

DANMARKS NATIONALBANK'S COMMENTS ON THE ECONOMIC COUNCIL'S DISCUSSION PAPER SPRING 2025

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Danmarks Nationalbank generally shares the Chairmanship's assessment of the growth outlook, along with price and wage developments in the coming years. Despite the trade conflict, there are still prospects for significant growth in Danish exports, partly due to production abroad under Danish ownership, while increases in real wages support growth in private consumption. In its latest projection from March, Danmarks Nationalbank predicted higher growth and, contrary to the Chairmanship, that employment will continue to increase in the coming years. This reflects a subsequent increase in US tariffs and a different assessment of how the current capacity pressure in the economy will affect growth.

Danmarks Nationalbank shares the Chairmanship's assessment that there is currently unusually high uncertainty affecting consumers and businesses, e.g. it is difficult to plan investments and supply chains etc. However, Danmarks Nationalbank shares the Chairmanship's assessment that the Danish economy has a solid foundation without significant imbalances to handle the uncertainty arising from the trade conflict.

The Chairmanship notes that trade is important, especially for a small, open economy like Denmark. Increased tariffs hamper economic activity, productivity and prosperity as less trade reduces the ability to utilise comparative advantages and capitalise on economies of scale. Danmarks Nationalbank agrees with this.

Since the bank's last projection, a number of risks related to the trade conflict have materialised and a number of international organisations have downgraded growth in Denmark's export markets. Based on a number of model calculations, Danmarks Nationalbank estimates that increased tariffs will weaken economic activity and, in common with the Chairmanship, assesses that there is no prospect of a massive downturn even if further risks related to the trade conflict materialise.

The Chairmanship assesses that the Danish economy will remain in a moderate boom with a high level of employment in the coming years. Danmarks Nationalbank to a greater extent than the Chairmanship assesses that pressure on the labour market has eased and that it is currently lower than the Chairmanship's assessment. Overall, Danmarks Nationalbank assesses that the Danish economy is currently in an approximately neutral cyclical stance. This assessment is reflected in the fact that most indicators of pressure on the labour market do not deviate significantly from the period immediately before the pandemic, when developments in consumer prices were weak and wage growth moderate. Lower pressure on the labour market compared to a few years ago is also reflected in this spring's collective wage agreements in the private labour market, with agreed wage increases compatible with stable, low inflation, as the Chairmanship also expects.

Based on the assessment that the Danish economy is in a moderate boom, the Chairmanship assesses that fiscal policy is too expansionary for the coming years from a narrow stabilisation perspective, which increases the risk of imbalances building up in the Danish economy. However, the Chairmanship also states that there are currently no clear cyclical imbalances in the Danish economy and that consequently, there are no imminent socio-economic risks in the planned fiscal policy. In its March projection, Danmarks Nationalbank agreed with the Chairmanship that there is considerable uncertainty about future defence spending and how much it will impact capacity pressures. A significant and rapid increase in defence spending could increase capacity pressures and challenge public finances. Danmarks Nationalbank assesses that if capacity pressure increases noteworthy, it should be offset by fiscal policy measures that reduce pressure in the economy accordingly. This assessment reflects that Denmark is currently assessed to be in a neutral cyclical position.

Danmarks Nationalbank agrees with the Chairmanship that a uniform carbon tax on emissions basically ensures the cheapest reductions in socio-economic terms. Danmarks Nationalbank also agrees that uniform pricing of greenhouse gas emissions in agriculture across EU countries reduces total socio-economic costs, and that it is therefore ideally appropriate to work towards agriculture being covered by a common quota system at EU level.