



ECONOMIC POLICY CHALLENGES FOR DENMARK FROM AN INTERNATIONAL PERSPECTIVE

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2019 OECD ECONOMIC SURVEY OF DENMARK



Key messages

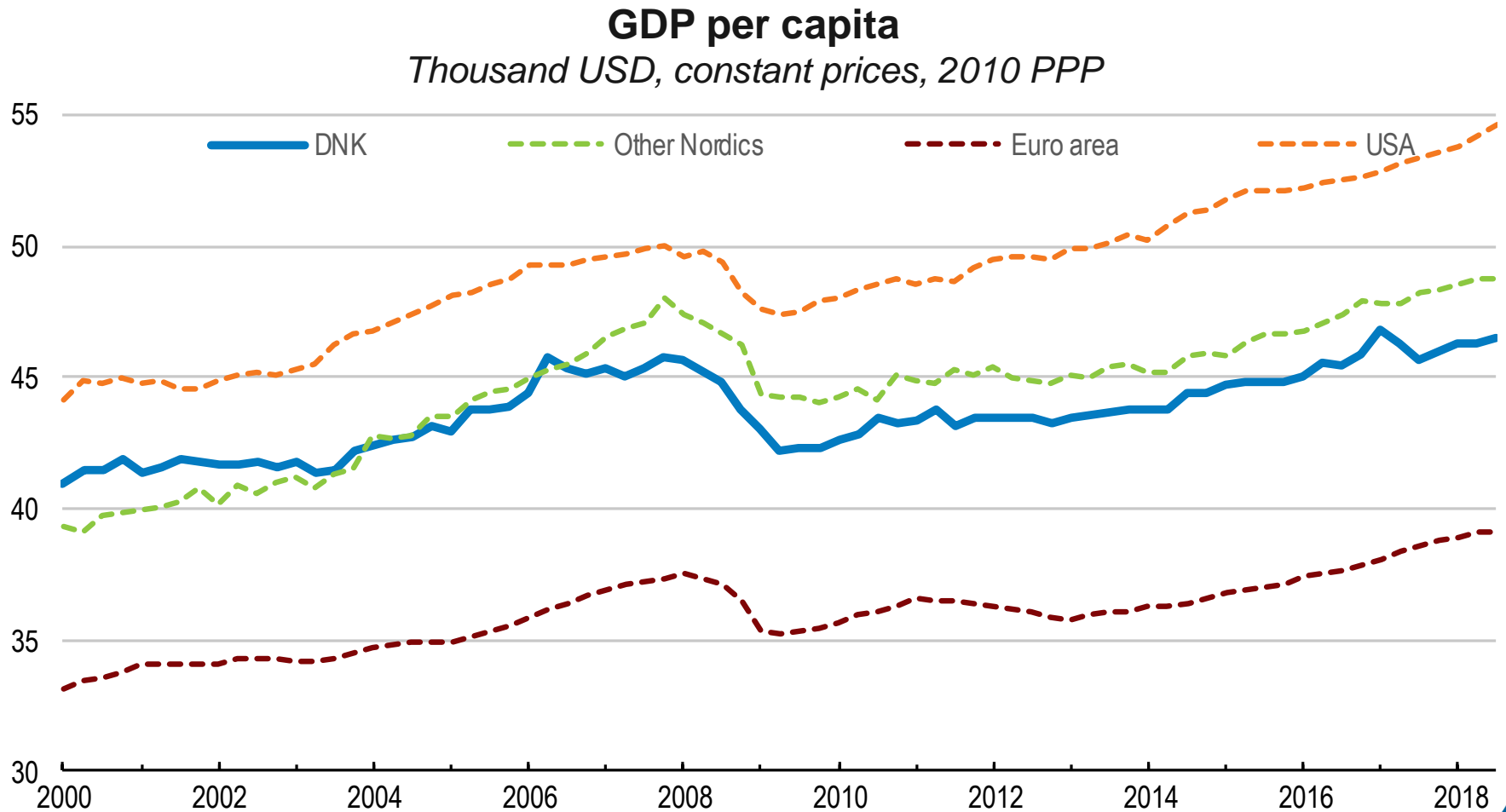
Policy should take advantage of the good economic conditions

Hard decisions are required to further reduce financial vulnerabilities

Boosting productivity is the key challenge to sustain high living standards



The economy is growing after a long recovery

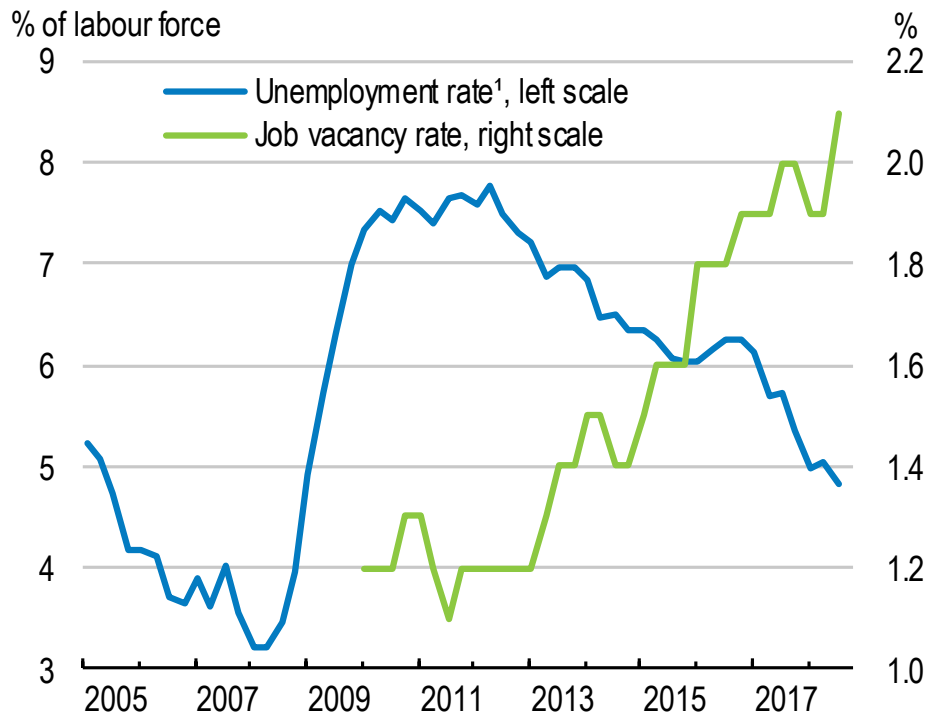


Note: Other Nordics is a simple average of Finland, Iceland, Norway and Sweden. Euro area is a weighted average (19 countries).
Source: OECD National Accounts database.



