Council of the
European Union

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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. prev. doc.:	11696/24
Subject:	COUNCIL RECOMMENDATION on economic, budgetary, employment and structural policies of Denmark

Delegations will find attached the above-mentioned draft Council Recommendation, as approved by the Council and revised by legal-linguistic experts, based on the Commission Recommendation COM(2024) 604 final.

COUNCIL RECOMMENDATION

of …

on economic, budgetary, employment and structural policies 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 Article 148(4) thereof,

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) 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, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], which established the Recovery and Resilience Facility ('the Facility'), entered into force on 19 February 2021. The Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the Facility helps achieve the economic and social recovery and implement sustainable reforms and investments, in particular reforms and investments to promote the green and digital transitions 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 Union and support the continued implementation of the European Pillar of Social Rights.

(2) Regulation (EU) 2023/435 of the European Parliament and of the Council[3] ('the REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This would help achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Denmark added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

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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, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

3 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, ELI: http://data.europa.eu/eli/reg/2023/435/oj).

(3) On 16 March 2023, the Commission issued a communication entitled ‘Long-term competitiveness of the EU: looking beyond 2030’, in order to inform policy decisions and create the framework conditions for increasing growth. The communication frames competitiveness in terms of nine mutually reinforcing drivers. Among those drivers, access to private capital, research and innovation, education and skills, and a functioning single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the Union and its Member States. On 14 February 2024, the Commission issued a communication entitled ‘The 2024 Annual Single Market and Competitiveness Report’. That communication details the competitive strengths and challenges of the European single market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey, marking the start of the 2024 European Semester for economic policy coordination. On 22 March 2024, the European Council endorsed the priorities of the 2024 Annual Sustainable Growth Survey, which are centred around the four dimensions of competitive sustainability. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[4], the Commission also adopted the 2024 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 and for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2024 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 Recommendation on the economic policy of the euro area[5] ('the 2024 Recommendation on the euro area') on 12 April 2024 and the Joint Employment Report on 11 March 2024.

4 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, ELI: http://data.europa.eu/eli/reg/2011/1176/oj).

5 Council Recommendation of 12 April 2024 on the economic policy of the euro area (OJ C, C/2024/2807, 23.4.2024, ELI: http://data.europa.eu/eli/C/2024/2807/oj).

(5) On 30 April 2024, the Union's new economic governance framework entered into force. The framework includes the new Regulation (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance, the amended Council Regulation (EC) No 1467/97[6] on speeding up and clarifying the implementation of the excessive deficit procedure, and the amended Council Directive 2011/85/EU[7] on requirements for the budgetary frameworks of Member States. The objectives of the new economic governance framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, and prevent excessive government deficits. The new economic governance framework also promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State has to submit to the Council and to the Commission a national medium-term fiscal-structural plan. A national medium-term fiscal-structural plan contains the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 or 5 years, depending on the regular length of the national legislative term.

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[6] Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6, ELI: http://data.europa.eu/eli/reg/1997/1467/oj).

[7] Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41, ELI: http://data.europa.eu/eli/dir/2011/85/oj).

The net expenditure[8] path in the national medium-term fiscal-structural plans has to comply with the requirements of Regulation (EU) 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60 % of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3 %-of-GDP Treaty reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) 2024/1263, the adjustment period can be extended by up to 3 years. For the purpose of supporting the preparation of those national medium-term fiscal-structural plans, on 21 June 2024, the Commission published guidance on the information to be provided by Member States in their national medium-term fiscal-structural plans and in their annual progress reports. In accordance with Articles 5 and 36 of Regulation (EU) 2024/1263, the Commission transmitted to the Member States reference trajectories and technical information, where applicable. Member States have to submit their national medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. In accordance with their national legal frameworks, Member States may debate their draft medium-term plans with their national parliaments, may ask the independent fiscal institutions to issue an opinion, and may conduct a consultation of social partners and other national stakeholders.

[8] Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: ‘net expenditure’ means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant for the recovery and resilience plans which have been revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(7) 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[9], which was amended on 9 November 2023 pursuant to Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[10]. 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.

(8) On 19 June 2024, the Commission published the 2024 country report for Denmark. It assessed Denmark's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 and took stock of Denmark's implementation of the recovery and resilience plan. On the basis of that analysis, the country report identified gaps with regard 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 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.

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9 ST 10154/21 INIT and ST 10154/21 ADD 1.

10 Council Implementing Decision of 9 November 2023 amending the Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Denmark (ST 14473/23 INIT and ST 14473/23 ADD 1).

(9) According to data validated by Eurostat, Denmark's general government surplus decreased from 3,3 % of GDP in 2022 to 3,1 % in 2023, while the general government debt fell from 29,8 % of GDP at the end of 2022 to 29,3 % at the end of 2023.

