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Recommendation for a
COUNCIL RECOMMENDATION
on Denmark's 2013 national reform programme
and delivering a Council opinion on Denmark's convergence programme for 2012-2016

{SWD(2013) 354}

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COUNCIL RECOMMENDATION

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies¹, and in particular Article 9(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances², and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission³,

Having regard to the resolutions of the European Parliament⁴,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

- (1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.
- (2) On 13 July 2010, on the basis of the Commission's proposals, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States⁵, which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.
- (3) On 29 June 2012, the Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be

¹ OJ L 209, 2.8.1997, p. 1.

² OJ L 306, 23.11.2011, p. 25.

³ COM(2013) 354 final .

⁴ P7_TA(2013)0052 and P7_TA(2013)0053.

⁵ Council Decision 2013/208/EU of 22 April 2013.

taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 Strategy and to implementing the country-specific recommendations.

- (4) On 6 July 2012, the Council adopted a recommendation on Denmark's national reform programme for 2012 and delivered its opinion on Denmark's updated convergence programme for 2011-2015.
- (5) On 28 November 2012, the Commission adopted the Annual Growth Survey⁶, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report⁷, in which it identified Denmark as one of the Member States for which an in-depth review would be carried out.
- (6) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.
- (7) On 10 April 2013, the Commission published the results of its in-depth review⁸ for Denmark, under Article 5 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances. The Commission's analysis leads it to conclude that Denmark is experiencing macroeconomic imbalances, although these are not excessive.
- (8) On 30 April 2013, Denmark submitted its 2013 convergence programme covering the period 2012-2016 and its 2013 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.
- (9) Based on the assessment of the 2013 convergence programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible. The scenario projecting GDP growth at 0.7% and 1.6% in 2013 and 2014 is broadly in line with the Commission's 2013 spring forecast of 0.7% and 1.7%. The programme outlines a budgetary strategy aimed at correcting the excessive deficit and to fulfil its medium-term objective (MTO), of a structural deficit of no more than 0.5% of GDP, by 2013, reflecting the objectives of the Pact. The programme targets a general government deficit of 1.7% of GDP in 2013 and 1.8% in 2014, which is in line with the EDP deadline proposed by the Commission. The average annual fiscal effort over the period 2011-2013, based on the structural budget balance calculations, is in line with the Council recommendation under the excessive deficit procedure. The real government expenditure (including discretionary income measures) is estimated to show zero growth in 2013 and to be at 0.4% in 2014, thus meeting the expenditure benchmark in both years. Public finances in Denmark are generally sound and the country is already at its MTO. However, also because the country has an ageing population and ambitious welfare policies, it is crucial for Denmark to maintain a sound and sustainable framework for fiscal policies and to keep the deficit below the 3% of GDP reference value in the Treaty.

⁶ COM(2012) 750 final.

⁷ COM(2012) 751 final.

⁸ SWD(2013) 115 final.

- (10) In 2012, Denmark concluded the reform of the disability pension and flex-job schemes, which came into effect on 1 January 2013. These reforms constitute important measures to enhance the Danish labour supply. However, improving the employability of those furthest away from employment, including people with a migrant background, the long-term unemployed and low-skilled workers, remains a challenge. While acknowledging the ambitious reform agenda of the Danish government, it is important to ensure that the renowned Danish 'flexicurity' model continues to facilitate a smooth transition between unemployment and work, while also limiting marginalisation and social exclusion. The role of education, training and skills upgrading is important in this respect.
- (11) For Denmark, education is rightly a clear priority. Continued efforts are nonetheless needed to improve the quality and cost-effectiveness of its education and training systems, including by carrying through initiated reforms. The proposed reform of the primary and lower secondary education system points in the right direction and can be expected to have a positive impact on the cost-effectiveness of the school system and the quality of education, including pupils' attainment levels. As regards vocational training, the Danish government has taken steps to strengthen the quality of youth vocational training and secure the necessary private apprenticeships. A committee has been set up between the government, municipalities, regions and social partners to find a permanent solution to securing the necessary provision of apprenticeships and increasing the quality of the vocational education and training (VET) system. Finding lasting and ambitious solutions to both the lack of apprenticeships and the high drop-out rates in the vocational youth educational system would indeed prepare Denmark better for future skill demands on the labour market and improve productivity performance.
- (12) Denmark could generate more economic growth by removing obstacles to competition in local and retail services, given the importance of this sector in the Danish economy. In 2012, the Danish government presented a new competition act, which constitutes an important step in the right direction. The revision of the competition law introduced more effective mechanisms to enforce competition regulation, which fully responds to the corresponding part of the 2012 recommendation. However, more can be done to ensure the effectiveness of measures taken in sectoral and public services areas to enhance competition and market functioning. Various policy initiatives in this field are still at an early stage and continued efforts are needed to ensure effective implementation.
- (13) There has been significant analysis in the past year of household indebtedness at national and EU level to assess the threats to financial and economic stability. For the moment, risks to financial stability seem contained, but require continuous monitoring. The Danish authorities have taken a number of measures to improve the robustness of the mortgage credit system. These include a risk labelling scheme for housing mortgage loans and restrictions on variable-interest and/or deferred-amortisation loans. The mortgage credit institutes have taken, on their own initiative, measures to ensure the provision of additional collateral. All these measures go in the right direction, but close monitoring will be required in order to ascertain whether they have the desired impact. The Commission will examine Denmark's regular reports on the impact of measures taken in this context. Over time, property taxation in Denmark should be reviewed to reduce distortions and strengthen its countercyclical features.
- (14) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Denmark's economic policy. It has assessed the

convergence programme and the national reform programme, and presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (3) below.

- (15) In the light of this assessment, the Council has examined Denmark's convergence programme, and its opinion⁹ is reflected in particular in recommendation (1) below,
- (16) In the light of the Commission's in-depth review and this assessment, the Council has examined Denmark's national reform programme and convergence programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances are reflected in recommendation (3) below.

HEREBY RECOMMENDS that Denmark should take action within the period 2013-2014 to:

- 1. Implement the budgetary strategy in 2013 as envisaged, so as to ensure the correction of the excessive deficit by 2013. Furthermore, implement the budgetary strategy for 2014 and beyond to ensure an adequate fiscal effort to remain at the medium-term objective.
- 2. Take further steps to improve the employability of people at the margins of the labour market, including people with a migrant background, the long-term unemployed and low-skilled workers. Improve the quality of vocational training to reduce drop-out rates and increase the number of apprenticeships. Implement the reform of primary and lower secondary education in order to raise attainment levels and improve the cost-effectiveness of the education system.
- 3. Continue efforts to remove obstacles to competition in the services sector including in the retail and construction sectors and enhance effectiveness in the provision of public services.

Done at Brussels,

For the Council
The President

⁹ Under Article 9(2) of Council Regulation (EC) No 1466/97.