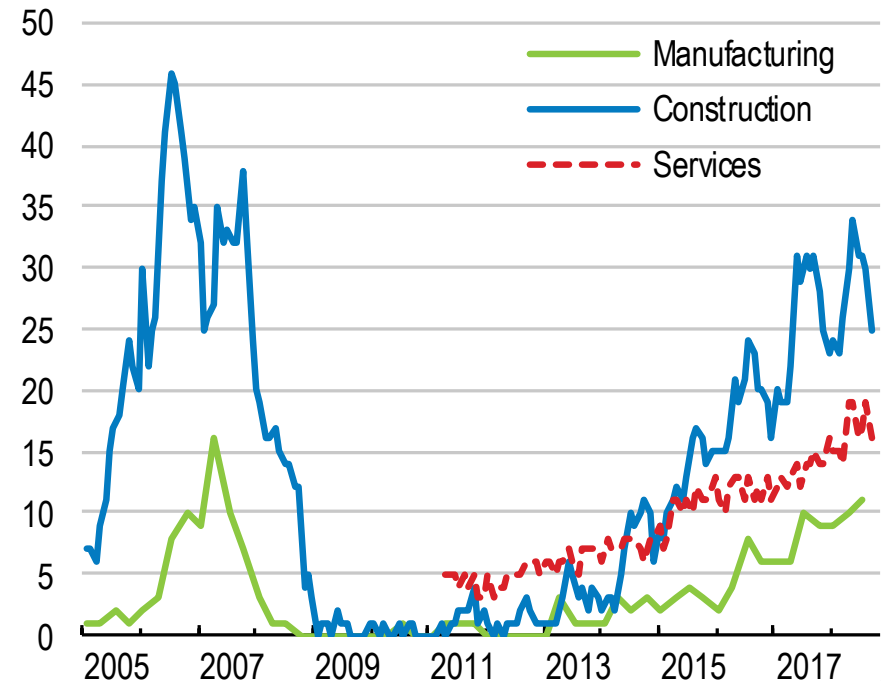
The labour market is tightening

Unemployment and vacancies



Labour shortages

% of firms reporting labour shortages



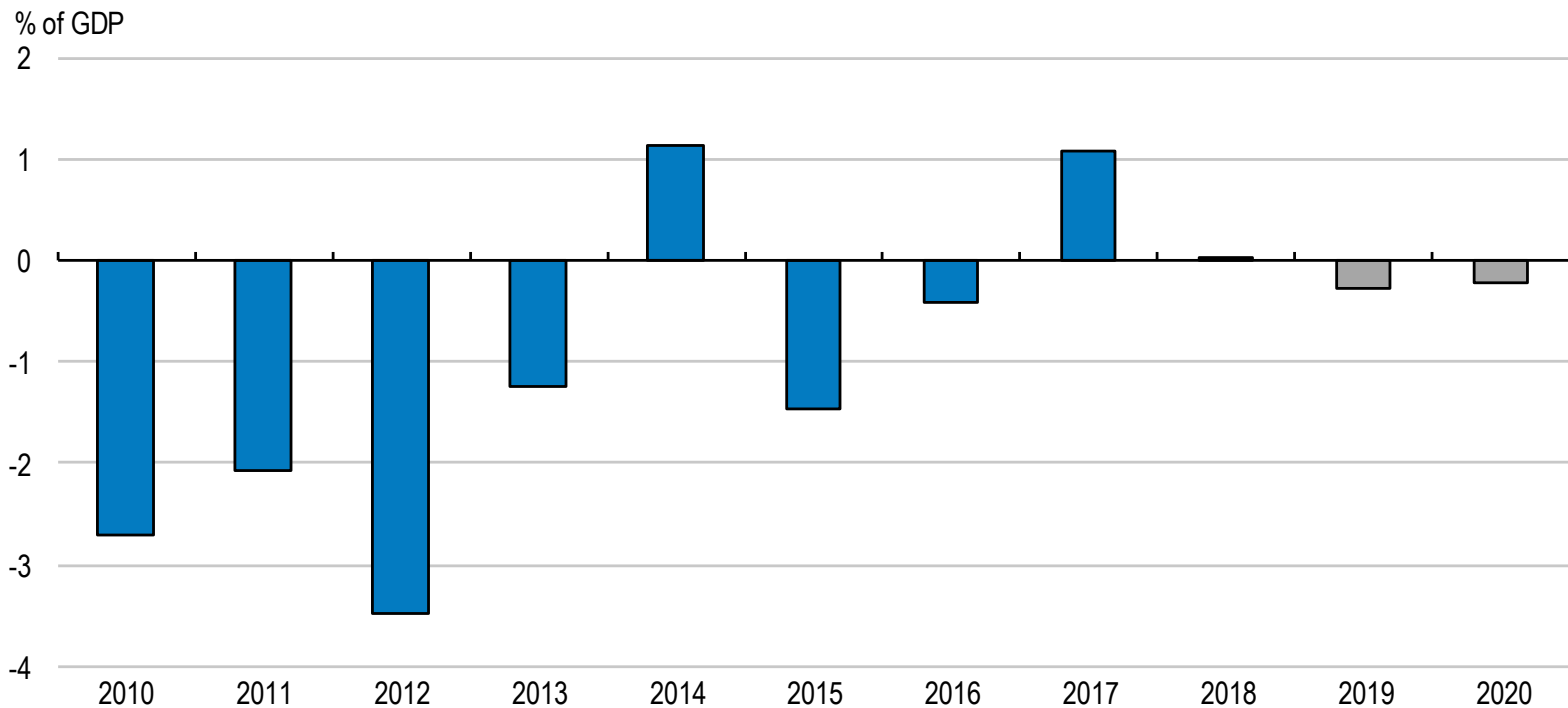
1. Statistical break in 2016Q1 and 2017Q1.

Source: OECD Short-Term Labour market Statistics; Statistics Denmark.



The government budget balance has gradually improved

General government budget balance



Note: Extraordinary tax revenues (including a pension restructuring) drive the surpluses in 2014 and 2017.

Source: OECD Economic Outlook 104 database.



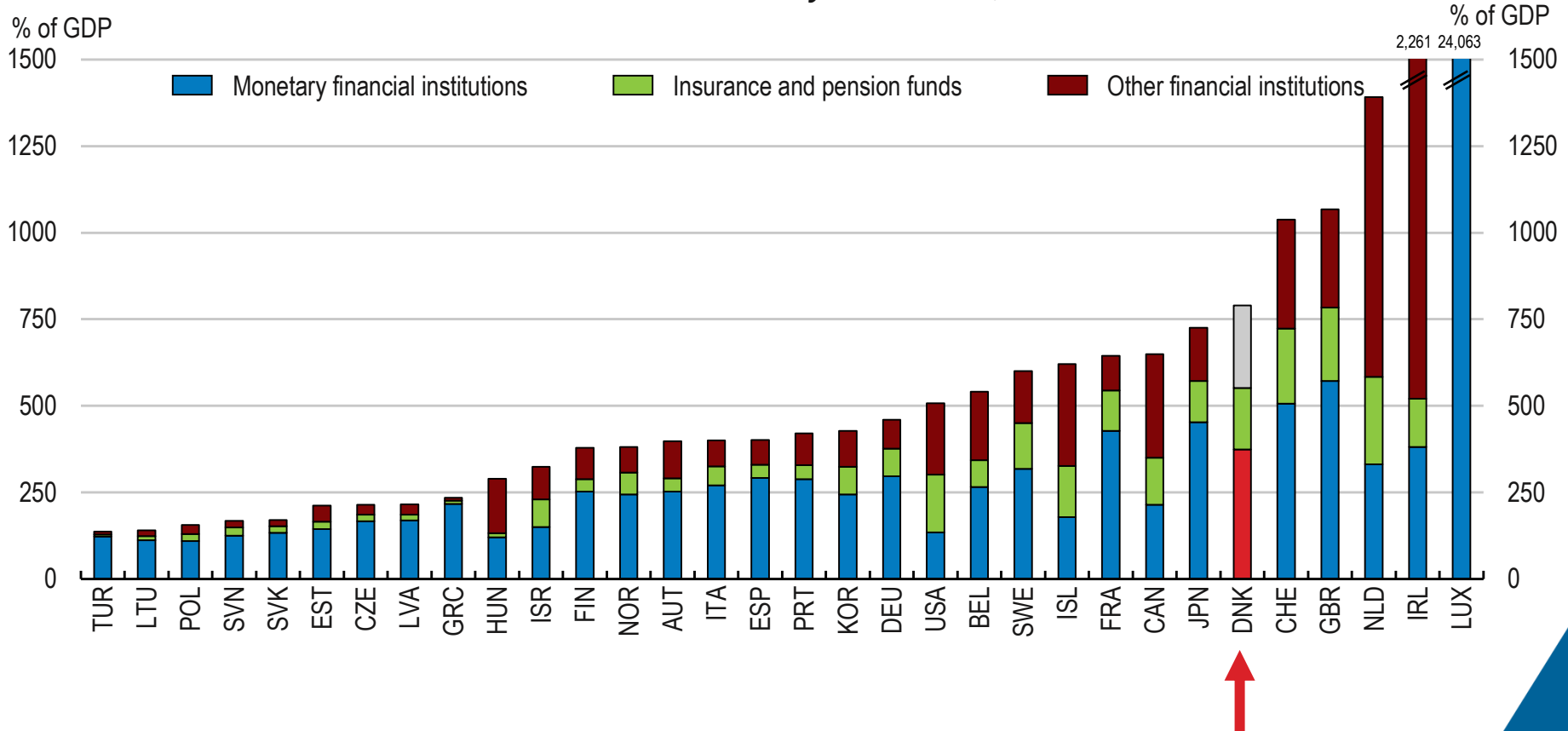
Recommendations to sustain inclusive growth and improve public sector efficiency

