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Objet:	Recommandation de RECOMMANDATION DU CONSEIL concernant le programme national de réforme du Danemark pour 2022 et portant avis du Conseil sur le programme de convergence du Danemark pour 2022

Les délégations trouveront ci-joint le projet de recommandation du Conseil visé en objet, fondé sur la proposition COM(2022) 607 final de la Commission, tel que revu et approuvé par différents comités du Conseil.

## **COUNCIL RECOMMENDATION**

**of ...**

**on the 2022 National Reform Programme of Denmark and delivering a Council opinion on  
the 2022 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<sup>1</sup>, 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,

Whereas:

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<sup>1</sup> OJ L 209, 2.8.1997, p. 1.

- (1) Regulation (EU) 2021/241 of the European Parliament and of the Council<sup>2</sup>, which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility will be updated in June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

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<sup>2</sup> Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

- (2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy coordination. It took due account of the Porto Social Commitment signed on 7 May 2021 to further implement the European Pillar of Social Rights proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council<sup>3</sup>, 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 needed. On the same date, the Commission also adopted a proposal for the 2022 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Joint Employment Report on 14 March 2022.

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<sup>3</sup> 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) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt through, inter alia, higher prices for energy, food and raw materials, and weaker growth prospects. The higher energy prices weigh particularly heavily on the most vulnerable households experiencing or at risk of energy poverty as well as on firms most vulnerable to energy prices hikes. The Union is also seeing an unprecedented inflow of people fleeing Ukraine. The economic effects stemming from Russia's war of aggression have impacted Member States asymmetrically. In this context, on 4 March 2022, Council Directive 2001/55/EC<sup>4</sup> was triggered for the first time by Council Implementing Decision (EU) 2022/382<sup>5</sup>, granting displaced persons from Ukraine the right to legally stay in the Union, as well as access to education and training, the labour market, healthcare, housing and social welfare.

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<sup>4</sup> Council Directive 2001/55/EC of 20 July 2001 on minimum standards for giving temporary protection in the event of a mass influx of displaced persons and on measures promoting a balance of efforts between Member States in receiving such persons and bearing the consequences thereof (OJ L 212, 7.8.2001, p.12).

<sup>5</sup> Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection (OJ L 71, 4.3.2022, p. 1).

- (4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 European Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for the recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any other country-specific recommendations issued up to the date of submission of such revised, updated or amended recovery and resilience plans.
- (5) The general escape clause of the Stability and Growth Pact has been active since March 2020. In its communication of 3 March 2021 entitled “One year since the outbreak of COVID-19: fiscal policy response”, the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply-chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

- (6) Following the approach in the Council Recommendation of 18 June 2021<sup>6</sup> delivering a Council opinion on the 2021 Convergence Programme of Denmark, the overall fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds, relative to medium-term potential growth<sup>7</sup>. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally financed<sup>8</sup> primary current expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) and investment.

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<sup>6</sup> Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Convergence Programme of Denmark (OJ C 304, 29.7.2021, p. 14).

<sup>7</sup> The estimates on the fiscal stance and its components in this Recommendation are Commission estimates based on the assumptions underlying the Commission's 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the recovery and resilience plan and that can boost potential growth.

<sup>8</sup> Not financed by grants under the Recovery and Resilience Facility or other Union funds.

- (7) On 2 March 2022, the Commission adopted a communication providing broad guidance for fiscal policy in 2023 ('the fiscal guidance') aimed at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination. The Commission noted that, on the basis of the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020–2022 to a broadly neutral aggregate fiscal stance, while standing ready to react to the evolving economic situation, would appear appropriate in 2023. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate between Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its European Semester spring package of late May 2022.



