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To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2023 National Reform 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(2023) 604 final.

Recommendation for a

COUNCIL RECOMMENDATION

on the 2023 National Reform 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) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular to promote the green and digital transition and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Recovery and Resilience Facility was updated on 30 June 2022 in accordance with Article 11(2) of Regulation (EU) 2021/241.

2 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 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey[3], marking the start of the 2023 European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 23 March 2023. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2023 Alert Mechanism Report, in which it did not identify Denmark as one of the Member States that may be affected or may be at risk of being affected by imbalances. As such, an in-depth review would not be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 16 May 2023, as well as the proposal for the 2023 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 13 March 2023.

(3) While the EU economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the EU stands firmly with Ukraine, the EU economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and companies in the short term, and on keeping up efforts to deliver on the green and digital transition, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the EU's competitiveness and productivity.

3 COM(2022) 780 final.

(4) On 1 February 2023, the Commission issued the Communication *A Green Deal Industrial Plan for the Net-Zero Age*[4] to boost the competitiveness of the EU's net-zero industry and support the fast transition to climate neutrality. The plan complements ongoing efforts under the European Green Deal and REPowerEU. It aims to provide a more supportive environment for scaling up the EU's manufacturing capacity for the net-zero technologies and products required to meet the EU's ambitious climate targets, as well as ensuring access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains. On 16 March 2023, the Commission also issued the Communication *Long-term competitiveness of the EU: looking beyond 2030*[5], structured along nine mutually reinforcing drivers with the objective to work towards a growth enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well focused investments and regulatory measures for the long-term competitiveness of the EU and its Member States. The recommendations below help address those priorities.

4 COM(2023) 62 final.
5 COM(2023) 168 final.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. Fully implementing the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(6) The REPowerEU Regulation[6] adopted on 27 February 2023 aims to rapidly phase out the EU's dependence on Russian fossil fuel imports. This will contribute towards energy security and the diversification of the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. They will also help boost the competitiveness of the EU's net-zero industry as outlined in the Green Deal Industrial Plan for the Net-Zero Age and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States to finance new energy-related reforms and investments under their recovery and resilience plans.

6 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024. It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination[7]. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023-2024 that ensure medium-term debt sustainability as well as raise potential growth in a sustainable manner. Member States were invited to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the 3% of GDP deficit reference value is adhered to as well as plausible and continuous debt reduction, or for debt to be kept at prudent levels, in the medium term. The Commission invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should target such measures much better than in the past towards vulnerable households and firms. The Commission proposed that the fiscal recommendations would be quantified and differentiated.Moreover, as proposed in its Communication on orientations for a reform of the EU economic governance framework[8], the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States should continue to protect nationally financed investment and ensure the effective use of the Recovery and Resilience Facility and other EU funds, in particular in light of the green and digital transition and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

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7 COM(2023) 141 final.
8 COM(2022) 583 final.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the EU's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investments. In its proposals, the Commission aims at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023, the objective is to conclude the legislative work in 2023.

(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 of Annex V to that Regulation. On 6 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Denmark[9]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, 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.

(10) On 1 May 2023, Denmark submitted its 2023 National Reform Programme. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects Denmark's biannual reporting on the progress made in achieving its recovery and resilience plan. Given that Denmark did not submit its 2023 Convergence Programme in a timely manner, the Commission was not able to assess it.

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9 Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Denmark (10154/2021).

(11) The Commission published the 2023 country report for Denmark[10] on 24 May 2023. It assessed Denmark's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022 and took stock of Denmark's implementation of the recovery and resilience plan. Based on this 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. It also assessed Denmark's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(12) Based on data validated by Eurostat,[11] Denmark's general government surplus decreased from 3.6% of GDP in 2021 to 3.3% in 2022, while general government debt fell from 36.7% of GDP at the end of 2021 to 30.1% at the end of 2022.

(13) The general government balance has been impacted by the fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices. In 2022, such revenue-decreasing measures included a reduction in the electricity levy while expenditure-increasing measures included social benefits aimed at lower-income households to compensate for high energy costs. The Commission estimates the budgetary cost of these measures at 0.1% of GDP in 2022. At the same time, the estimated cost of COVID-19 temporary emergency measures dropped to 0.0% of GDP in 2022, from 4.0% in 2021.

10 SWD(2023) 604 final.
11 Eurostat-Euro Indicators, 47/2023, 21.4.2023

(14) On 18 June 2021, the Council recommended that in 2022 Denmark[12] maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

(15) According to the Commission estimates, the fiscal stance[13] in 2022 was contractionary, at 0.6% of GDP which was appropriate in a context of high inflation. As recommended by the Council, Denmark continued to support the recovery with investments to be financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.3% of GDP in 2022 (0.3% of GDP in 2021). Nationally financed investment provided a contractionary contribution of 0.2 percentage points to the fiscal stance.[14] Denmark therefore did not preserve nationally financed investment, which was not in line with the Council recommendation. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided a contractionary contribution of 0.7 percentage points to the fiscal stance. Denmark therefore sufficiently kept under control the growth in nationally financed current expenditure.