- Gradually **tighten fiscal policy** to reflect the economic upturn and **build fiscal space** for a future setback
- Increase flexibility in the provision of **childcare services** to further narrow **gender gaps** in the labour market
- Encourage parents to **split parental leave more equally** by reserving the share reserved for each parent
- Spread best **integration practices** across municipalities and strengthen co-ordination of services
- Improve the **integration-training programme** in collaboration with social partners and make it permanent
- Reform **public sector collective bargaining** towards broader and higher-level agreements, allowing more bargaining at the local level
- Implement the most **cost-efficient greenhouse gas emission reductions** first



The financial sector is very large

Financial corporations
Total financial assets by subsector, 2017



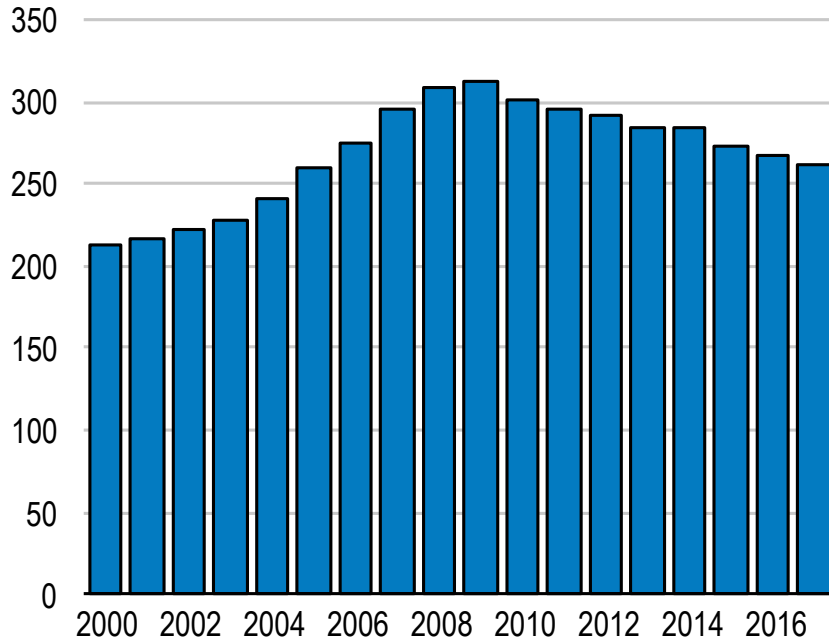
Note: Other financial institutions includes non-MMF investment funds. Based on unconsolidated data.
Source: OECD Financial Accounts.



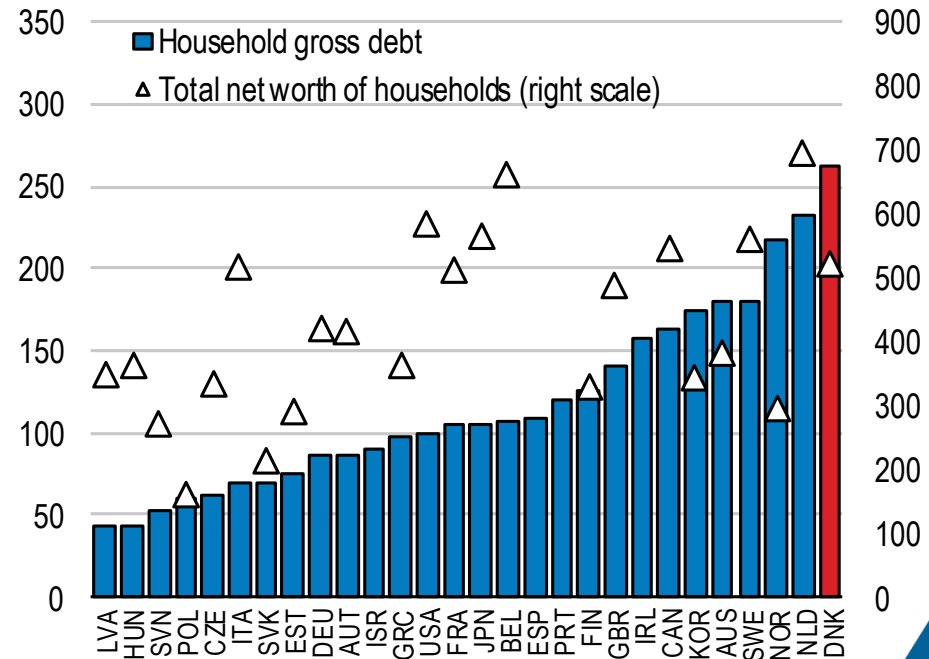
Household gross debt has decreased but is still very high