- (8) With respect to the fiscal guidance, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the Commission's 2022 winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transitions and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second-round effects via targeted and temporary measures. Fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, including challenges that arise from Russia's war of aggression against Ukraine with regard to defence and security, and has to differentiate between Member States according to their fiscal and economic situation, including as regards their exposure to the crisis and the inflow of displaced persons from Ukraine.
- (9) On 30 April 2021, Denmark submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V to that Regulation. On 13 July 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Denmark<sup>9</sup>. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5) of Regulation (EU) 2021/241, stating that Denmark has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

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<sup>9</sup> ST 10154/21.

- (10) On 29 April 2022, Denmark submitted its 2022 National Reform Programme and, on 12 May 2022, its 2022 Convergence Programme, beyond the deadline established in Article 8 of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2022 National Reform Programme also reflects Denmark's biannual reporting on the progress made in implementing its recovery and resilience plan.
- (11) The Commission published the 2022 country report for Denmark on 23 May 2022. It assessed Denmark's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, and took stock of Denmark's implementation of the recovery and resilience plan, building on the recovery and resilience scoreboard. On the basis of that analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges, including those emerging from Russia's invasion of Ukraine. It also assessed Denmark's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

- (12) In its Recommendation of 20 July 2020<sup>10</sup>, the Council recommended Denmark to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Denmark to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, according to data validated by Eurostat, Denmark's general government balance improved from a deficit of 0,2 % of GDP in 2020 to a surplus of 2,3 % in 2021, helped by non-recurrent tax revenue. The fiscal policy response by Denmark supported the economic recovery in 2021, while temporary emergency measures increased from 2,6 % of GDP in 2020 to 4,0 %. The measures taken by Denmark in 2021 were in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were mostly temporary or matched by offsetting measures. According to data validated by Eurostat, general government debt fell from 42,1 % of GDP in 2020 to 36,7 % of GDP in 2021.

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<sup>10</sup> Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Denmark and delivering a Council opinion on the 2020 Convergence Programme of Denmark (OJ C 282, 26.8.2020, p. 22).

- (13) The macroeconomic scenario underpinning the budgetary projections in the 2022 Convergence Programme is favourable in 2022 and realistic in 2023. The government projects real GDP to grow by 3,4 % in 2022 and 1,9 % in 2023. By comparison, the Commission's 2022 spring forecast projects a lower real GDP growth of 2,6 % in 2022 and 1,8 % in 2023, mainly due to lower private consumption growth. In its 2022 Convergence Programme, the government expects that the headline surplus will decrease to 0,6 % of GDP in 2022 and to 0,2 % of GDP in 2023. The decrease in 2022 mainly reflects a slowdown in economic activity and non-recurrence of certain tax revenues. According to the 2022 Convergence Programme, the general government debt-to-GDP ratio is expected to decrease to 33,3 % in 2022, and to decline to 32,5 % of GDP in 2023. Based on policy measures known at the cut-off date of the forecast, the Commission's 2022 spring forecast projects a government surplus for 2022 and 2023 of 0,9 % of GDP and 0,6 % respectively. This is slightly higher than the surplus projected in the 2022 Convergence Programme. The Commission's 2022 spring forecast projects a higher general government debt-to-GDP ratio, of 34,9 % in 2022 and 33,9 % in 2023. The difference is due to a higher assumed stock-flow adjustment items, in particular support for social housing. According to the Commission's 2022 spring forecast, the medium-term (10-year average) potential output growth is estimated at 1,9 %. However, that estimate does not include the impact of the reforms that are part of the recovery and resilience plan and can boost Denmark's potential growth.

- (14) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency measures are projected to decline from 4,0 % of GDP in 2021 to 0,0 % of GDP in 2022. The government deficit is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission's 2022 spring forecast are estimated at 0,1 % of GDP in 2022 and 0,0 % of GDP in 2023<sup>11</sup>. Those measures mainly consist of social transfers to lower-income households. Those measures have been announced as temporary. However, in the event that energy prices remain elevated in 2023, some of those measures could be continued. The government deficit is also impacted by the cost of offering temporary protection to displaced persons from Ukraine, which in the Commission's 2022 spring forecast is projected at 0,2 % of GDP in 2022 and 2023<sup>12</sup>.
- (15) In its Recommendation of 18 June 2021, the Council recommended that in 2022 Denmark maintains a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserves nationally financed investment. The Council also recommended Denmark to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term and, at the same time, to enhance investment to boost growth potential.

