COUNCIL OF
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from:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
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to:	Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on Denmark's 2012 national reform programme and delivering a Council opinion on Denmark's convergence programme for 2012-2015

Delegations will find attached Commission document COM(2012) 304final.

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EUROPEAN COMMISSION

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Recommendation for a

COUNCIL RECOMMENDATION

on Denmark's 2012 national reform programme

and delivering a Council opinion on Denmark's convergence programme for 2012-2015

{SWD(2012) 304 final}

Recommendation for a

COUNCIL RECOMMENDATION

on Denmark's 2012 national reform programme

and delivering a Council opinion on Denmark's convergence programme for 2012-2015

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 policies[1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission[3],

Having regard to the resolutions of the European Parliament,[4]

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 European Commission's proposal to launch a new strategy for jobs and growth, 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.

[1] OJ L 209, 02.08.1997, p. 1
[2] OJ L 306, 23.11.2011, p. 25
[3] COM(2012)304 final
[4] P7_TA(2012)0048 and P7_TA(2012)0047

(2) On 13 July 2010, 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 States[5], 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 12 July 2011, the Council adopted a recommendation on Denmark's national reform programme for 2011 and delivered its opinion on Denmark's updated convergence programme for 2011-2014.

(4) On 23 November 2011, the Commission adopted the second Annual Growth Survey, marking the start of the second European Semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy. On 14 February 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report[6], in which it identified Denmark as one of the Member States for which an in-depth review would be carried out.

(5) On 2 March 2012, 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.

(6) On 2 March 2012, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time for inclusion in their stability or convergence programmes and their national reform programmes.

(7) On 30 April 2012, Denmark submitted its convergence programme for the period 2012-2015 and its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time. The Commission concluded in its in-depth review[7], under Article 5 of Regulation (EU) No 1176/2011, that Denmark is experiencing an internal and external imbalance, although not excessive.

[5] Council Decision 2012/238/EU of 26 April 2012
[6] COM(2012) 68 final
[7] SWD(2012)153 final

(8) Based on the assessment of the 2012 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 1.2 and 1.5% in 2012 and 2013 is broadly in line with the Commission's 2012 spring forecast of 1.1 and 1.4%. Accordingly, the government deficits are slightly smaller in the convergence programme (4.0 and 1.8% of GDP in 2012 and 2013 respectively, compared with 4.1 and 2.0% of GDP in the Commission's 2012 spring forecast). The objective of the budgetary strategy outlined in the programme is to correct the excessive deficit by 2013 and achieving the medium term budgetary objective (MTO) of at least a structurally balanced budget in 2020. The programme thereby confirms the previous MTO, which adequately reflects the requirements of the Stability and Growth Pact. The planned headline deficit in 2013 is consistent with a timely correction of the excessive government deficit and, based on the (recalculated) structural budget balance[8], the planned fiscal effort in that year complies with the Council recommendation issued under the Excessive Deficit Procedure in July 2010. The consolidation path has become more back-loaded than previously planned and a sizeable effort is needed in 2013 to ensure the required structural adjustment. Risks of falling short of the 3% of GDP reference value in 2013 are limited; the Commission's 2012 spring forecast sees the government deficit at 2.0% of GDP. Based on the (recalculated) structural budget balance, from 2013 onwards, the estimated budgetary improvement in the structural budget balance falls short of the 0.5% of GDP required by the Stability and Growth Pact.. At the same time, the growth rate of government expenditure, taking into account discretionary revenue measures, is expected to be in line with the expenditure benchmark of the Stability and Growth Pact. Part of the budget deficits will be financed by reducing the government's account with Denmark's Nationalbank. Denmark's gross public debt is projected to fall from 46.5% of GDP in 2011 to 41.1% in 2015, well below 60% of GDP.

(9) Increasing labour supply is a key priority for Denmark in order to ensure future welfare and fiscal sustainability. In 2011, Denmark concluded an ambitious reform of the voluntary early retirement pension scheme and brought forward the previously planned increase in the statutory retirement age and its link to life expectancy. The focus now needs to shift to reforming the disability pension and subsidised employment (flex-job) schemes. The government has presented a proposal for reform in this area, which should be implemented without delay. The widening gap in employment outcomes between people with a migrant background and the rest of the working population also needs to be addressed.