Household gross debt and net worth *% of gross household disposable income*

Over time



Across countries



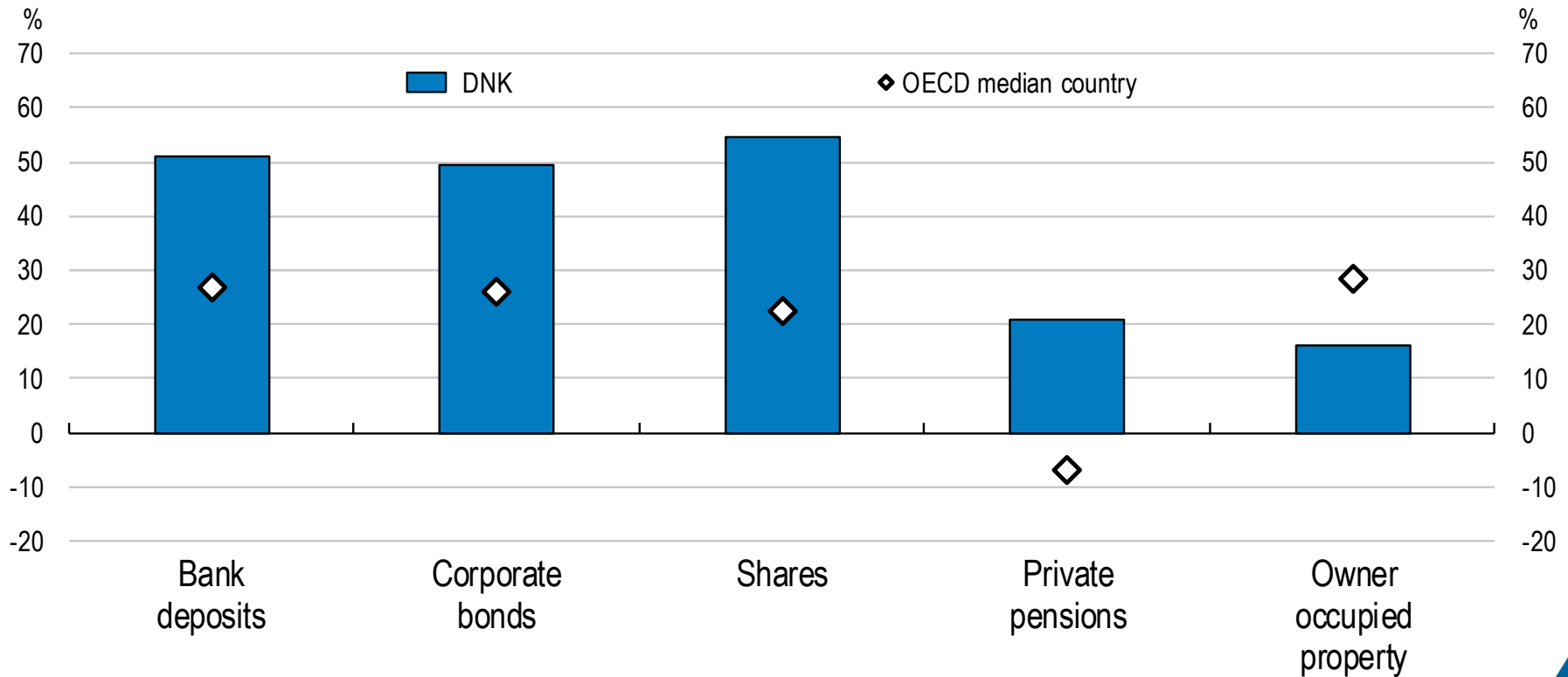
Source: OECD Economic Outlook database.



Taxation of household capital income favours owner-occupied housing

Marginal effective tax rates across asset types

Average-rate tax payer, 2016



Note: The marginal effective tax rate summarises the tax on investing one additional currency unit across different assets with an expected holding period of five years (20 years for pension funds and housing). The tax rates are adjusted for country-specific inflation over the period 2011-16.

Source: OECD (2018), *Taxation of household savings*.



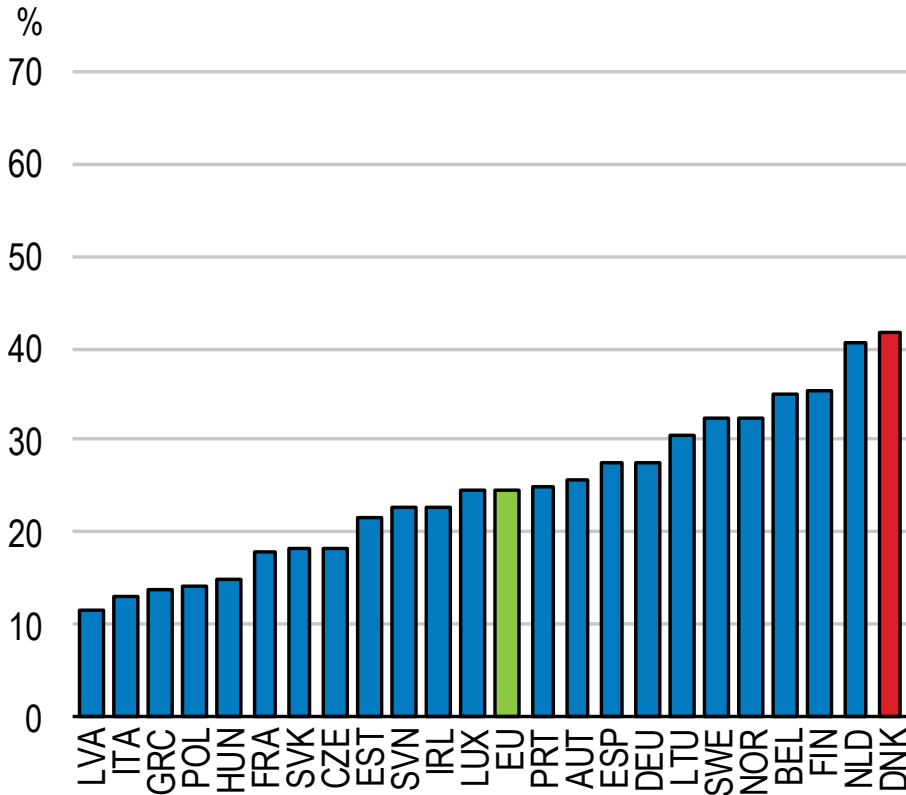
Recommendations to strengthen resilience of households and the financial sector

- **Reduce deductibility of interest expenses** in personal income taxation
- **Deregulate the rental market** and remove favourable conditions for parents to buy-to-let flats to their children
- Review the **pension and tax system** and implement reform to **ease personal financial planning**
- Improve prudential supervision and international collaboration by **joining the European Banking Union**
- Increase **scrutiny** and implement more severe **penalties for money-laundering activities**

