

Jens Thomsen: Report on the Danish economy

Statement by Mr Jens Thomsen, Governor of the National Bank of Denmark, at the meeting of the Danish Economic Council, Copenhagen, 26 October 2010.

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Thank you for an interesting report.

The report is based on the revised national accounts for the 1st half of the year, so the forecast deviates from forecasts published by Danmarks Nationalbank in September and of the Ministry of Finance in August.

In addition, a choice has been made to the effect that the higher-than-planned public consumption in 2010 must be counterbalanced in 2011. This will result in weak developments in 2011. It is, of course, debatable whether the decline of 1.0 per cent in public consumption in 2011 is realistic.

The housing price model seems to be very simplified – based on the trend in real cash prices. This can provide an indication, but there seems to be a need for further development of the housing price model.

The surpluses in 2005–2008 – of around 4–5 per cent of GDP for public finances – have been replaced by a deficit of the same magnitude in 2010, and the report concludes that consolidation should take place from 2011. Danmarks Nationalbank supports this view. A tightening will limit the accumulation of debt.

One element of such consolidation is that growth in public consumption must not be higher than planned. It is therefore important to ensure that local authorities have sufficient incentive to observe the agreements.

Bank taxes as proposed for regulation must be of considerable size to have any impact. It should be noted that “uncertain financing” can be difficult to define. European solutions may be hard to find due to national differences in bank funding.

For quite a while, wage increases have been higher in Denmark than in the euro area.

At the same time, productivity growth has been weak in Denmark.

The report provides an analysis of productivity developments.

Denmark’s performance is particularly poor when it comes to TFP (total factor productivity).

Among other things, the report points to a relatively large proportion of people with high educations being employed in the public sector. Furthermore, Denmark has a low proportion of people with science degrees, who are more oriented towards the private sector.

This is still somewhat of a puzzle, but the report presents new insights which may help to solve the puzzle.

This is my last meeting in The Economic Council. While I have been a member, there have been 45 meetings, most of which I have attended. The reports have provided in-depth – and occasionally somewhat lengthy – treatment of the issues on the agenda. There was one report, however, that I was not too pleased about. Discussions in the Council have only to a limited extent been interactive, but their scope has depended on the immediate relevance of the topics. GATT negotiations spurred less interest than labour market issues.

The section on current economic policy has always attracted attention and has naturally been the most widely discussed section. Soon, The Economic Council will be celebrating its 50th anniversary. This will be an occasion to note that the Council has played a useful role and contributed significantly to the economic debate.