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Danmarks Nationalbank generally shares the Chairmanship's assessment of Denmark's cyclical position and risk outlook. The reopening of the Danish economy is underway, and activity has quickly recovered. But the economy is still operating at multiple speeds. In some sectors, activity is still limited by restrictions, while in others activity is running high, especially in construction and on the housing market.

House prices have increased considerably across Denmark, with a particular spike in the cities. There is cause for increased vigilance and to consider adapting the politically determined stimuli of the housing market, which in addition to e.g. the low interest rate is driven upwards by a high interest deduction, access to loans with deferred amortisation, low down payment requirements and the delayed property valuations. It would be due diligence to look at measures that reduce the vulnerability from large fluctuations in the housing market, for instance in the form of higher down payment requirements and amortisation requirements for the most indebted homeowners; the Chairmanship also points to the latter. Danmarks Nationalbank's opinion is that such measures should be considered at this point. Moreover, lower interest deduction will support stability in the housing market. The interest deduction induces households to increase their balance sheets, and the current low interest rate environment is a favourable opportunity for a structurally motivated reduction of the interest deduction. It is also essential that the new housing taxation system – which restores the relationship between housing tax and house prices – is introduced as scheduled in 2024, and that there will be clarity as soon as possible about what the new property valuations mean.

The Chairmanship's recommendations of a prudent fiscal policy stance are generally in line with Danmarks Nationalbank's position. The relief packages that have kept households and corporations afloat during the economic lockdowns should be phased out as the economy reopens. At the same time, there is no current need for further fiscal stimulus. Instead, preparations should be made for tightening the planned fiscal policy, if

required. Unemployment has been reduced considerably during the reopening of the economy, and there are indications of growing pressure on some segments of the Danish labour market, for instance the construction sector. It would be appropriate to abolish fiscal measures that serve to boost demand extraordinarily in industries that already have high activity, such as the Housing Job Scheme (*BoligJobordningen*).

Danmarks Nationalbank shares the Chairmanship's opinion that fiscal rules help to support healthy public finances and ensure fiscal credibility. The fiscal framework with the Danish Budget Act (*Budgetloven*) and medium- and long-term projections and targets has successfully contributed to fiscal discipline and has provided public finance credibility, which is a condition for an effective fixed exchange rate policy. It is essential that this continues to be the case in future. The Chairmanship envisages a relaxation of the Budget Act's threshold for the structural balance deficit from 0.5 per cent of GDP to 1 per cent of GDP. A lowering of the threshold to 1 per cent of GDP, within the framework of the EU Stability and Growth Pact and the Fiscal Compact, would enable appropriate flexibility in the planning of responsible fiscal policy, and it is Danmarks Nationalbank's assessment, that it would still be compatible with healthy and sustainable public finances. At the same time, fiscal policy must, of course, take into account the economic situation.

The report has a special chapter that estimates the labour supply impacts of later retirement ages since 2014. The estimates show that the impacts of the reform are smaller than previously expected. The uncertainty surrounding impact of the reform underscores the need for adopting a prudent approach, rather than easing fiscal policy based on the calculated measure of fiscal sustainability, which is currently determined to be in the range of 1 per cent of GDP.

The Chairmanship assesses that the most cost-effective manner of achieving a 70 per cent reduction in carbon emissions by 2030 is a uniform carbon emission tax. Subsidies, on the other hand, are less expedient and could lead to considerable higher socio-economic costs. Danmarks Nationalbank shares the assessment. A specific and credible announcement of the future carbon emission tax will increase private investment incentives already when announced. That will also support financial stability both because knowledge about future levels of taxation can prevent a locking into unprofitable investments, and because it reduces the uncertainty surrounding the transition and thus supports the pricing of climate-related risks in financial markets.