

DANMARKS NATIONALBANK'S COMMENTS ON THE ECONOMIC COUNCIL'S DISCUSSION PAPER, AUTUMN 2023

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Danmarks Nationalbank fundamentally shares the Chairmanship's assessment of the current cyclical situation and balance of risks. Over the past year, interest rates have risen sharply due to the high inflation and tighter monetary policy, and this has started to dampen growth in the Danish and international economies. Like the Chairmanship, Danmarks Nationalbank assesses that there has been a significant slowdown in growth over the past 18 months, excluding the pharmaceutical industry and its production abroad under Danish ownership. The growth slowdown is expected to 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.

However, Danmarks Nationalbank to a larger degree expects higher wage increases to extend the period of high inflation. Wage growth typically affects core inflation and especially service prices with some lag, and wage increases have only started to pick up over the summer following the spring collective bargaining rounds.

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. Based on the assessment of the employment gap, the Chairmanship estimates that fiscal policy should be tightened by up to 0.5 per cent of GDP. However, the Chairmanship notes that the assessment of the employment gap is subject to considerable uncertainty and that other indicators of labour market pressures, such as the unemployment gap, show slightly less capacity pressures in the economy.

Like the Chairmanship, Danmarks Nationalbank believes that a tight economic policy is required to bring down inflation. However, considerations concerning monetary policy in Denmark and the euro area do not appear to be included in the Chairmanship's recommendation for fiscal policy. Danmarks Nationalbank has been raising interest rates considerably since summer 2022 in response to the monetary policy tightening by the

European Central Bank, ECB, in the euro area to bring down inflation. Under Denmark's fixed exchange rate policy, a fiscal policy task in Denmark is to address any deviations in cyclical conditions between Denmark and the euro area. When capacity and inflationary pressures in Denmark and the euro area are uniform, Danish monetary policy will usually be broadly aligned with inflationary pressures. Currently, Danmarks Nationalbank does not believe that there is any prospect that the pressure on the Danish economy will be significantly greater than in the euro area in the future. Therefore, Danmarks Nationalbank assesses that a significant tightening of fiscal policy is required. However, it is key that fiscal policy does not counteract monetary policy in bringing down inflation, and any measures in the Finance Act that increase capacity pressures must, at least, be matched by measures to ease capacity pressures correspondingly.

Danmarks Nationalbank agrees with the Chairmanship that the housing tax reform, which will enter into force in 2024, is an important and appropriate part of the Danish tax system. The housing tax reform will restore the effect of an automatic stabiliser in the Danish economy and the housing market, given that housing taxes will again rise and fall with house prices, which will dampen house price fluctuations. The housing tax reform will also create a more uniform tax regime across geography and property types. This is a clear improvement on the current property tax regime. Danmarks Nationalbank also agrees with the Chairmanship that it is important to be able to quickly correct erroneous assessments in cases where the assessments may have negative consequences, e.g. in connection with property trades.

Finally, Danmarks Nationalbank agrees with the Chairmanship that a uniform carbon tax is the most cost-effective way to achieve climate objectives, and that late regulation increases social costs. 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.