

Jens Thomsen: Brief overview of 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, 5 December 2006.

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Developments in 2006 reflect extraordinarily high demand in the Danish economy. The growth in demand will continue in 2007, but it is forecast that GDP growth will fall to approximately 2 per cent, leaving the rest of demand to be covered by net imports. This indicates that the Danish economy is close to its capacity limit. Higher wage increases are also expected.

If the growth in demand for Danish goods exceeds productivity growth, the pressure on the labour market will increase, unless the supply of labour is expanded. This labour requirement can hardly be met domestically, and it is difficult to judge how far sufficient resources can be provided from abroad.

It is stated in line with Danmarks Nationalbank that even if the economy has become more flexible there is still a considerable risk of overheating. Such overheating will, as stated, lead to significantly higher wage increases, and thereby an extended period of low growth. On this basis Danmarks Nationalbank has recommended that demand be curtailed. The Economic Council also recommends a tightening of fiscal policy.