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<sup>11</sup> The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

<sup>12</sup> It is assumed that the total number of persons displaced from Ukraine to the Union will gradually reach 6 million by the end of 2022, and their geographical distribution is estimated on the basis of the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the Union as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

- (16) In 2022, according to the Commission's 2022 spring forecast and including the information incorporated in Denmark's 2022 Convergence Programme, the fiscal stance is projected to be supportive at -1,6 % of GDP, as recommended by the Council<sup>13</sup>. Denmark plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union funds is projected to remain stable compared to 2021. Nationally financed investment is projected to provide a neutral contribution to the fiscal stance in 2022 of 0,0 percentage point of GDP<sup>14</sup>. Therefore, Denmark plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 1,6 percentage points to the overall fiscal stance. That significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0,1 % of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0,2 % of GDP). Other increased expenditures include notably defence and security policy related government consumption as well as additional expenditure aiming at accelerating the green transition and ending dependence on imported fossil fuels.

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<sup>13</sup> A negative sign of the indicator corresponds to an excess of primary expenditure growth compared with medium-term economic growth, indicating an expansionary fiscal policy.

<sup>14</sup> Other nationally financed capital expenditure is projected to provide a neutral contribution of 0,0 percentage point of GDP.

- (17) In 2023, the fiscal stance is projected in the Commission's 2022 spring forecast at +1,6 % of GDP on a no-policy change assumption<sup>15</sup>. Denmark is projected to continue using the grants under the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union funds is projected to decrease by 0,1 percentage point of GDP compared to 2022, reflecting the frontloaded financial support from the Recovery and Resilience Facility in 2021 and 2022. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0,4 percentage point compared to 2022<sup>16</sup>. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a contractionary contribution of 1,4 percentage points to the overall fiscal stance. This includes the impact from the phasing out of the measures addressing the increased energy prices (0,1 % of GDP) and additional costs to offer temporary protection to displaced persons from Ukraine (0,1 % of GDP). Other drivers include decreased government expenditures on energy consumption.
- (18) In the 2022 Convergence Programme, the general government surplus is expected to gradually stabilise at 0,6 % of GDP in 2024 and to fall to 0,4 % of GDP by 2025. According to the 2022 Convergence Programme, the general government debt-to-GDP ratio is expected to increase to 34,0 % of GDP in 2024, and 33,9 % in 2025. According to the Commission's analysis, debt sustainability risks appear low over the medium term.

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<sup>15</sup> A positive sign of the indicator corresponds to a shortfall of primary expenditure growth compared with medium-term economic growth, indicating a contractionary fiscal policy.

<sup>16</sup> Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,4 percentage point of GDP.

- (19) In Denmark recurrent property taxes are currently capped, hence they do not increase with market prices. They are thereby not able to dampen house price cycles and entail adverse distributional effects. A new property tax system was already approved by the Parliament in 2017 but is still not in place. A surge in house prices and long waiting times for social housing has resulted in a shortage of affordable housing in the main urban areas. Additionally, the share of mortgage loans with a debt-to-income ratio above 4 and loan-to-value ratio above 60 % have increased substantially in the Copenhagen area making such borrowers potentially vulnerable to increases in interest rates or any marked decline in house prices. The Danish Systemic Risk Council has issued recommendations to reduce risks for such mortgage loans, but the recommendations have not been implemented.
- (20) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments with an indicative timetable for implementation to be completed by 31 August 2026. These address all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Denmark by the Council in the European Semester in 2019 and 2020, in addition any country-specific recommendations issued up to the date of adoption of a recovery and resilience plan. In particular, the recovery and resilience plan focuses on investments in the green and digital transitions, in particular the clean and efficient production and use of energy, sustainable transport, and research and innovation. Research measures have the potential to broaden the innovation base and involve more companies in research and innovation activities. Some country-specific recommendations, such as 'focusing investment-related economic policy on education and skills', and measures to address the shortage of health workers and ensure the effective supervision and enforcement of the anti-money laundering framework, have been addressed outside the recovery and resilience plan. Measures relating to these areas were not incorporated into the recovery and resilience plan.