(16) The Commission 2023 spring forecast projects a real GDP growth of 0.3% in 2023 and 1.5% in 2024.

(17) The Commission 2023 spring forecast projects a government surplus of 2.3% of GDP for 2023 and a general government debt-to-GDP ratio of 30.1% at the end of 2023.

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12 Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Convergence Programme of Denmark, OJ C 304, 29.07.2021, p 14.

13 The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding Covid-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

14 Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0.3 percentage points of GDP.

(18) The government balance in 2023 is expected to continue to be impacted by the fiscal measures adopted to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022 (in particular certain social benefits aimed a low-income households) and new measures such as a temporarily lower electricity levy. The net budgetary cost of the support measures is projected in the Commission 2023 spring forecast at 0.3% of GDP in 2023[15]. Most measures in 2023 do not appear targeted to the most vulnerable households or firms, and do not preserve the price signal to reduce energy demand and increase energy efficiency. As a result, the amount of targeted support measures, to be taken into account in the assessment of compliance with the fiscal recommendation for 2023, is estimated in the Commission 2023 spring forecast at 0.1% of GDP in 2023 (compared to 0.1% of GDP in 2022).

(19) On 12 July 2022, the Council recommended[16] that Denmark take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[17], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Denmark should stand ready to adjust current spending to the evolving situation. Denmark was also recommended to 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.

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15 The figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

16 Council Recommendation of 12 July 2022 on the National Reform Programme of Denmark and delivering a Council opinion on the 2022 Convergence Programme of Denmark OJ C 334, 1.9.2022, p. 27.

17 Based on the Commission spring 2023 forecast, the medium-term (10-year average) potential output growth of Denmark, which is used to measure the fiscal stance, is estimated at 1.9% in nominal terms.

(20) In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be expansionary (-0.4% of GDP), in a context of high inflation. This follows a contractionary fiscal stance in 2022 (0.6% of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide an expansionary contribution of 0.6% of GDP to the fiscal stance. The expansionary contribution of nationally financed net primary current expenditure is not due to the targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. It is due to the cost of untargeted energy measures and increases in public sector wages and social benefits and higher spending on healthcare. In sum, the projected growth of nationally financed primary current expenditure is not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.3% of GDP in 2023, while nationally financed investment provided an expansionary contribution to the fiscal stance of 0.1 percentage points[18]. Therefore, Denmark plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is projected to preserve nationally financed investment. It plans to finance public investment for the green and digital transitions, and for energy security, such as energy efficiency measures, a green tax reform and green mobility measures, which are partly funded by the Recovery and Resilience Facility and other EU funds.

(21) Based on policy measures known at the cut-off date of the forecast, the Commission 2023 spring forecast projects a government surplus of 1.3% of GDP in 2024 and a debt-to-GDP ratio of 28.8% at the end of 2024. The Commission currently assumes full phasing out of energy support measures in 2024. This hinges upon the assumption of no renewed energy price increases.

[18] Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0.2 percentage points of GDP.

(22) Denmark is likely to continue to meet the minimum medium-term budgetary objective of -1.0% of GDP, as estimated by the Commission for the period 2023-2025, in 2023 and 2024. Based on the Commission 2023 spring forecast, the structural balance is forecast at 3.5% of GDP in 2023 and 2.1% of GDP in 2024, above the medium-term budgetary objective.

(23) Assuming unchanged policies, the Commission 2023 spring forecast projects net nationally financed primary expenditure to grow at 4.6% in 2024.

(24) At present, recurrent property taxes in Denmark are capped, which means they do not increase with market prices. They are therefore unable to dampen house price cycles and entail adverse distributional effects. The Danish Parliament approved a new property tax system to abolish the cap in 2017, which is now expected to come into operation from 1 January 2024. Finding affordable housing remains a major challenge for many people. The combination of high house prices and long waiting times for social housing has led to a shortage of affordable housing in major urban areas. Denmark shows an increasing share of variable-rate and deferred amortisation mortgages, which increases the vulnerability of heavily indebted mortgage holders to further potential declines in house prices and/or hikes in interest rates.

(25) In accordance with Article 19(3), point (b) and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. The implementation of Denmark's recovery and resilience plan is well underway. Denmark submitted one payment request, corresponding to 25 milestones and targets in the plan and resulting in an overall disbursement of EUR 301 million. Beyond the first payment request, the implementation of the plan is on track, with an expected submission of the second payment as scheduled by the end of 2023. On 31 May 2023, Denmark submitted an amendment of its plan, including the REPowerEU chapter. Once these modifications are assessed by the Commission, the revised assessment of the recovery and resilience plan will be subject to Council approval. This can take place swiftly, assuming Denmark takes all necessary steps to facilitate the process, which will allow Denmark to ensure rapid implementation of the plan. The inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Denmark's strategic objectives in the field of energy and the green transition. The systematic and effective involvement of local and regional authorities, 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 plan, to ensure broad ownership of the overall policy agenda.

