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COVER NOTE

From: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

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To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of
the European Union

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Subject: Recommendation for a COUNCIL RECOMMENDATION on the 2016
national reform programme of Denmark and delivering a Council opinion
on the 2016 convergence programme of Denmark

Delegations will find attached document COM(2016) 325 final.

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Brussels, 18.5.2016
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Recommendation for a

COUNCIL RECOMMENDATION

on the 2016 national reform programme of Denmark

and delivering a Council opinion on the 2016 convergence programme of Denmark

Recommendation for a

COUNCIL RECOMMENDATION

on the 2016 national reform programme of Denmark

and delivering a Council opinion on the 2016 convergence programme of Denmark

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 the recommendation of the European Commission,²

Having regard to the resolutions of the European Parliament,³

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

- (1) On 26 November 2015, the Commission adopted the Annual Growth Survey⁴ marking the start of the 2016 European Semester of economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report⁵ in which it did

¹ OJ L 209, 2.8.1997, p. 1.

² COM(2016) 325 final.

³ P8_TA(2016)0058, P8_TA(2016)0059, and P8_TA(2016)0060.

⁴ COM(2015) 690 final.

⁵ COM(2015) 691 final.

not identify Denmark as one of the Member States for which an in-depth review would be carried out.

- (2) The 2016 country report for Denmark⁶ was published on 26 February 2016. It assessed Denmark's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Denmark's progress towards its national Europe 2020 targets.
- (3) On 26 April 2016, Denmark submitted its 2016 national reform programme and its 2016 convergence programme. To take account of their interlinkages, the two programmes have been assessed at the same time.
- (4) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds for the 2014-2020 period. As foreseen in Article 23 of Regulation (EU) No 1303/2013, where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of this provision in guidelines on the application of the measures linking effectiveness of the European Structural and Investment Funds to sound economic governance⁷.
- (5) Denmark is currently in the preventive arm of the Stability and Growth Pact. In its 2016 convergence programme, the government plans an improvement in the headline balance, reaching a balanced budget in 2020. The medium-term budgetary objective — a deficit of 0.5% of GDP in structural terms — is projected to be achieved in 2016. According to the convergence programme, the government debt-to-GDP ratio is expected to reach 35.1% in 2020. The macroeconomic scenario underpinning these budgetary projections is plausible. Based on the Commission 2016 spring forecast, Denmark is forecast to comply with the recommended fiscal adjustment in 2016 and 2017. Based on its assessment of the convergence programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that Denmark is expected to comply with the provisions of the Stability and Growth Pact.
- (6) Ensuring labour supply as the population ages is a precondition for sustainable growth in Denmark. A series of substantial labour market reforms in recent years aim particularly at increasing work incentives and improving the efficiency of active labour market policies. These reforms could contribute to achieving Denmark's Europe 2020 employment target and to the sustainability of the Danish welfare model. However, the national Europe 2020 target for social inclusion, aiming at reducing the number of people living in very low work intensity households, is far from being achieved. Labour market inclusion and improving the employability of disadvantaged groups remain a challenge. This particularly applies to people with a non-EU migrant background, including those who have resided longer in Denmark, and young people with low educational attainment. The job-integration measures agreed in the 2016 tripartite negotiations could improve the situation for newly arrived refugees and migrants. However, further measures should still be taken to include other marginalised groups in the labour market more effectively.

⁶ SWD(2016) 74 final.

⁷ COM(2014) 494 final.

- (7) To maintain the relatively high level of welfare provided in Denmark, improved productivity growth is essential. However, productivity growth has been sluggish during the past two decades. One of the contributing factors identified is the continued lack of competition in the domestic services sector, in particular in retail and construction. Denmark therefore needs to increase efforts to improve productivity in the construction sector by removing barriers and ensuring proportionate authorisation schemes where such schemes are considered necessary. It also needs to ease the restrictions on retail establishments, notably by implementing the reforms outlined by the government.
- (8) The overall investment level in Denmark has been low since a sharp drop in private investments during the economic crisis. This partly reflects low residential investment following the burst of the housing bubble and idle capacity in the corporate sector. Boosting investment would help Denmark strengthen economic growth and increase productivity. Barriers to investment have been identified in the services sector and research. The retail and construction sectors are facing barriers to entry, which in return affect competition and productivity growth. Efforts to turn university research results into business innovations could be strengthened.
- (9) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Denmark's economic policy and published it in the 2016 country report. It has also assessed the convergence programme and the national reform programme and the follow-up given to the recommendations addressed to Denmark in previous years. 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 strengthen the overall economic governance of the European Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations 1 and 2 below.
- (10) In the light of this assessment, the Council has examined the convergence programme, and its opinion⁸ is reflected in particular in recommendation 1 below.

HEREBY RECOMMENDS that Denmark take action in 2016 and 2017 to:

1. Respect the medium-term budgetary objective in 2016 and achieve an annual fiscal adjustment of 0.25% of GDP towards the medium-term budgetary objective in 2017.
2. Enhance productivity and private sector investment by increasing competition in the domestic services sector, in particular by facilitating market entry in retail and construction. Incentivise the cooperation between businesses and universities.

⁸ Under Article 9(2) of Council Regulation (EC) No 1466/97.

Done at Brussels,

*For the Council
The President*