- (21) The implementation of the recovery and resilience plan of Denmark is expected to contribute to making further progress on the green and digital transitions. Measures supporting the climate objectives in Denmark account for 59 % of the recovery and resilience plan's total allocation, while measures supporting digital objectives account for 25 % of the recovery and resilience plan's total allocation. The fully-fledged implementation of the recovery and resilience plan, in line with the relevant milestones and targets, will help Denmark swiftly recover from the fallout of the COVID-19 crisis, and will continue to strengthen its resilience. The systematic involvement of social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the recovery and resilience plan, to ensure broad ownership of the overall policy agenda.

- (22) The Commission approved the Partnership Agreement, provided for in Regulation (EU) 2021/1060 of the European Parliament and of the Council<sup>17</sup>, of Denmark on 25 May 2022. Denmark submitted the first cohesion policy programmes on 11 April 2022. In line with Regulation (EU) 2021/1060, Denmark is to take into account the relevant country-specific recommendations in the programming of the 2021–2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting coordination, complementarity and coherence between those cohesion policy funds and other Union instruments and funds. The successful implementation of the Recovery and Resilience Facility and cohesion policy programmes also depends on the removal of bottlenecks to investment, to support the green and digital transitions and balanced territorial development.
- (23) Beyond the economic and social challenges addressed by the recovery and resilience plan, Denmark faces a number of additional challenges related to reducing dependence on fossil fuels, strengthening the circular economy to support the green transition and making the housing market and indebted households more resilient.

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<sup>17</sup> Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159).

- (24) While the Danish recovery and resilience plan earmarks 59 % of the funds for green initiatives, Denmark is underperforming in some areas of circular economy. Danish rates of circular material use are well below the Union average. The country currently produces the highest amount of municipal waste per capita in the Union with 845 kg/capita/year. While Denmark stands just above the Union average for municipal waste collected for recycling (53,9 % in 2020 compared to the Union average of 47,8 %), it incinerates 45,2 % of its municipal waste, close to double the Union average. Much of the waste in Denmark is incinerated for energy generation, thereby missing out on opportunities to improve resource efficiency. A new strategy on waste management and circular economy and related national programmes and plans for waste and circular economy need to be timely implemented. Losses in terms of lower energy generation due to reduced waste incineration could be compensated by more environmentally friendly methods, including energy efficiency improvements and the use of electric heat pumps.
- (25) In response to the mandate by the Union Heads of State or Government set out in the Versailles Declaration, the Commission's proposal for a REPowerEU plan aims to phase out the Union's dependence on fossil fuel imports from Russia as soon as possible. For this purpose, the Commission intends to identify the most-suitable projects, investments and reforms at national, regional and Union level in dialogue with Member States. These measures aim to reduce overall reliance on fossil fuels and shift fossil-fuel imports away from Russia.

- (26) Denmark is committed to achieve a greenhouse-gas emissions reduction target of 70 % compared to 1990 levels by 2030 and a coal phase-out by 2028. To achieve these ambitious targets, the Danish National Energy and Climate Plan envisages substantial investment in additional renewable energy capacity and in energy efficiency. Accelerating the deployment of renewables and renewable hydrogen could be fostered by streamlining and accelerating permitting procedures. While Denmark is committed to increasing renewable energy capacity from offshore wind, further investments in energy transmission networks are needed to ensure that the increasing share of renewable energy can be used efficiently. Investment in energy and electricity interconnection, including offshore hybrid assets, with neighbouring countries would considerably increase security of energy supply and adaptability to regional variances, also in the context of the Russia's invasion of Ukraine. Denmark's overall energy dependency on Russian fossil fuel imports is at 21,1 % (24,4 % for the Union average), taking into account secondary dependencies tracing back all re-imports using respective assumptions. In 2020, dependency on fossil fuels from Russia in Denmark's overall energy mix was lower than the Union average for oil (12 % compared to 36,5 % for the Union average).

