

8 October 2019

In general, Danmarks Nationalbank shares the Chairmanship's assessment of the cyclical position and the associated risk outlook, although the economy is, in the view of Danmarks Nationalbank, somewhat further into the boom than assessed by the Chairmanship. So far, the Danish economy has been resilient to the international slowdown in growth over the past year. But the outlook for weaker growth abroad will eventually affect the Danish economy, and growth in Denmark can be expected to be a little lower in the coming years. There are early signs of a slowdown in the labour market, and the labour shortage has become less pronounced.

Danmarks Nationalbank agrees with the Chairmanship's assessment that the current neutral fiscal policy is appropriate in the present cyclical position. Slightly lower growth during a boom period is not a signal to ease fiscal policy. Given that the automatic stabilisers are strong in Denmark, they will as such enhance the probability of a soft landing for the Danish economy. At the same time, the boom has evolved without considerable imbalances building up, and the Danish economy is well prepared for a slowdown. In the event of a stronger downturn in the economy, there is fiscal space to mitigate it.

The Chairmanship's updated projection of public finances shows that fiscal policy is more than sustainable – considerably more than earlier assessed. This is primarily the result of large government surpluses many years into the future and an increase of the retirement age by more than 10 years relative to now. Although this substantial rise in the retirement age reflects higher life expectancy, there is considerable uncertainty linked to such marked changes, including how the retirement decision is affected by public and private sector social and disability pensions as well as retirement financed by own savings. Consequently, the assessment that fiscal policy is more than sustainable should not be seen as an opportunity to ease fiscal policy within a foreseeable time horizon.

Danmarks Nationalbank shares the Chairmanship's assessment that the Budget Act helps to support healthy public finances. The Act's rules on expenditure control via spending caps and the possibility of sanctioning budget overruns has halted the previous tendency for expenditure to grow and has also

contributed to observance of the fiscal targets. If the Budget Act is revised, this property should be retained.

The report contains a special chapter on the costs related to cyclical fluctuations. The Chairmanship draws no firm conclusions, but launches important analyses concerning the costs of cyclical fluctuations and stabilisation policy in a welfare economics perspective. This initiative is welcome. The Chairmanship sees signs that the automatic stabilisers in the Danish tax and income transfer system reduce a potential loss of welfare in connection with cyclical fluctuations. That underlines the importance of having fiscal instruments that have a fast impact and are effective. Housing taxation that mirrors developments in house prices is a good example of a built-in automatic stabiliser.