

DANMARKS NATIONALBANK

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The Danish economy is expected to grow by 1.8 per cent in 2019

A balanced Danish economy during the boom

The Danish economy is now experiencing one of the longest periods of continuous growth, and it has taken place without considerable imbalances building up. Since the spring of 2013, month after month people have entered the labour market, and employment has risen by a total of 200,000 persons.

Employment growth has been healthier and more balanced during the current upswing than during the upswing in the mid-2000s, which ultimately led to the economy being overheated. Foreign labour

has been crucial for the current recovery, and without it the upswing would probably have derailed.

Several previously adopted reforms have also contributed to a healthier and more balanced upswing, as they have boosted employment.

Despite the influx of foreign labour and previous reforms, labour market pressures exist, with firms reporting increasing problems in attracting the qualified labour they need. In the coming years, the early retirement and retirement ages will be increased,

Danmarks Nationalbank's projection



GDP

1.3

2018

1.8

2019

1.7

2020



CONSUMER PRICES

0.8

2018

1.4

2019

1.6

2020



EMPLOYMENT

+70,000

Towards the end of 2020



WAGE GROWTH

2.5

2018

3.0

2019

3.3

2020

Danmarks Nationalbank analyses developments in the Danish economy on a regular basis and publishes forecasts of growth and other key indicators twice a year.

which will help to secure more hands. The reforms and an influx of foreign labour will provide a good foundation for maintaining a balanced boom in the next few years. Employment is expected to increase by 70,000 persons by the end of 2020.

These are Danmarks Nationalbank's conclusions in an analysis of the Danish economy which points to continued growth in the coming years. Growth in the gross domestic product, GDP, is expected to be 1.7 per cent in 2018 if a large one-off patent-related payment that increases GDP by 0.4 per cent in 2017 is excluded. Including this payment growth is 1.3 per cent this year. Growth is expected to be 1.8 and 1.7 per cent, respectively, in 2019 and 2020.

Although labour market pressures currently exist, they are not as strong as in 2008, when the economy was overheated.

Protectionism is a disadvantage for Denmark

After a number of years of increasing international trade, several countries are now using protectionism as a tool. Protectionism may favour some domestic firms when higher tariffs and other forms of regulation are applied to goods and services from other countries, but an international agreement-based trading system is an advantage for all countries.

Denmark is a small, open country, and the Danish economy is dependent on foreign trade. A large part of the current upswing and the positive outlook for continued growth is attributable to demand for Danish goods and services. Danish firms' and consumers' access to goods manufactured abroad is also an important factor for the Danish economy.

The restrictions already introduced or announced by the USA, China and others have not yet had any marked impact on the Danish economy, but that may well be the case in the slightly longer term.

ABOUT NEWS



News are news articles based on analyses, working papers or other longer texts from Danmarks Nationalbank. News primarily

address journalists, politicians, government officials, specialists and others who want to be updated on current topics.

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SECRETARIAT AND
COMMUNICATIONS



In 2018, Danmarks Nationalbank will be celebrating its 200th anniversary. Danmarks Nationalbank's overall objective has been more or less unchanged during its 200-year life – to “maintain a safe and secure currency system”. But how this is achieved has changed over the years, and tasks are still evolving.

One of Danmarks Nationalbank's objectives is to ensure stable prices. This is fulfilled by maintaining a fixed exchange rate of the krone against the euro. In the 19th century, we followed first a silver and then a gold standard. Since 1982, Denmark has pursued a fixed exchange rate policy against the D-mark and later the euro.

Why Denmark is conducting a fixed exchange rate policy

In most countries, the main objective of monetary policy is price stability, meaning low, stable inflation.

This is also true in Denmark, which has a long tradition of using the fixed exchange rate policy as a monetary policy strategy. The decision to pursue a consistent fixed exchange rate policy was taken in the early 1980s, when the Danish economy was in crisis, and that policy has been a cornerstone of the Danish economy ever since.

The government and Danmarks Nationalbank found that a new approach was needed after a period of substantial current account deficits and repeated devaluations. Various governments had devalued the krone throughout the 1970s, resulting in lower prices for Danish goods abroad. But the negative effects more than overshadowed the advantages.

Devaluations make imported goods more expensive, and when citizens expect a devalu-

ation at some point, this influences prices and wages and leads to higher interest rates and inflation.

Denmark's fixed exchange rate policy acts as a simple and clear monetary policy rule. There is a clear division of responsibility for economic policy. In a fixed exchange rate regime like the Danish one, monetary policy interest rates are reserved for managing the exchange rate. Danmarks Nationalbank thus uses monetary policy solely to keep the krone stable against the euro. The government ensures that fiscal policy and all other economic policies support a stable economy.

In brief, the objective of Denmark's monetary policy is to ensure price stability, to which the fixed exchange rate policy has contributed. A stable krone plays an important role in Danish households' finances and firms' planning for the future.

Krone exchange rate since 1982

