarks Nationalbank generally shares the Chairmanship's assessment of the outlook for the Danish economy and the risk outlook. Interest rate rises in recent years have contributed to slowing growth in the Danish and international economy and to a fall in inflation. This has prompted the European Central Bank (ECB) and others to ease monetary policy again. Like the Chairmanship, Danmarks Nationalbank believes that the development of the Danish economy has been characterised by a dichotomy 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, there has been an increase in exports, in particular driven by production abroad under Danish ownership, known as *merchanting and processing* (M&P). Like the Chairmanship, Danmarks Nationalbank assesses that M&P activities as such have only a minor impact on the domestic cyclical position. M&P is expected to make a significant contribution to growth in the Danish economy over the next few years, while the rest of the export-oriented industries are also expected to grow. Domestic demand is expected to pick up as real wage growth and gradually looser monetary policy translate into increased private consumption and investment.

The Chairmanship believes that the Danish economy is currently experiencing a boom with more than normal pressure on the labour market. Danmarks Nationalbank shares the view that there is still some pressure on the labour market, although it has eased compared to a few years ago. However, Danmarks Nationalbank believes that the pressure on the labour market, measured by the employment gap, has eased to a greater extent and that it is currently smaller than the Chairmanship's assessment. This is supported by a number of indicators such as the labour shortages and number of vacancies reported by companies, both of which indicate that the pressure has eased compared to a few years ago. Unlike the Chairmanship, Danmarks Nationalbank believes that the Danish economy is currently in an approximately neutral cyclical position.

Danmarks Nationalbank share the Chairmanship's expectations that wage growth will slow down next year due to less pressure on the labour market and significantly lower inflation. However, Nationalbanken also

expect lower wage increases than the Chairmanship. Inflation is currently fuelled by domestic factors, and Danmarks Nationalbank expects to a larger extent than the Chairmanship that the current high wage increases will lift inflation going forward. Nationalbanken therefore expect slightly higher consumer price increases than the Chairmanship next year.

Like the Chairmanship, Danmarks Nationalbank believes that monetary and fiscal policy is still needed to contribute to an appropriate development in the business cycle in Denmark, which will support stable price development. Nationalbanken has raised interest rates significantly since the summer of 2022 as a result of the tightening of monetary policy implemented by the ECB in the euro area to bring down inflation. The Chairmanship believes that monetary policy has dampened activity in recent years and will also dampen activity next year, whereas fiscal policy is expected to counteract this in 2025. Specifically, the Chairmanship estimates that fiscal policy has been eased by around 1 per cent of GDP in 2025 compared to 2023. Based on the assessment of the current situation of high capacity pressures, the Chairmanship believes that fiscal policy should be tightened. From a purely stabilisation point of view, it is considered appropriate to tighten fiscal policy to return it approximately to the level of 2023.

In the current situation with continued high wage increases and some pressure on the labour market, including low unemployment, Danmarks Nationalbank shares the Chairmanship's assessment that this is a good time to ease fiscal policy to the extent proposed in the government's proposal for the 2025 budget. However, Danmarks Nationalbank believes that a tightening of the magnitude recommended by the Chairmanship would be too much. This is due to the fact that inflation has fallen sharply and that pressure on the labour market has been reduced over the past few years. Danmarks Nationalbank also believes that monetary policy and financial conditions remain tight in Denmark.

Danmarks Nationalbank agree with the Chairmanship that the green tripartite agreement ("Agreement on a Green Denmark") is a step towards uniform taxation of carbon emissions in Denmark, but that the effective tax level, including the proposed basic deduction, is still lower in agriculture than in other industries. Danmarks Nationalbank also shares the Chairmanship's assessment that there is a risk of the reductions assumed in the agreement not being realised, partly because the agreement involves untested technologies. Thus, it remains unclear whether the carbon tax level is sufficient to ensure the fulfilment of the objectives of the Climate Act. Clarity on future tax levels contributes to price and financial

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

Danmarks Nationalbank contributed to the work of the "Expert Group for a Green Tax Reform" in 2023 by assessing the impact of carbon taxes on agriculture on banks and mortgage credit institutions. Danish banks and mortgage credit institutions are generally expected to be well equipped to handle any losses resulting from a carbon tax. This is due to their ongoing profits, a decrease in the institutions' total lending to the industry and a generally high level of security in underlying collateral.