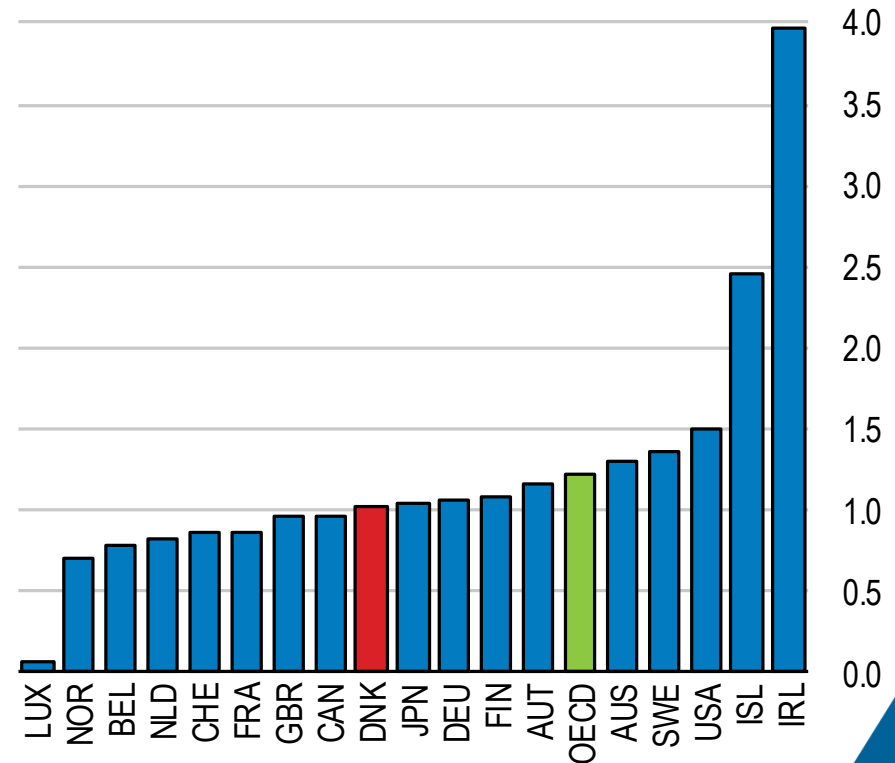


High digitalisation in firms has not (yet) boosted productivity growth

Firms with high digital intensity 2017



Labour productivity growth Total economy, annualised growth, 2000-2017

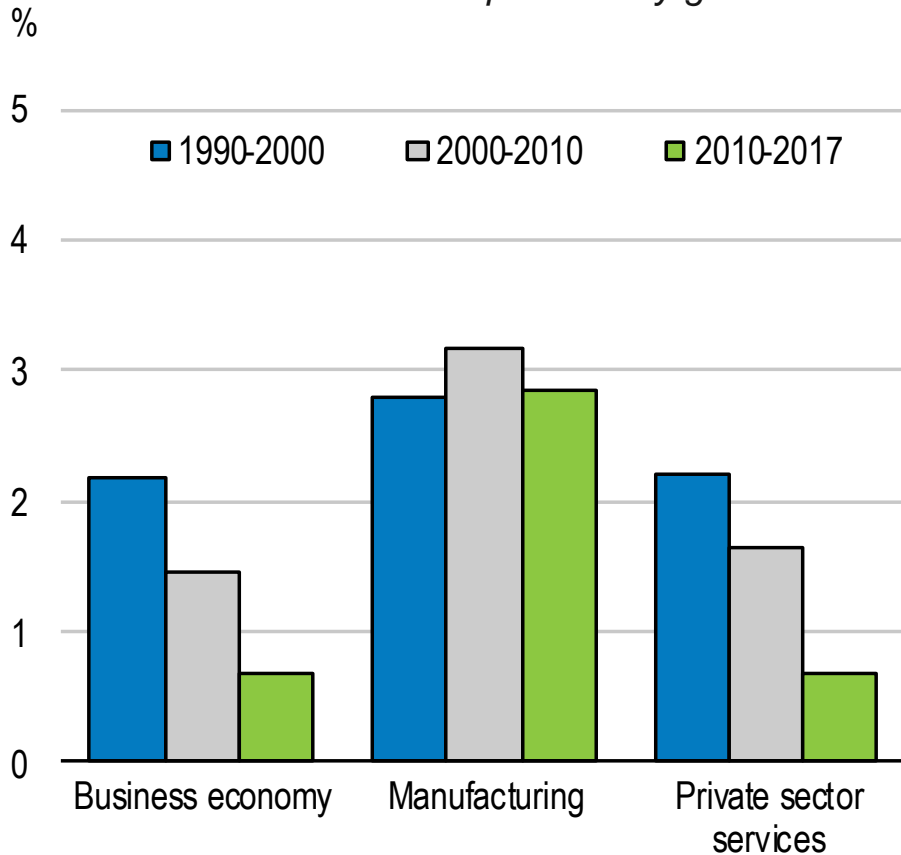




Productivity growth is lagging behind in services

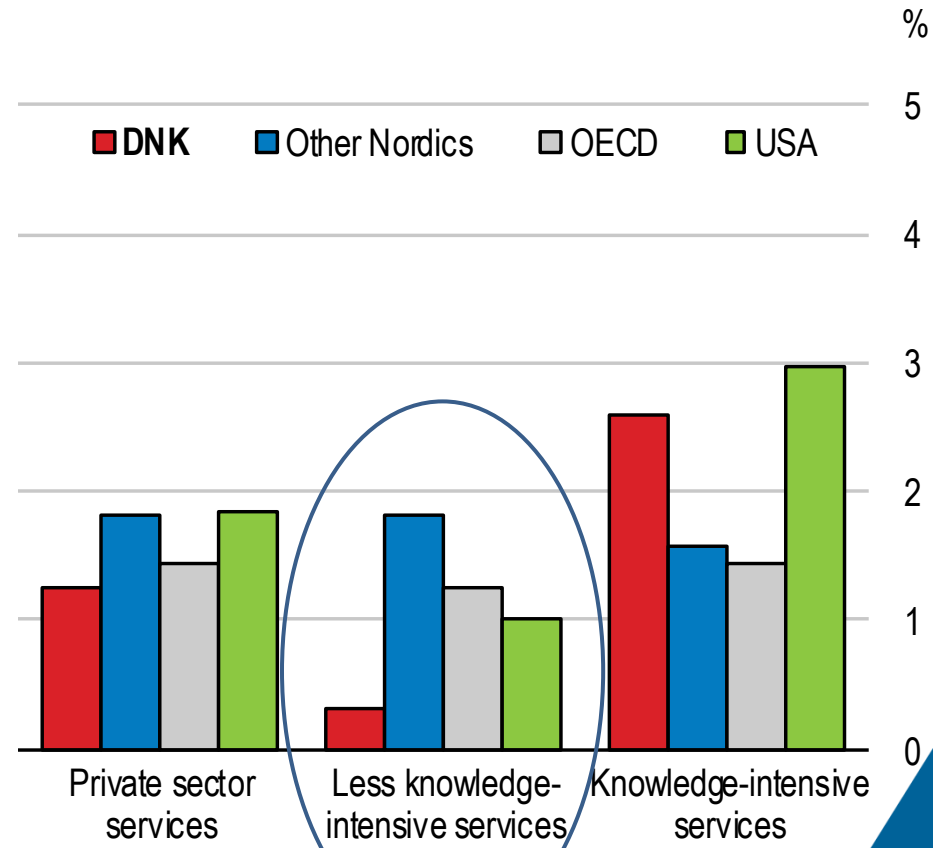
Over time

Annualised labour productivity growth



Across countries

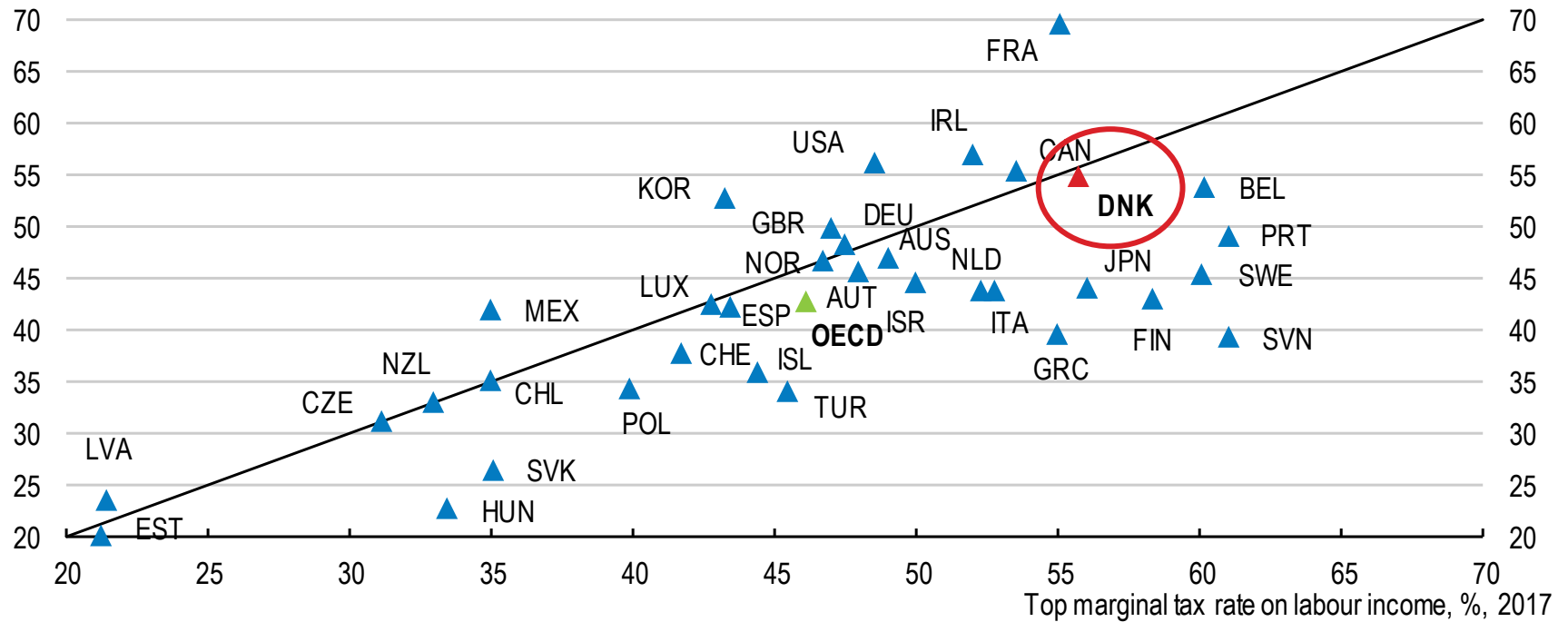
Annualised labour productivity growth, 2000-2015