While it was higher for coal (97 % compared to 19,3 % for the Union average), the share of coal in Denmark's energy mix is low (4,3 %). Natural gas makes up 12,8 % of its energy mix, and while Denmark does not import Russian gas directly for domestic use, its dependency through German gas imports implies a significant secondary dependency, higher than the Union average: 65 % of domestic gas consumption is imported from Russia, compared to 41,1 % for the Union average. While, according to 2020 data<sup>18</sup>, Denmark's reliance on Russian oil and gas imports is still significant, but this dependence is projected to be eliminated as of 2023 when the refurbishment of an existing North Sea field will be finalised, and Denmark is expected to be a net gas exporter again. Speeding up ongoing interconnection projects can also foster diversification of energy supply. New infrastructure and network investments related to gas are recommended to be future-proof where possible, in order to facilitate their long-term sustainability through future repurposing for sustainable fuels. Denmark's ambitions for energy efficiency could be further boosted by corresponding additional investment in decarbonising industry, services, private dwellings and transport. A further increase in ambition in respect of reducing greenhouse-gas emissions and increasing renewables and energy efficiency will be needed for Denmark to be in line with the 'Fit for 55' objectives.

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<sup>18</sup> Eurostat (2020), share of Russian imports over total imports of natural gas, crude oil and hard coal. For the EU-27 average, the total imports are based on extra-EU-27 imports. For Denmark, total imports include intra-EU trade. Crude oil does not include refined oil products. Denmark has an indirect dependency on Russian imports through intra-EU trade. Accounting for the secondary dependence on Russian gas through intra-EU imports would lead to the estimation that Denmark has a 65 % Russian import dependency on gas.

- (27) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Denmark can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate the socioeconomic impact of the transition in the most-affected regions. In addition, Denmark can make use of the European Social Fund Plus, established by Regulation (EU) 2021/1057 of the European Parliament and of the Council<sup>19</sup>, to improve employment opportunities and strengthen social cohesion.
- (28) In the light of the Commission's assessment, the Council has examined the 2022 Convergence Programme and its opinion<sup>20</sup> is reflected in recommendation (1),

HEREBY RECOMMENDS that Denmark take action in 2022 and 2023 to:

1. In 2023, ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. Implement the new property tax system in order to restore the link between market prices and taxes and ensure fairer taxation. Stimulate investment in construction of affordable housing to alleviate the most pressing needs. Increase the financial resilience of highly indebted borrowers.

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<sup>19</sup> Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24 June 2021 establishing the European Social Fund Plus (ESF+) and repealing Regulation (EU) No 1296/2013 (OJ L 231 30.6.2021, p. 21).

<sup>20</sup> Under Article 9(2) of Regulation (EC) No 1466/97.

2. Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 13 July 2021. Swiftly finalise the negotiations with the Commission on the 2021–2027 cohesion policy programmes and proceed with their implementation.
3. Strengthen circular economy and waste management policies including by promoting waste prevention and reuse, increasing recycling, and gradually shifting away from incineration of municipal waste to greener sources of heat generation.
4. Reduce overall reliance on fossil fuels. Further diversify energy supply and help decarbonise the economy by accelerating the deployment of renewables, including by introducing reforms to simplify and expedite administrative and permitting procedures, upgrading energy transmission networks, increasing interconnections with neighbouring countries and improving energy efficiency.

Done at Brussels,

*For the Council*

*The President*

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