

18 June 2019

The Chairmanship's assessment of the cyclical position, risk outlook and economic policy is generally in line with Danmarks Nationalbank's. Following a period with growth above its potential, the economy is expected to dampen in the coming years. A "soft landing" is possible. This also applies to the housing market in the larger urban areas.

The labour market is tight, but the pressure has eased a little over the last half year. The Chairmanship's assessment of the spare capacity remaining in the economy is slightly more optimistic than Danmarks Nationalbank's but there is agreement that in the coming years the labour market will still be supported by a considerable increase in the labour force as a result of the retirement reforms previously implemented.

Danmarks Nationalbank shares the Chairmanship's assessment that the fiscal policy conducted is appropriate in the current cyclical position. Any new measures should be financed, also in the short term, so that the impact on overall demand remains neutral. There is fiscal scope to counter a stronger downturn in the economy if that becomes necessary. Slightly lower growth in the coming years will be part of a normal cyclical dampening and should be countered by means of the automatic stabilisers only.

The special-topic chapter is about taxation of capital returns, which is a complex issue characterised by asymmetry. When various schemes and types of capital income are taxed differently, so that investors are encouraged to move their funds purely for tax reasons, this entails losses to society. The analysis of interest deductibility would have benefitted from a further discussion of experience from abroad. In an international context, tax deductibility of interest is extensive in Denmark and the tax rate remains high (only very few people are comprised by the lowest rate of approximately 25 per cent). This encourages the household sector to build up balances by borrowing and investing in assets for which the taxation of returns is lower than the value of the interest deductibility, e.g. homes and pensions.