EUROPEAN COMMISSION

Brussels, 7.6.2011
SEC(2011) 820 final

Recommendation for a

COUNCIL RECOMMENDATION

on the National Reform Programme 2011 of Denmark

and delivering a Council opinion

on the updated convergence programme of Denmark, 2011-2015

{SEC(2011) 713 final}

Recommendation for a

COUNCIL RECOMMENDATION

on the National Reform Programme 2011 of Denmark

and delivering a Council opinion

on the updated convergence programme of Denmark, 2011-2015

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 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(3) thereof,

Having regard to the recommendation of the European Commission[2],

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the European Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe’s potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and on 21 October 2010, adopted a decision on Guidelines for the employment policies of the Member States[3], which together form the “integrated guidelines”. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

1 OJ L 209, 2.8.1997, p. 1.
2 OJ C , , p. .
3 Maintained for 2011 by Council Decision 2011/308/EU of 19 May 2011.

(3) On 12 January 2011, the Commission adopted the first Annual Growth Survey, marking the start of a new cycle of economic governance in the EU and the first European semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy.

(4) On 25 March 2011, the European Council endorsed the priorities for fiscal consolidation and structural reform (in line with the Council's conclusions of 15 February and 7 March 2011 and further to the Commission's Annual Growth Survey). It underscored the need to give priority to restoring sound budgets and fiscal sustainability, reducing unemployment through labour market reforms and making new efforts to enhance growth. It requested Member States to translate these priorities into concrete measures to be included in their Stability or Convergence Programmes and National Reform Programmes.

(5) On 25 March 2011, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments on time for their inclusion in their Stability or Convergence Programmes and their National Reform Programmes.

(6) On 9 May 2011, Denmark submitted its updated 2011 Convergence Programme covering the period 2011-2015 and its 2011 National Reform Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(7) Based on the assessment of the updated Convergence Programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underlying the Convergence Programme is plausible. While based on slightly more favourable growth assumptions for 2012 and beyond, it is broadly in line with the spring 2011 Commission services' forecast. The budgetary strategy set out in the convergence programme aims at bringing the deficit below the 3% reference value by 2013, in line with the Council recommendations, reaching the revised medium term objective (MTO) of structural budget balance not below -0.5% of GDP by 2015 and achieving budget balance by 2020. The adjustment path towards this objective is appropriate. Measures included in the programme and adopted by Parliament in spring 2010 are considered adequate to underpin the budgetary targets and would represent an annual fiscal effort of around 1% of GDP over the period 2011-2013. Denmark will reach its revised medium term objective within the programme horizon. Risks to the budgetary targets are broadly balanced.

(8) The Danish economy started slowing down in 2007 amidst a correction in the real estate market contributing to domestic banking problems, amplified by rising insolvencies and unemployment. The recession was severe, output contracted by 8% between the autumn of 2007 and the spring of 2009, and the unemployment rate rose to 7.4% in 2010. The employment rate dropped from 79.8% in 2008 to 76.1% in 2010, affecting young people in particular. Output started recovering in 2009, and real GDP growth reached 2.1% in 2010. The recovery has been driven by sustained domestic demand (also on account of fiscal expansion), a strong inventory rebound and the robust recovery of Denmark's main trading partners.

(9) Automatic stabilisers and crisis-related measures caused the general government balance to turn from a surplus of 3.2% of GDP in 2008 into a deficit of 2.7% of GDP in 2009. On the basis of Denmark's notification in Spring 2010 that the budget deficit

would widen beyond 5% of GDP in 2010, an excessive deficit procedure for Denmark was opened in July 2010. Although unexpected and temporary windfall gains linked to pension yield taxation led to a stabilisation of the budget deficit at 2.7% of GDP last year, the Commission services' spring 2011 forecast expects the deficit to widen again to around 4% of GDP in 2011, emphasising the need for continuous and ambitious consolidation efforts in 2012. This implies a strict implementation of the measures adopted in the 2010 Consolidation Agreement and expenditure control as set out in the Convergence Programme to ensure the correction of the excessive deficit by 2013.

(10) A tight control to avoid recurrent spending overruns at local and regional government levels is important to achieve budgetary targets. For the past 20 years, public spending has continuously been above budgetary targets. The government has already taken some measures to address this issue and is planning to introduce a new spending control scheme, controlled by the Danish Economic Council, as described in the Convergence Programme.

(11) As a result of demographic factors, the working-age population (15-64 years) will shrink by around 1.5% between 2010 and 2025 and by close to 5% by 2040. In the medium term, economic recovery could lead to a tightening of the labour market as witnessed during the boom years. Despite an already high labour participation rate, there is scope to further raise labour supply. Voluntary early retirement is widespread among people aged 60 to 64 resulting in an employment rate for 60-64 year olds of only 40%. Moreover, 10 % of the working age population below 40 years of age are either on disability benefits or in a flex-job (subsidised employment).

