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Subject: Recommendation for a COUNCIL RECOMMENDATION on the 2018 National Reform Programme of Denmark and delivering a Council opinion on the 2018 Convergence Programme of Denmark

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission Proposal COM(2018) 404 final.

COUNCIL RECOMMENDATION

of ...

on the 2018 National Reform Programme of Denmark

and delivering a Council opinion on the 2018 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,

Having regard to the resolutions of the European Parliament,

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,

¹ OJ L 209, 2.8.1997, p. 1.

Whereas:

- (1) On 22 November 2017, the Commission adopted the Annual Growth Survey, marking the start of the 2018 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The priorities of the Annual Growth Survey were endorsed by the European Council on 22 March 2018. On 22 November 2017, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council², the Commission also adopted the Alert Mechanism Report, in which it did not identify Denmark as one of the Member States for which an in-depth review would be carried out.
- (2) The 2018 country report for Denmark was published on 7 March 2018. It assessed Denmark's progress in addressing the country-specific recommendations adopted by the Council on 11 July 2017³, the follow-up given to the country-specific recommendations adopted in previous years and Denmark's progress towards its national Europe 2020 targets.
- (3) On 24 April 2018, Denmark submitted its 2018 National Reform Programme and its 2018 Convergence programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

² Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

³ OJ C 261, 9.8.2017, p. 1.

- (4) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds ('ESI Funds') for the 2014-2020 period. As provided for in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council⁴, 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 that provision in guidelines on the application of the measures linking the effectiveness of the ESI Funds to sound economic governance.
- (5) Denmark is currently in the preventive arm of the Stability and Growth Pact. In its 2018 Convergence Programme, the Government plans to achieve a headline deficit of 0,7 % of GDP in 2018 and to continue to meet the medium-term budgetary objective — a structural deficit of 0,5 % of GDP — throughout the programme period until 2025. According to the 2018 Convergence Programme, the general government debt-to-GDP ratio is expected to fall to 35,6 % in 2018 and to continue declining to 34,2% in 2020, before rising to just under 40 % by 2025. The macroeconomic scenario underpinning those budgetary projections is plausible over the programme period. Based on the Commission 2018 spring forecast, the structural balance is forecast to reach a surplus of 0,3 % of GDP in 2018 and 0,9 % of GDP in 2019, somewhat above the target of the 2018 Convergence Programme and above the medium-term budgetary objective. Overall, the Council is of the opinion that Denmark is projected to comply with the provisions of the Stability and Growth Pact in 2018 and 2019.

⁴ Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

- (6) Ensuring labour supply in times of demographic changes and addressing the emerging shortages of labour in certain sectors is a condition for sustainable growth in Denmark. Reforms to increase participation and completion rates in vocational education and training and measures to better develop digital skills levels are likely to increase the supply of skilled workers. Furthermore, measures to better include marginalised and disadvantaged groups on the labour market would be beneficial in this respect. This applies to young people with low educational attainment, people with reduced work capacity and disabilities and people with a migrant background. The recent job-integration measures started off slowly but appear to be improving the situation for newly arrived refugees. The integration of children with a migrant background in the education system remains a key challenge, resulting in a lower education performance on average compared to other children.
- (7) High productivity growth is fundamental to support economic growth, maintain the relatively high level of welfare in Denmark and ensure the country's competitiveness. Although Denmark's productivity level is high compared to other Member States, productivity growth has been declining for a long time and there is a broad range of possible impediments to productivity growth (also identified by the Danish Productivity Board and Competition Authority). Domestically oriented services in particular have been characterised by sluggish productivity where the Government only took limited measures in 2017 to increase competition and where some parts, like mortgage banks, are not exposed to foreign competition. Weak competition in several domestically oriented services sectors (e.g. in retail, finance, distribution of utilities, transport and wholesale pharmaceuticals) is still weighing on productivity, investments and job creation.

- (8) Following several years of substantial increases in housing prices, overvaluation risks are emerging, particularly in the main urban areas. The European Systemic Risk Board issued a warning to eight Union countries, including Denmark, pointing to medium-term vulnerabilities in the residential real estate sector due to increasing housing prices combined with high household debt. Households continued to reduce their debt in 2017, but debt remains among the highest in the Union (as a percentage of GDP) and above what is warranted by economic fundamentals and prudential thresholds, according to Commission estimates. Moreover, the proportion of mortgages with very high loan-to-income levels has been increasing strongly since 2013, particularly in and around Copenhagen. The Danish authorities have adopted several new macroprudential measures to further restrict risky loan taking (effective from 2018 and 2020) and introduced a property tax reform (effective from 2021) to address regional imbalances in housing prices. Nevertheless, the combination of very high loan-to-income ratios, high debt with high interest rate sensitivity and potentially overvalued housing prices is increasing the risk of a price correction that could hurt the real economy and the banking sector.
- (9) In the context of the 2018 European Semester, the Commission has carried out a comprehensive analysis of Denmark's economic policy and published it in the 2018 country report. It has also assessed the 2018 Convergence Programme, the 2018 National Reform Programme and the follow-up given to the recommendations addressed to Denmark in previous years. The Commission has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Denmark but also the extent to which they comply with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.
- (10) In the light of this assessment, the Council has examined the 2018 Convergence Programme and is of the opinion⁵ that Denmark is expected to comply with the Stability and Growth Pact,

⁵ Under Article 9(2) of Regulation (EC) No 1466/97.

HEREBY RECOMMENDS that Denmark take action in 2018 and 2019 to:

1. Increase competition in domestically oriented services sectors, for instance in the distribution of utilities and in the financial sector.

Done at Brussels,

For the Council

The President