Top marginal tax rates on labour and capital income are very high

Overall PIT+CIT rate on dividend income, %, 2017

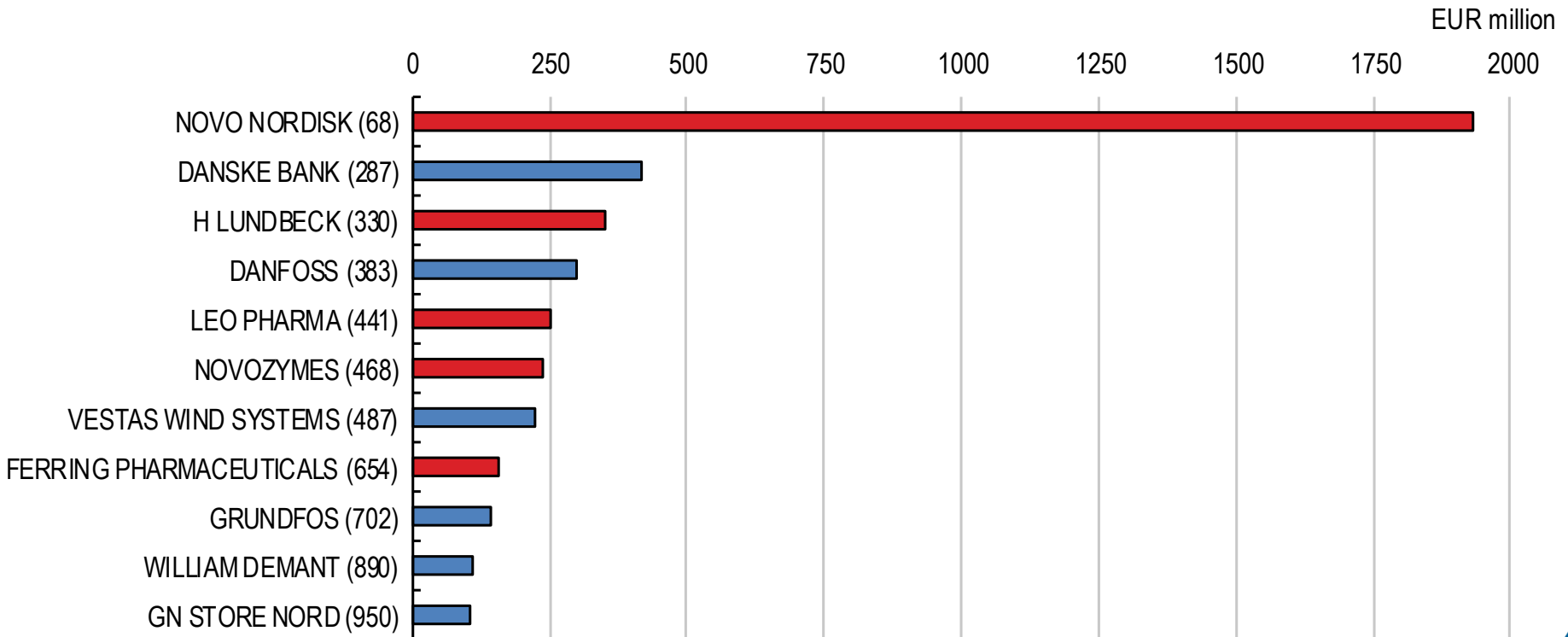


Note: The top marginal tax rate includes personal income tax and employee social security contributions (All-in rate). The overall personal and corporate income tax (PIT+CIT) rate on dividend income reports the overall tax rate on distributed profit, Taking into account taxation prior to distribution and at the household level, showing the highest rate. Source: OECD Tax database.



Business R&D is highly concentrated in pharmaceuticals and biotechnology

Danish companies among the world top 1000 R&D investors *2017 world ranking in parenthesis*

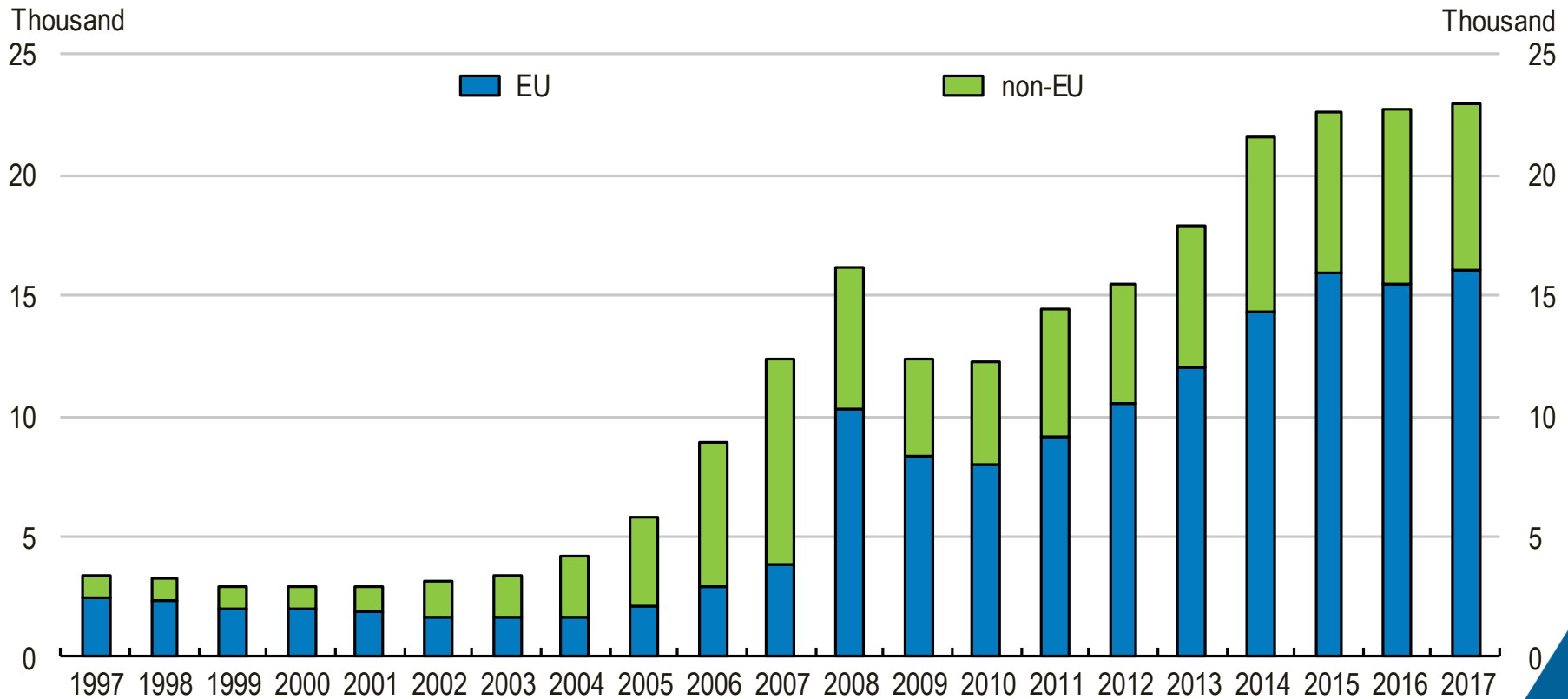


Note: Annual R&D spending at the corporate group level. Pharmaceuticals and biotechnology companies in red.
Source: EU R&D Scoreboard data.



