

Jens Thomsen: Some risks to the Danish economy

Statement by Mr Jens Thomsen, Member of the Board of Governors of the National Bank of Denmark, at the meeting of the Danish Economic Council, Copenhagen, 1 June 2006.

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This is an interesting report that pinpoints the problems which the Danish economy could be facing if the pace does not slow down.

The Council has more zest than the Ministry of Finance: "Economic Survey, May 2006", which is reflected in a pronounced deterioration of the balance of payments. It is, however, evident that if the assumptions – which are described as optimistic – are not met, in terms of productivity and the labour force, the risk of overheating is more imminent.

The calculations of structural unemployment in Box I.10 show that the central estimate is just over 150,000, a substantially higher figure than the current one. It is noted that the estimate is subject to considerable uncertainty.

Unemployment in 2006 is estimated at 129,000, indicating a fall by approximately 1,000 a month throughout the rest of the year. From February to March 2006 the figure fell by 4,300.

As usual, the forecast is self-stabilising. The above tendency is positive. It is, nevertheless, difficult to model overheating, as pages 112-113 show. However, the Council should not be criticised for having published this calculation. It is hard not to share the report's conclusion that there is a substantial risk of overheating.

The tight labour market can to some extent be eased by importing labour, and consequently unnecessary barriers should be avoided. In Iceland, 80 per cent of those aged 60-64 are in work, in Denmark only 40 per cent. That provides food for thought. Moreover, the number of Danes on the early retirement scheme (142,000 in 2006) now exceeds the number of unemployed in Denmark.

It is also evident that expansionary fiscal policy contributes to strong demand. In the current situation it is therefore extremely important to keep a tight rein on government expenditure.

It will be interesting to see when growth in public spending once again falls below 1.0 per cent. Since the millennium this has only been the case in 2003. Does the Council believe it will be in 2007, when growth of 0.7 per cent is anticipated?

The development in house prices also illustrates our forecast problems. Increases of 15 per cent are now expected in 2006. Six months ago, the forecast was 7.0 per cent. A continued rise in prices could have a negative impact so it is important that the government does not encourage this.

The Dutch situation is mentioned. I refer to the June version of Denmark's Nationalbank's Monetary Review, which includes an article on the Netherlands.

The issue of establishment of a petroleum fund would require further consideration; after all, the lessons learned from the Social Pension Fund are not exactly uplifting.

In respect of business support, it would be useful to have statistics to underpin decision-making.

The traffic section includes interesting points of view, as well as a somewhat discouraging outlook. Traffic is getting worse, the number of cars is rising, transport of goods is also increasing, the possibilities of switching to rail transport are extremely limited, and a road-pricing system is not currently in the pipeline. At the same time, taxation does not necessarily ensure appropriate behaviour. Signs point to more congestion on the roads.