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[8] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

(10) Labour productivity growth in Denmark has slowed down over the last decades, one of the causes being a relatively weak education performance. Despite a high level of spending on education, the quality of Danish school education — as measured by the OECD's PISA survey — is only average. Furthermore, students generally finish their studies at a later age than in other Member States and the drop-out rates from vocational education institutions are relatively high. To respond to the challenges in this field, the government has announced a number of new measures for both compulsory and secondary education. The 2012 budget also supports the introduction of social clauses in public procurement calls and measures to make it financially beneficial for private companies to offer apprenticeships, in order to increase the number of available places. Increasing the provision of apprenticeships will also be addressed in tripartite negotiations and in the work of an inter-ministerial Committee.

(11) Another potential reason for slow productivity growth is the relatively weak degree of competition in Denmark. In 2011, a competition package was adopted, mainly targeting the construction sector, the retail sector, and health and public sector services. Competition for taxis and transportation services as well as the liberalisation of pharmacies are under investigation, in view of possible new measures. The issue of increasing public procurement in municipalities and regions is currently being negotiated with regional and local governments. In this context, a government committee recently concluded that the Danish competition law is in need of reinforcement, and that sanctions for infringements are currently too low to serve as a deterrent. Given that only limited concrete initiatives have been taken in this area over the past year, further steps are needed to adequately address this challenge.

(12) As confirmed in the in-depth review under Article 5 of Regulation (EU) No 1176/2011, while the high household gross debt to some extent is a structural feature of the Danish economy, with household assets considerably exceeding liabilities, concerns regarding high household debt arise as developments in the housing market seem to have caused the debt to move beyond levels explained by structural factors. Furthermore, the composition of mortgage loans has changed since 2003, with instalment-free and variable-rate loans gaining in popularity over fixed-rate loans with instalment. For a given debt level, households are therefore more sensitive to interest rates hikes and fluctuations in property prices now than they were a decade ago. This poses higher potential risks in terms of financial and economic stability. Relevant measures have been taken in Denmark to address vulnerabilities in the mortgage system. Moreover, the Ministry of Business and Growth is currently analysing the distribution of assets and liabilities across households and their potential vulnerability in the event of different economic shocks. However, measures should also be considered to prevent pro-cyclical developments in the housing market in the medium term, preferably by realigning the property value tax with actual market values. Removing the ceiling of the annual increase of the municipal land value tax could also prevent future pro-cyclical effects. Such measures should be introduced gradually, taking into account the current need for stabilisation in the housing market.

(13) Denmark has made a number of commitments under the Euro Plus Pact. These commitments, and the implementation of the commitments presented in 2011, relate to fostering employment, improving competitiveness, enhancing sustainability of public finances and reinforcing financial stability. The Commission has assessed the implementation of the Euro Plus Pact commitments. The results of this assessment have been taken into account in the recommendations.

(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 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 in Denmark 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 (5) below.

(15) In the light of this assessment, the Council has examined Denmark's convergence programme, and its opinion[9] is reflected in particular in recommendation (1) below.

(16) In the light of the results of the Commission's in-depth review and this assessment, the Council has examined Denmark's 2012 national reform programme and Denmark's convergence programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in particular in recommendations (3), (4) and (5) below,

HEREBY RECOMMENDS that Denmark should take action within the period 2012-2013 to:

1. Implement the budgetary strategy as envisaged, to ensure a correction of the excessive deficit by 2013 and achieve the annual average structural adjustment effort specified in the Council recommendations under the Excessive Deficit Procedure. Thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards the medium-term budgetary objective (MTO), including meeting the expenditure benchmark.

2. Take further steps to enhance long-term labour supply by reforming the disability pension, better targeting subsidised employment schemes (the 'flex-job' system) towards people with reduced work capacity, and improving the employability of people with migrant background.

3. Implement announced measures, without delay, to improve the cost-effectiveness of the education system, reduce drop-out rates, in particular within vocational education, and increase the number of apprenticeships.

4. Continue efforts to remove obstacles to competition, in particular in local services, the retail and construction sector, including by further opening the municipal and regional procurement of services to competition and ensuring that competition law sanctions are sufficiently deterrent.

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

5. Consider further preventive measures to strengthen the stability of the housing market and financial system in the medium-term, including by taking account of the results of the ongoing study by the Ministry of Business and Growth on the distribution of assets and liabilities across households and by reviewing the property value and municipal land value tax system.

Done at Brussels,

For the Council
The President