

# European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

**PURPOSE:** draft recommendation for a COUNCIL RECOMMENDATION on Denmark's 2012 national reform programme and delivering a Council opinion on Denmark's convergence programme for 2012-2015.

**BACKGROUND:** the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

**CONTENT:** on 30 April 2012, **Denmark** submitted its convergence programme for the period 2012-2015 and its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

Based on the assessment of the 2012 convergence programme, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible. **The scenario projecting GDP growth at 1.2 and 1.5% in 2012 and 2013 is broadly in line with the Commission's 2012 spring forecast of 1.1 and 1.4%.**

The objective of the budgetary strategy outlined in the programme is to correct the excessive deficit by 2013 and achieving the medium term budgetary objective (MTO) of at least a structurally balanced budget in 2020. The programme thereby confirms the previous MTO, which adequately reflects the requirements of the Stability and Growth Pact. Denmark's gross public debt is projected to fall from 46.5% of GDP in 2011 to 41.1% in 2015, well below 60% of GDP.

According to the Commission, the **main policy challenges** for the country are as follows:

- Increasing labour supply is a key priority for Denmark in order to ensure future welfare and fiscal sustainability. In 2011, Denmark concluded an ambitious reform of the voluntary early retirement pension scheme and brought forward the previously planned increase in the statutory retirement age and its link to life expectancy. The focus now needs to shift to reforming the disability pension and subsidised employment (flex-job) schemes.
- The quality of Danish school education is only average. Furthermore, students generally finish their studies at a later age than in other Member States and the drop-out rates from vocational education

institutions are relatively high. To respond to the challenges in this field, the government has announced a number of new measures for both compulsory and secondary education.

- Another potential reason for slow productivity growth is the relatively weak degree of competition in Denmark. In 2011, a competition package was adopted, mainly targeting the construction sector, the retail sector, and health and public sector services. The issue of increasing public procurement in municipalities and regions is currently being negotiated with regional and local governments. Danish competition law is in need of reinforcement, and that sanctions for infringements are currently too low to serve as a deterrent.
- While the high household gross debt to some extent is a structural feature of the Danish economy, with household assets considerably exceeding liabilities, concerns regarding high household debt arise as developments in the housing market seem to have caused the debt to move beyond levels explained by structural factors. For a given debt level, households are therefore more sensitive to interest rates hikes and fluctuations in property prices now than they were a decade ago. This poses higher potential risks in terms of financial and economic stability.

### **Recommendations proposed for Denmark for the period 2012-2013:**

#### **Budgetary measures:**

- implement the budgetary strategy as envisaged, to ensure a correction of the excessive deficit by 2013 and achieve the annual average structural adjustment effort specified in the Council recommendations under the Excessive Deficit Procedure;
- ensure an adequate structural adjustment effort to make sufficient progress towards the medium-term budgetary objective (MTO), including meeting the expenditure benchmark.

#### **Employment:**

- take further steps to enhance long-term labour supply by reforming the disability pension;
- better targeting subsidised employment schemes (the 'flex-job' system) towards people with reduced work capacity, and improving the employability of people with migrant background.

#### **Education:**

- implement announced measures, without delay, to improve the cost-effectiveness of the education system, reduce drop-out rates, in particular within vocational education, and increase the number of apprenticeships.

#### **Competition:**

- continue efforts to remove obstacles to competition, in particular in local services, the retail and construction sector, including by further opening the municipal and regional procurement of services to competition and ensuring that competition law sanctions are sufficiently deterrent.

#### **Housing market:**

- consider further preventive measures to strengthen the stability of the housing market and financial system in the medium-term, including by taking account of the results of the ongoing study by the Ministry of Business and Growth on the distribution of assets and liabilities across households and by reviewing the property value and municipal land value tax system.

These recommendations should be endorsed by the European Council on 28-29 June and formally adopted by the Council in July 2012.