

# DANMARKS NATIONALBANK

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## The pension sector in a historical perspective

The assets managed by Danish insurance and pension organisations are rapidly approaching 200 per cent of Denmark's gross domestic product, GDP. Over the last 40 years, pension funds have grown into a major role in the financial sector and the Danish economy. A role, that in a historical perspective has been dominated by banks and mortgage institutions.

The introduction of a tax-funded pension scheme in 1891 limited the size of private pensions until the 1970s. However, this changed drastically in the following decades, due to the introduction and strengthening of labour market pensions. This development was, among other things, stimulated by rising income, demographic development and tax rules. The Danish private pension system will con-

tinue to expand in the coming decades, as the pension payments continue to exceed payouts.

In contrast to the private pension sector, banks and mortgage institutions already accounted for a major share of the financial sector at the end of the 19th century. Before the outbreak of World War I, their domestic lending amounted to around 150 per cent of GDP.

The turning point was the interwar period and the mid-1950s, where lending declined to about 80 per cent of GDP. Since then, the trend reversed, but it was only in the recent decades of financial liberalisation and rising property prices that lending again reached the same size as before World War I.

It can be argued that the expansion of the financial sector – at least until a certain point – has had a positive effect on Denmark's economic development. A well-functioning financial sector makes it easier for savers and investors to find each other. It reduces costs and improves the possibilities of risk diversification, which promotes both saving and investment, and thus economic development.

During the last 200 years, Danmarks Nationalbank has monitored Denmark's economy in order to provide stability in the financial system. You can read about that – and much more – in the anniversary book "*Danmarks Nationalbank 1818-2018*".

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