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Recommendation for a

COUNCIL RECOMMENDATION

on Denmark's 2014 national reform programme

and delivering a Council opinion on Denmark's 2014 convergence programme

{SWD(2014) 405 final}

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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 the recommendation of the European Commission²,

Having regard to the resolutions of the European Parliament³,

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 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, the Council, on the basis of the Commission's proposals, 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, 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 taken at the level of the Member States, in particular expressing full

¹ OJ L 209, 2.8.1997, p. 1.

² COM(2014) 405 final.

³ P7_TA(2014)0128 and P7_TA(2014)0129.

commitment to achieving the objectives of the Europe 2020 Strategy and to implementing the country-specific recommendations.

- (4) On 9 July 2013, the Council adopted a recommendation on Denmark's national reform programme for 2013 and delivered its opinion on Denmark's updated convergence programme for 2013-2016.
- (5) On 13 November 2013, the Commission adopted the Annual Growth Survey⁴, marking the start of the 2014 European Semester of economic policy coordination. On the same day on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report⁵, in which it identified Denmark as one of the Member States for which an in-depth review would be carried out.
- (6) On 20 December 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 5 March 2014, the Commission published the results of its in-depth review for Denmark⁶, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Denmark's macroeconomic challenges related to private debt and external competitiveness were no longer identified as imbalances in the sense of the Macroeconomic Imbalance Procedure. In particular, the adjustment on the housing market and the implications of high private-sector debt for the real economy and the stability of the financial sector seem contained. However, these developments, as well as drivers of external competitiveness, deserve continued monitoring.
- (8) On 15 April 2014, Denmark submitted its 2014 convergence programme and its 2014 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.
- (9) The objective of the budgetary strategy outlined in the 2014 Convergence Programme is to ensure the sustainability of the correction of the excessive deficit and to maintain the structural budget balance at or above the medium-term objective. The medium-term objective, at -0.5% of GDP, reflects the requirements of the Stability and Growth Pact. Denmark's general government deficit has been sustainably brought below 3% of GDP in 2013. The programme targets a general government headline deficit of 1.3% of GDP in 2014 and 2.9% in 2015, which is consistent with a (recalculated) structural balance at or above the medium-term objective. Overall, the budgetary strategy outlined in the programme is in line with the requirements of the Stability and Growth Pact. The debt level, at 44.5% of GDP in 2013, is planned to temporarily increase in 2015 and to decline thereafter. The macroeconomic scenario underpinning the budgetary projections in the programme is plausible. The scenario projects GDP growth at 1.6% in 2014 and 1.9% in 2015 and is broadly in line with the Commission 2014 spring forecast of 1.5% and 1.9%. Based on the assessment of the 2014 Convergence Programme and the Commission forecast, pursuant to Council Regulation (EC) No 1466/97, the Council is of the

⁴ COM(2013) 800 final.

⁵ COM(2013) 790 final.

⁶ SWD(2014) 77 final.

opinion that Denmark's public finances are sound and the Convergence Programme's objective can be expected to be achieved.

- (10) Denmark has not yet made enough progress on addressing the situation for groups at the margins of the labour market as well as advancing the cost-effectiveness of the education system. The reform of disability pensions and flex-jobs has begun to show results, the cash benefit reform has entered into force, a sickness benefit reform has been agreed and the government launched a reform proposal for active labour market policies in April. Challenges remain so as to ensure a sufficient number of apprenticeships and enhance the quality and image of this type of learning, upgrade vocational education and training systems and address high rates of school drop-outs. Due to the early stage of implementation of the reforms, the full effect remains yet to be seen. Regarding vocational education and training, a reform agreement was reached in February 2014 and is expected to come into force in mid-2015, with a view to improving the quality of vocational education and training through a wide range of initiatives.
- (11) Reinvigorating productivity remains a challenge for the Danish economy. The European Commission's assessment is broadly in line with the Productivity Commission's findings. In April 2014, the Productivity Commission published 25 main recommendations and more than 100 concrete proposals within areas such as competition, public procurement, education, internationalisation, innovation, taxation and infrastructure. The problem of tackling the challenge of low productivity growth will be addressed by the implementation of the Productivity Commission's recommendations.
- (12) 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. 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 (3) below.
- (13) In the light of this assessment, the Council has examined Denmark's convergence programme, and its opinion⁷ is reflected in particular in recommendation (1) below.

HEREBY RECOMMENDS that Denmark take action within the period 2014-2015 to:

1. Following the correction of the excessive deficit, continue to pursue a growth-friendly fiscal policy and preserve a sound fiscal position, ensuring that the medium-term budgetary objective continues to be adhered to throughout the period covered by the Convergence Programme.
2. Take further measures to improve the employability of people at the margins of the labour market. Improve educational outcomes, in particular for young people with a migrant background, and the effectiveness of vocational training. Facilitate the transition from education to the labour market, including through a wider use of work-based training and apprenticeships.

⁷ Under Article 9(2) of Council Regulation (EC) No 1466/97.

3. Increase efforts to remove barriers to entry and reduce regulatory burden with a view to increasing competition in the domestic services sector, in particular in retail and construction, as recommended by the Productivity Commission.

Done at Brussels,

*For the Council
The President*