Council of the European Union

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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. Cion doc.:	9928/19 - COM(2019) 504 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2019 National Reform Programme of Denmark and delivering a Council opinion on the 2019 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(2019) 504 final.

COUNCIL RECOMMENDATION

of …

on the 2019 National Reform Programme of Denmark and delivering a Council opinion on the 2019 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 policies[1], 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 21 November 2018, the Commission adopted the Annual Growth Survey, marking the start of the 2019 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 21 March 2019. On 21 November 2018, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[2], 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 2019 country report for Denmark was published on 27 February 2019. It assessed Denmark's progress in addressing the country-specific recommendations adopted by the Council on 13 July 2018[3], the follow-up given to the country-specific recommendations adopted in previous years and Denmark's progress towards its national Europe 2020 targets.

(3) Denmark submitted its 2019 National Reform Programme on 15 March 2019, and its 2019 Convergence Programme on 10 April 2019. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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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 320, 10.9.2018, p. 16.

(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 Council[4], 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 2019 Convergence Programme, the government plans a headline deficit of 0,1 % of gross domestic product (GDP) in 2019 and 2020. Based on the recalculated structural balance[5], the medium-term budgetary objective — a structural deficit of 0,5 % of GDP — continues to be overachieved throughout the programme period until 2025. According to the 2019 Convergence Programme, the general government debt-to-GDP ratio is expected to fall to 33,4 % in 2019 and to remain stable in 2020, before rising to 37,8 % of GDP by 2025. The macroeconomic scenario underpinning those budgetary projections is plausible over the programme period. Based on the Commission 2019 spring forecast, the structural balance is forecast to register a surplus of 0,9 % of GDP in 2019 and 1,0 % of GDP in 2020, above the medium-term budgetary objective. Risks relate to revenue shortfalls from volatile components, particularly the pension yield tax. Overall, the Council is of the opinion that Denmark is projected to comply with the provisions of the Stability and Growth Pact in 2019 and 2020.

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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).

5 Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

(6) Denmark's research and innovation system is characterised by high levels of investment, a strong human resources base and scientific excellence. However, the research and innovation landscape in Denmark is concentrated in a relatively small number of players such as large firms and foundations mostly in the pharmaceutical and biotechnology sectors, which makes the research and innovation system potentially vulnerable to external shocks. Therefore, there appears to be room for improvement in investing in the scale-up of highly innovative companies.

(7) Ensuring the supply of labour in times of demographic and technological changes and addressing labour shortages, in particular of skilled workers and ICT specialists, is key to fostering sustainable and inclusive growth in Denmark. Reforms and investments improving the attractiveness and thereby increasing the participation rates in vocational education and training is likely to have a positive impact on the supply of skilled workers. Continuous investments in adult and lifelong learning and digital skills could also help in addressing this challenge. Furthermore, it would be beneficial to focus on a better integration of marginalised and disadvantaged groups on the labour market. This relates in particular to young people with low educational attainment, people with a migrant background, people with reduced work capacity and disabilities. In addition, the educational performance of children with a migrant background remains a challenge.

(8) Despite high quality roads, road congestion is increasing, particularly around the large cities. In addition, there is a need to decarbonise the transport sector, which points to investment opportunities in sustainable transport infrastructure in order to decarbonise the transport sector and tackle road congestion, including the rollout of alternative fuel infrastructure. The outgoing government has put forward a plan to reduce congestion around larger cities. The adoption of that plan, which allocates DKK 112 billion (almost 6 % of GDP) from 2020 to 2030, is pending.

(9) While the productivity level in the Danish economy remains among the highest in the Union, productivity growth has been declining for decades. Exporting companies show higher productivity growth than companies shielded from competition from foreign companies. While Denmark has taken measures to support productivity growth of companies in domestically oriented services sectors, productivity growth and competition in these sectors is still lagging behind. Denmark has implemented measures to enhance competition in the financial sector and has continued to implement the utilities strategy.

(10) Following several years of high growth, housing prices appear overvalued, particularly in the main urban areas. Housing price increases moderated, however, in 2018. Furthermore, despite a continued decline, the ratio of household debt to disposable income remains the highest in the Union. The share of mortgage loans with variable interest rates and deferred amortisation is gradually decreasing, but is still high. New macroprudential measures seem to have curbed the increase in new mortgage loans with very high debt-to-income and loan-to-value ratios. The Danish authorities have in recent years also activated the countercyclical capital buffer and implemented measures to increase the resilience of banks, and they have adopted a property tax reform (effective from 2021) to put an end to the procyclical property tax system. Nevertheless, the combination of very high loan-to-income ratios, high debt with high interest rate sensitivity and overvalued housing prices pose risks to economic and financial stability and thus continuous monitoring is warranted.

(11) Preventing money laundering and terrorism financing has become a priority for Denmark against the background of a large money-laundering scandal involving the largest financial institution in Denmark. The Danish Parliament has reached political agreements on strengthening the supervision and on a new anti-money laundering package, encompassing a strategy to combat money laundering and terror financing. The strategy rests on eight pillars, which include strengthening cooperation between supervisors, the financial intelligence unit and other relevant stakeholders. However, challenges remain and the financial supervisor still needs to adopt additional measures and guidelines on how to strengthen supervision in these areas. Attention should be paid to the effective implementation of these measures, once adopted.

(12) The programming of Union funds for the period 2021-2027 could help address some of the gaps identified in the recommendations, in particular in the areas covered by Annex D to the 2019 country report. This would allow Denmark to make the best use of those funds in respect of the identified sectors, taking into account regional disparities.

(13) In the context of the 2019 European Semester, the Commission has carried out a comprehensive analysis of Denmark's economic policy and published it in the 2019 country report. It has also assessed the 2019 Convergence Programme, the 2019 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 their compliance 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.

(14) In the light of this assessment, the Council has examined the 2019 Convergence Programme and is of the opinion[6] that Denmark is expected to comply with the Stability and Growth Pact,

HEREBY RECOMMENDS that Denmark take action in 2019 and 2020 to:

1. Focus investment-related economic policy on education and skills, research and innovation to broaden the innovation base to include more companies, and on sustainable transport to tackle road congestion.

2. Ensure effective supervision and the enforcement of the anti-money laundering framework.

Done at Brussels,

For the Council

The President

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