(12) There has been a declining trend in productivity growth since 1995, one of the potential causes being weak education performance. Although Denmark continues to spend generously on its education system, educational outcomes are only average in several key areas and Denmark has the fourth lowest youth education attainment level in the EU. In 2009, only 70.1 % of the 20-24 year old population had completed at least upper secondary education (as against an EU average of 78.6 %) and the PISA results are average. The drop-out rates from youth and vocational institutions are relatively high, with almost 50 % of students in vocational youth education leaving early. In addition, 10 years after leaving primary school about 20 percent of young people have not completed their education above lower secondary level. Improving the quality of the education system would also help to prevent future skills imbalances in the labour market, currently pointing to a possible surplus of unskilled workers alongside a shortage of skilled workers. Productivity growth has been particularly weak in the construction and services sectors. This is the case in particular within local services, the retail sector, wholesale trade, and personal services, where low degrees of competition in certain sectors, for example, high market entry barriers may lead to a sub-optimal allocation of resources. Zoning laws are strict, limiting possibilities for productivity enhancing economies of scale in the retail sector. In order to address the fact that open public procurement only covers around 25 % of public procurement, the government has launched a strategy aimed at increasing competition within public services by gradually increasing public procurement in municipalities and regions, and set a new target for municipalities whereby 31.5% of all procurement should be public by 2015.

(13) Household debt in terms of GDP is the highest in the EU. The build-up of debt levels, which has been fuelled by the housing boom between 2004 and 2007, creates potential

risks for the economy and financial stability. Although these risks are mitigated by the characteristics of Denmark's sophisticated mortgage-backed bond market and a globally robust financial situation of the majority of households (with assets far in excess of liabilities), only limited measures to dampen pro-cyclical fluctuations of house prices were introduced in the aftermath of the house price correction.

(14) Denmark has made a number of commitments under the Euro Plus Pact[4]. To improve fiscal sustainability, an agreement has been reached to strengthen sanction legislation with regard to spending control at the local level. The government has submitted a proposal on a dowry scheme to facilitate private resolutions to handle distressed banks and help improve financial stability. Employment measures focus on fostering employment by prolonging working life. To foster competitiveness a Competition Package with concrete initiatives is targeted primarily towards the construction and service sectors. These commitments refer to the four areas of the pact. Overall, the measures coincide with those taken to follow up on the Annual Growth Survey and make progress towards the Europe 2020 targets, most notably in the employment domain. Although a number of the announced commitments have already been introduced, important measures to improve budgetary discipline (at local level) and to foster employment should be implemented in the near future. These commitments have been assessed and taken into account in the recommendations.

(15) The Commission has assessed the Convergence Programme and National Reform Programme, including the Euro Plus Pact commitments[5]. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Denmark but also their conformity with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU level input into future national decisions. In this light, the Commission considers that continuous and ambitious fiscal consolidation efforts should be pursued in 2011 and beyond. Further steps should also be taken to further raise labour supply through reducing early retirement and targeting particular groups, improve the quality of education, strengthen competition in key sectors and further stabilise the real-estate market.

(16) In light of this assessment, also taking into account the Council Recommendation under Article 126(7) Treaty on the Functioning of the European Union of 2 June 2010, the Council has examined the 2011 update of the Convergence Programme of Denmark and its opinion[6] is reflected in particular in its recommendation under (1) set out below. Taking into account the European Council conclusions of 25 March 2011, the Council has examined the National Reform Programme of Denmark,

HEREBY RECOMMENDS that Denmark should take action within the period 2011-2012 to:

(1) Implement fiscal consolidation measures in 2011 and 2012 as planned and correct the excessive deficit by 2013. Accelerate the reduction of the general government deficit if economic conditions turn out better than currently expected. Strengthen expenditure control by adopting binding multiannual spending ceilings for local, regional and central government which are consistent with the overall medium-term general budget targets.

---

4 More details on the commitments made under the Euro Plus Pact can be found in SEC(2011) 713.

5 SEC(2011) 713.

6 Foreseen in Article 9(3) of Council Regulation (EC) No 1466/97.

(2) Phase out as planned the voluntary early retirement pension (VERP) scheme, reform the disability pension, and better target subsidised employment schemes (the "flex-job" system) towards the most vulnerable groups.

(3) Speed up the implementation of reforms to improve the quality of the education system. Reduce drop-out rates, particularly in the vocational education sector, and increase the number of apprenticeship places available.

(4) Take steps to remove obstacles to competition, in particular in local services and the retail sector, by reviewing legislation on land use and opening up procurement in municipalities and regions.

(5) While supporting the ongoing stabilisation of the real-estate market following the recent price correction, take preventive action to strengthen the medium-term stability of the housing market and the financial system including reforms to the mortgage and property tax systems.

Done at Brussels,

For the Council
The President