(10) On 12 July 2022, the Council recommended[11] that Denmark take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral fiscal policy stance[12], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Denmark was recommended to 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 Facility and other Union funds. In 2023, according to the Commission's estimates, the fiscal stance[13] was expansionary, by 2,4 % of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided an expansionary contribution to the fiscal stance of 1,8 % of GDP. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) was driven by higher social benefits and permanent increases in public sector wages.

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[11] Council Recommendation of 12 July 2022 on the 2022 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).

[12] Based on the Commission's 2024 spring forecast, the medium-term potential output growth of Denmark in 2023, which is used to measure the fiscal stance, is estimated at -1,6 % in nominal terms (given the negative growth in the GDP deflator in 2023), based on the 10-year average real potential growth rate and the 2023 GDP deflator.

[13] The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the Union budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) under the Facility and other Union funds. A negative sign of the indicator indicates an expansionary fiscal policy whereas a positive sign of the indicator indicates a contractionary fiscal policy.

The growth of nationally financed primary current expenditure in 2023 was not in line with the Council Recommendation of 12 July 2022. Expenditure financed by grants under the Facility and other Union funds amounted to 0,2 % of GDP in 2023. Nationally financed investment amounted to 3,2 % of GDP in 2023, representing an increase of 0,1 percentage point as compared to 2022. Denmark financed additional investment through the Facility and other Union funds. Denmark financed public investment for the green and digital transitions and for energy security, such as expanding district heating from renewable sources, undertaking energy renovations of public buildings, expanding energy connectivity in the North Sea region, producing hydrogen on the basis of green electricity and providing fast internet connections to households.

(11) The Commission's 2024 spring forecast projects real GDP to grow by 2,6 % in 2024 and 1,4 % in 2025, and inflation measured by the harmonised index of consumer prices (HICP) to stand at 2,0 % in 2024 and 1,9 % in 2025.

(12) The Commission's 2024 spring forecast projects a government surplus of 2,4 % of GDP in 2024, while the general government debt-to-GDP ratio is set to decrease to 26,5 % by the end of 2024. The decrease in the surplus in 2024 mainly reflects higher government consumption, in relation to both remuneration and other consumption. According tothe Commission's estimates, the fiscal stance is projected to be expansionary, by 0,3 % of GDP, in 2024.

(13) Expenditure amounting to less than 0,1 % of GDP is expected to be financed by non-repayable support (‘grants’) under the Facility in 2024, the same as in 2023, according to the Commission's 2024 spring forecast. Expenditure financed by grants under the Facility will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance or debt of Denmark.

(14) On 14 July 2023, the Council recommended[14] that Denmark maintain a sound fiscal position in 2024. When executing their 2023 budgets and preparing their budgets for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures on the basis of the outturn data for 2023. According to the Commission's 2024 spring forecast, Denmark's structural balance is projected at 2,4 % of GDP in 2024, from 3,6 % in 2023, thereby above the country's medium-term budgetary objective (MTO) of a structural balance of -0,5 % of GDP. This is in line with what was recommended by the Council.

(15) Moreover, the Council recommended that Denmark take action to wind down the emergency energy support measures in force as soon as possible in 2023 and 2024. The Council further recommended that, if renewed energy price increases necessitate new or continued support measures, Denmark ensure that such support measures aretargeted at protecting vulnerable households and firms, are fiscally affordable, and preserve incentives for energy savings. According to the Commission's 2024 spring forecast, the net budgetary cost[15] of emergency energy support measures is estimated at 0,5 % of GDP in 2023 and projected at 0,1 % in 2024 and 0,1 % in 2025. The emergency energy support measures have been wound down in 2023 and 2024. This is in line with what was recommended by the Council.

(16) In addition, the Council also recommended that Denmark preserve nationally financed public investment and ensure the effective absorption of grants under the Facility and of other Union funds, in particular to foster the green and digital transitions. According to the Commission's 2024 spring forecast, nationally financed public investment is projected to remain stable at 3,2 % of GDP in 2024 from 3,2 % of GDP in 2023. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from Union funds, including grants under the Facility, is expected to remain stable at 0,2 % of GDP in 2024.

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14 Council Recommendation of 14 July 2023 on the 2023 National Reform Programme of Denmark (OJ C 312, 1.9.2023, p. 31).

15 The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

(17) On the basis of the policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission's 2024 spring forecast projects a government surplus of 1,4 % of GDP in 2025. The decrease in the surplus in 2025 mainly reflects higher government consumption, including military expenditure. The general government debt-to-GDP ratio is set to decrease to 25,1 % by the end of 2025.