Dependence on foreign workers has increased substantially

Inflow of migrants with a work purpose



Source: Statistics Denmark.



Recommendations to boost productivity growth (1)

Strengthen incentives through the tax system

- Reduce **top marginal tax rates** on labour and capital income
- Withdraw reduced **inheritance taxation** of family-owned businesses
- Implement an **allowance for corporate equity (ACE)**
- Broaden **public support to business R&D** through well-designed R&D grants and tax credits for incremental R&D expenses



Recommendations to boost productivity growth (2)

Refining the competition framework

- Provide greater power to competition authorities to impose **administrative fines and structural remedies** within constitutional constraints
- Develop clearer standards for **exemptions from the Competition Act** and involve competition authorities in their determination

Ensuring supply of the right skills

- Strengthen incentives by **reducing student grants** for tertiary education and relying more on students loans
- Assess whether current **visa schemes for non-EU workers** sufficiently address skill needs and consider simplifying entry procedures



For more information

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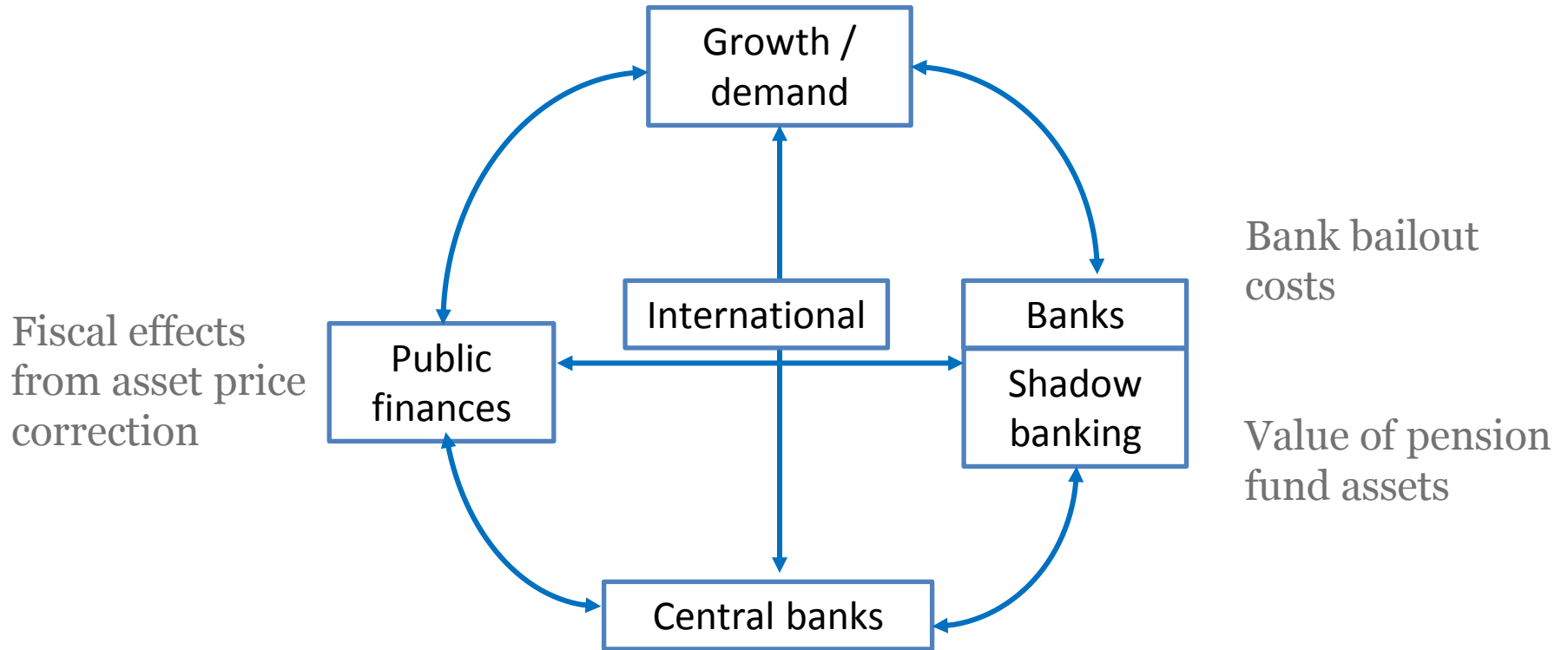




FISCAL FINANCIAL RISKS



Fiscal-Financial Risk Map





Fiscal risks from asset price adjustment (especially housing)

	Total
Belgium	0.75
Finland	0.62
France	0.33
Germany	0.57
Ireland	0.62
Italy	0.45
Netherlands	0.55
Spain	0.79
Weighted average	0.53
Euro area aggregate	0.28

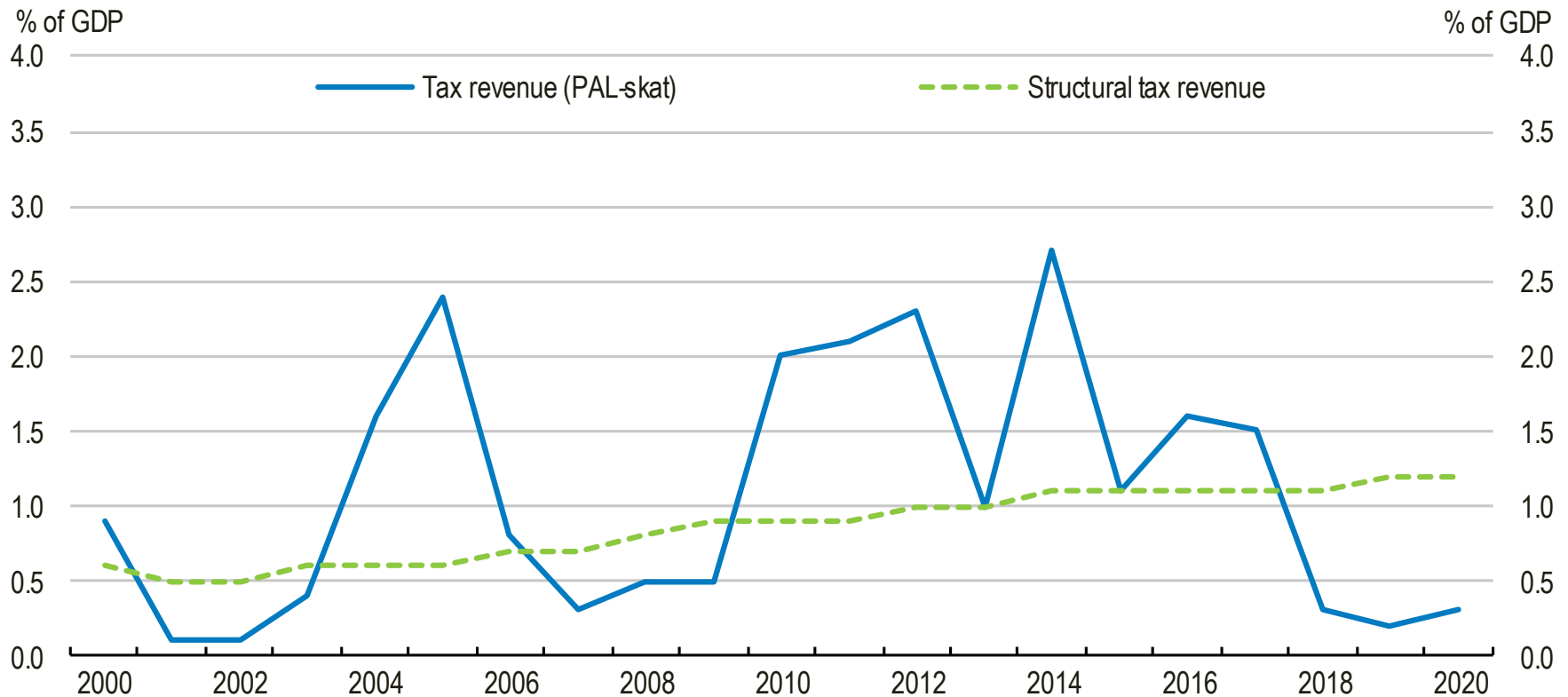
Source: Richard Morris and Ludger Schuknecht, 2007

