

# DANMARKS NATIONALBANK'S COMMENTS ON THE DANISH ECONOMIC COUNCIL'S DISCUSSION PAPER SPRING 2018

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In general, Danmarks Nationalbank agrees with the Chairmanship's assessment of the cyclical position, risk outlook and recommendations concerning economic policy. The Danish economy is in a boom where the growth outlook is slightly better than the potential. The Chairmanship's forecast of GDP growth in the coming years is a little higher than Danmarks Nationalbank's forecast due to a slightly more optimistic assessment of the potential. There is consensus that labour market pressures will intensify.

Danmarks Nationalbank agrees with the Chairmanship's recommendation that, in the coming years, fiscal policy should contribute to dampening economic growth and that any new measures – increased expenditure or tax cuts – must be fully funded. This also applies to any reforms to further enhance the labour supply or strengthen productivity. If effective reforms to strengthen the long-term potential of the economy can be identified, they should be implemented, but such reforms can hardly be expected to take effect within a time horizon where they could alleviate the current capacity pressure.

The fiscal policy framework takes into account the cyclical position, the medium-term budget balance as well as long-term sustainability. Moreover, solid tools for central government expenditure control and incentives for local government budget observance exist. All these components are valuable, as evidenced historically, both by developments this year, when the elements have been in place, and in years when this was not the case. If, as the Chairmanship recommends, the individual institution will have better access to move funds between years, a procyclical effect or weakening of the overall framework must be avoided.

According to the Chairmanship's calculation, public finances are more than sustainable at kr. 22 billion over a very long time horizon. This should not be perceived as scope for fiscal policy accommodation within a foreseeable time horizon. The cyclical position must be taken into account. The structural balance must be under control in the medium term, including scope for action in a future recession. In addition, the calculation assumes an increase in the retirement age by 12 years relative to today. Although such a large increase is in accordance with the current framework and rising life expectancy, the pass-through of changes of such magnitude is subject to considerable uncertainty, including about the effects of public and private social and disability pensions and retirement funded by own savings.