(18) 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 to be implemented by 2026. Those reforms and investments are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the recovery and resilience plan, including the REPowerEU chapter, is essential to boost Denmark's long-term competitiveness through the green and digital transitions, while ensuring social fairness. To deliver on the commitments of the recovery and resilience plan by August 2026, it is essential for Denmark to continue the implementation of reforms and investments. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(19) As part of the mid-term review of the cohesion policy programmes, in accordance with Article 18 of Regulation (EU) 2021/1060 of the European Parliament and of the Council[16], Denmark is required to review each programme supported by the European Regional Development Fund (ERDF), the European Social Fund Plus (ESF+), the Cohesion Fund and the Just Transition Fund (JTF) by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. That review forms the basis for the definitive allocation of the Union funding included in each programme. Denmark has made progress in implementing cohesion policy programmes and the European Pillar of Social Rights, but challenges remain and disparities persist between the capital region and the rest of the country. The priorities agreed in those programmes are still relevant, and it is important to accelerate the implementation of the cohesion policy programmes. In particular, it is necessary to continue to support innovation contributing to the further greening and digitalisation of society, while continuing to address regional economic and social disparities, and factoring in demographic challenges. In addition, it remains key to promote vocational education, training and its attractiveness, as well as to upgrade the adult population's basic skills, including those of migrants. Denmark could also make use of the Strategic Technologies for Europe Platform, established by Regulation (EU) 2024/795 of the European Parliament and of the Council[17], to boost further investments in technologies supporting the twin transition, as well as related necessary investment to help tackle skills and labour shortages. Denmark could consider focusing on clean and resource-efficient technologies and related value chains particularly in the energy sector, and on digital technologies to benefit people and small and medium-sized entreprises (SMEs). This could complement the ongoing actions to help large companies

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16 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, ELI: http://data.europa.eu/eli/reg/2021/1060/oj).

17 Regulation (EU) 2024/795 of the European Parliament and of the Council of 29 February 2024 establishing the Strategic Technologies for Europe Platform (STEP), and amending Directive 2003/87/EC and Regulations (EU) 2021/1058, (EU) 2021/1056, (EU) 2021/1057, (EU) No 1303/2013, (EU) No 223/2014, (EU) 2021/1060, (EU) 2021/523, (EU) 2021/695, (EU) 2021/697 and (EU) 2021/241 (OJ L, 2024/795, 29.2.204, ELI: *http://data.europa.eu/eli/reg/2024/795/oj).*

develop clean and resource-efficient technologies and to raise the co-financing rate for SMEs.

(20) Beyond the economic and social challenges addressed by the recovery and resilience plan and other Union funds, Denmark faces several additional challenges related to the decarbonisation and sustainability of the economy.

(21) Denmark has committed to achieving ambitious decarbonisation objectives. The Danish agricultural sector is among the largest sources of the country's greenhouse gas emissions covered by Regulation (EU) 2023/857 of the European Parliament and of the Council [18]. Moreover, intensive agriculture practices are causing excessive nutrient leaching and run-off from fields, with serious repercussions on soil health and on aquatic and marine ecosystems. Making the agri-food sector more sustainable is therefore key to achieving climate objectives, as well as to restoring degraded biodiversity and ecosystems. In 2023, the Danish agriculture and related industries recorded net exports of around 2 % of GDP and agricultural activities are important for employment and competitiveness in less-populated regions. Political discussions on introducing a tax on greenhouse gas emissions from the sector are ongoing but, in line with the Common Agricultural Policy Strategic Plan of Denmark, further efforts are needed to accelerate the transition to sustainable agriculture, while ensuring competitiveness and social fairness. In line with the announced agreement between the government and agricultural and environmental organizations on the future of the agricultural sector in Denmark (24 June 2024), this could be achieved by, among other things, continuing to invest in green technologies, further incentivising rewetting and taking carbon rich soils out of production, reducing CO_2-emissions from livestock, facilitating the transition to organic practices and organic food consumption, and expanding forested and protected areas,

18 Regulation (EU) 2023/857 of the European Parliament and of the Council of 19 April 2023 amending Regulation (EU) 2018/842 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement, and Regulation (EU) 2018/1999 (OJ L 111, 26.4.2023, p. 1, ELI: http://data.europa.eu/eli/reg/2023/857/oj).

HEREBY RECOMMENDS that Denmark take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner.

2. Continue with the swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring the completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of the mid-term review of those programmes, continue focusing on the agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

3. Make further efforts with regard to sustainable agriculture by stepping up decarbonisation measures and action to reduce nutrient losses.

Done at Brussels,

For the Council

The President