

## STATEMENT

# DANMARKS NATIONALBANK'S COMMENTS ON THE ECONOMIC COUNCIL'S DISCUSSION PAPER SPRING 2023

30 May 2023

Danmarks Nationalbank fundamentally shares the Chairmanship's assessment of the current cyclical situation and the balance of risks. In the past year, interest rates have risen sharply as a result of high inflation and tighter monetary policy. The rising interest rates are expected to lead to a growth slowdown in the global economy and the Danish economy. Like the Chairmanship, Danmarks Nationalbank expects that the growth slowdown will reduce the current high pressure on the labour market in the Danish economy, even though there is uncertainty about when and by how much the labour market will be affected. At the same time, inflation will fall due to lower price increases for imported goods such as energy. Inflation will nevertheless remain high in the coming years, supported by higher wage increases.

Danmarks Nationalbank also shares the Chairmanship's assessment that there are significant downward risk factors for the forecast. However, developments in the past six months show that there is also a risk that the growth rate may be higher than estimated. The Chairmanship especially highlights uncertainty about the size and timing of the pass-through from the significant interest rate increases on activity and inflation. Danmarks Nationalbank's expectation for the outlook for the Danish economy in the coming years is based on an assumption from a number of international organisations that, on the basis of the current expectations for monetary policy interest rates, the central banks will be able to bring down inflation without this leading to a global recession, which is also a central assumption in the Chairmanship's forecast.

The Chairmanship notes that, both currently and in the coming years, fiscal policy is roughly activity-neutral relative to 2019, but that the activity pressure is higher today. On this basis, the Chairmanship finds that fiscal policy is on the accommodative side and that it should not contribute to increasing pressure on demand.

Danmarks Nationalbank also assesses that there is a need for a tight economic policy to bring down inflation and shares the Chairman's assessment that there is no room for increasing pressure in the Danish economy. Monetary policy has been tightened significantly over the past year, which will contribute to bringing down inflation and reducing labour market pressure. Due to Denmark's fixed exchange rate policy, fiscal policy should address deviations in cyclical situations between Denmark and the euro area. At the present time, there are no prospects of significant differences in capacity pressure relative to the euro area. Therefore, Danmarks Nationalbank assesses that it is currently not necessary to tighten fiscal policy more than planned. But it is important that fiscal policy does not counteract monetary policy in bringing down inflation, and fiscal policy tightening may become relevant if the risk of inflation becoming entrenched in a wage-price spiral increases again.

The Chairmanship assesses a uniform tax on all net carbon emissions is the most cost-effective way to achieve the objectives of the Danish Climate Act (*Klimaloven*). A specific and credible announcement of the future carbon emission tax will increase private investment incentives when announced. Danmarks Nationalbank shares these assessments. Danmarks Nationalbank also notes that certainty about future tax levels will support price and financial stability, as such certainty helps clarify the risks of emission-intensive business models. This can prevent abrupt price increases as well as lock-in of unprofitable investments in businesses that are facing suddenly higher production costs. At the same time, such knowledge will reduce uncertainty about the transition, thereby supporting the pricing of climate-related risks in financial markets.