Total refers to the sum of the effect from a 10% stock and real estate price change on the budget balance via direct taxes on corporations/households, indirect taxes and transaction taxes.



The tax revenue from the pension yield tax is very volatile

Annual tax revenue from pension yield tax



Note: The Danish authorities computes the structural tax revenue as:
the normal return (4.5%) x taxable pension savings x the tax rate (15.3%).

Source: Danish Ministry of Economic Affairs and the Interior (2018).



Fiscal effects from asset price bust/financial crisis

Table VIII.3 Decomposition of the change in Deficit, 1985-93						
United Kingdom and Sweden						
Components of cumulative change in deficit						
		United Kingdom		Sweden		
Base year 1984		1985-89	1990-93	1985-89	1990-93	
Total cumulative change in deficit		4.9	-8.9	7.9	-16.8	
Expenditure			4.3		10.2	
Revenue			-3.1		-4.4	
Decomposition						
Non-asset price effect		2.9	-6	4.9	-8.2	
Asset price effect		2	-2.9	3	-6.1	
Thereof: stock price changes		1.8	-0.8	2.4	-1.5	
real estate price changes		0.3	-3.7	0.6	-4.6	
Source: Eschenbach and Schuknecht, 2004						



Fiscal effects from asset price bust/financial crisis

Table VIII.4 Post-Crisis Expenditure and Revenue Developments, 2007-2009

		Expenditure	Revenue		
Ireland		11.1	-2.8		
Spain		7.0	-6.1		
United Kingdom		6.4	-1.2		
France		4.6	-0.1		
Germany		4.8	1.3		
Italy		4.4	0.6		
Source: OECD					



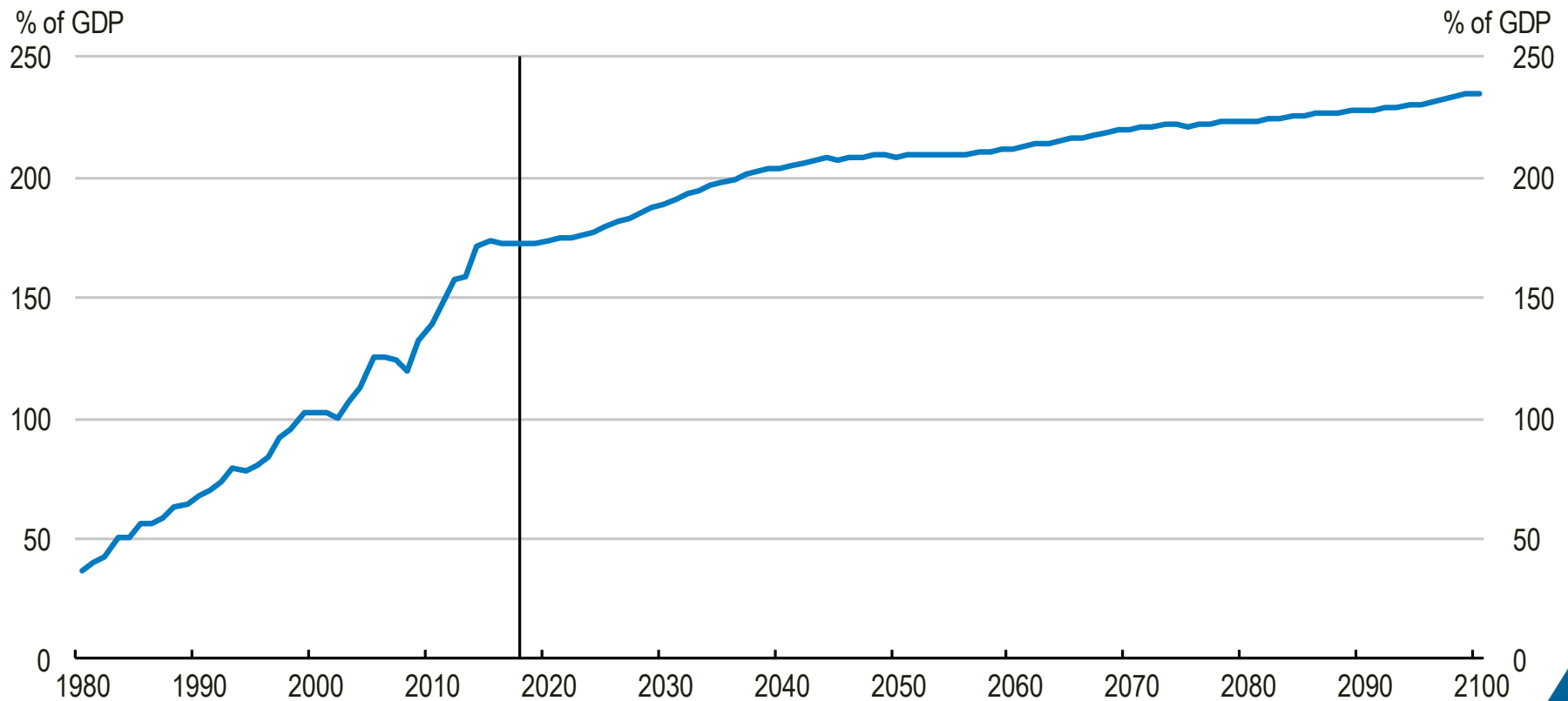
Fiscal Buffers

Table VIII.7 Fiscal Buffers					
General Government Deficit and Debt (% of GDP)					
	2007		2017		
	Deficit	Debt	Deficit	Debt	Debt
					(Increase 2017-2007)
USA	-2.9	65	-4.6	108	43
Japan	-3.2	175	-4.2	236	61
Canada	1.8	67	-1.0	90	23
United Kingdom	-2.6	42	-2.3	87	45
Germany	0.2	64	1.1	64	0
France	-2.5	64	-2.6	97	33
Italy	-1.5	100	-1.9	132	32
G7	-2.2	81	-3.4	119	38
Source: Ameco					



Pension savings in Denmark have almost reached 200% of GDP

Total pension fund assets



Source: Danish Ministry of Finance (2017) and DREAM.



THANK YOU