(26) The Commission approved all of Denmark's cohesion policy programming documents in 2022. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transition, increasing economic and social resilience as well as achieving balanced territorial development in Denmark.

(27) Beyond the economic and social challenges addressed by the recovery and resilience plan and cohesion policy programmes, Denmark faces a number of additional challenges related to decarbonising the economy and strengthening the circular economy to support the green transition.

(28) Denmark's progress towards a circular economy is insufficient and needs accelerating to meet the EU's circular economy goals. Despite some policy measures that were introduced such as the Climate Plan from 2020, progress has been limited. The action plan for the circular economy from 2021 shows that of the 129 initiatives in the plan, 27 have been completed, 88 are on schedule and 14 have been delayed. The available statistics show that Denmark made no progress on waste generation, recycling and the circular economy in 2022. Its circular use of material barely declined, from 8% in 2016 to 7.8% in 2021, falling below the EU average of 11.7% in 2021. While the circular economy action plan aims to significantly decrease the EU's material footprint, Denmark's material footprint in 2020 was 25.6 tonnes/capita, well above the 2020 EU average (13.7 tonnes/capita). Denmark continues to underperform in several aspects of the circular economy, in particular municipal waste generation, recycling rates and food waste. On municipal waste, Denmark still has the highest amount of municipal waste per head in the EU, with 786 kg/year/head in 2021 (EU average 530 kg/year/head in 2021), in a context where there is no national target for overall waste reduction. On recycling, Denmark needs to make substantial efforts to meet the EU 2025 recycling target for municipal and packaging waste and ranks below the EU average of 49.6%, with a rate of 34.3%[19] in 2021. Lastly, Denmark performs poorly in the EU on food waste indicators. It relies heavily on waste incineration, with over 50% of its municipal waste being incinerated compared to the EU average of around 26%.

19 Denmark has informed Commission services that the 2021 reported recycling rate was based on incorrect data and will be subject to revisions.

(29) Denmark has committed to ambitious decarbonisation objectives and is a front runner in the uptake of renewable energy, in particular wind production. Denmark's consumption of natural gas has dropped by 25.2% in the period between August 2022 and March 2023, compared with the average gas consumption over the same period in the preceding 5 years, beyond the 15% reduction target. Denmark could keep pursuing efforts to temporarily reduce gas demand until 31 March 2024[20]. In order to reach its decarbonisation objectives and increase the share of renewables in the energy mix, faster commissioning of projects and simplified permitting rules are essential to achieve national ambitions for the roll-out of offshore and onshore wind energy capacity. Additional capacities, including energy islands in the Baltic Sea and North Sea, will require sufficient grid expansion planning at transmission and distribution level. Meanwhile, investments in energy efficiency can reduce the need for energy infrastructure investments. Boosting energy efficiency measures in buildings, combining insulation measures and the roll-out of decarbonised heating sources could further reduce dependency on fossil fuels and reduce energy demand. Energy efficiency improvements in public buildings could be further supported by removing the budget limitations on green projects for municipalities and regions. Additional measures that support energy efficiency in private buildings would help reduce high energy costs in Denmark, which had the second highest average household energy bills in 2022. Domestic industrial activities offer potential for energy efficiency improvements, especially by exploiting surplus heat in district heating.

[20] Council Regulation (EU) 2022/1369

(30) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, these measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition. In 2022, labour shortages were reported in Denmark for 60 occupations that required specific skills or knowledge for the green transition, including environmental engineers, environmental protection professionals and building architects. Although the demand for green skills is increasing, the number of workers in energy-intensive industries taking part in education and training has declined markedly over the past decade, from 24.6% in 2015 to 15.6% in 2021.

HEREBY RECOMMENDS that Denmark take action in 2023 and 2024 to:

1. Wind down the emergency energy support measures in force, in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.

   While maintaining a sound fiscal position in 2024, preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions.

   For the period beyond 2024, continue to pursue investment and reforms conducive to higher sustainable growth and preserve a prudent medium-term fiscal position.

   Implement the new property tax system in order to restore the link between market prices and taxes and ensure fairer taxation. Accelerate investment in the construction of affordable housing to alleviate the most pressing needs.

2. Continue the steady implementation of its recovery and resilience plan and, following the recent submission of the addendum, including the REPowerEU chapter , rapidly start the implementation of the related measures. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

3. Strengthen circular economy and waste management policies, including by accelerating the implementation of Denmark's national action plan for circular economy, promoting waste prevention and reuse of municipal and other waste, increasing recycling rates, reducing food waste, and shifting away from the incineration of municipal waste to greener sources of heat generation.

4. Reduce reliance on fossil fuels and increase the share of renewables in the energy supply. Address increasing demand and flexibility needs by incentivising the necessary electricity network developments at transmission and distribution level. Streamline the applicable permit-granting rules for renewable energy. Implement additional measures that support energy efficiency in private and public buildings to reduce energy bills and energy system costs. Ensure a better roll-out of decarbonised heating sources. Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.

Done at Brussels,

For the Council

The President