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Assessment of the 2013 national reform programme and convergence programme for DENMARK

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on Denmark's National Reform Programme and for a Council Opinion on Denmark’s convergence programme for 2012-2016

{COM(2013) 354 final}

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After the downturn in 2012, when GDP growth fell by 0.5%, the Commission expects Denmark's GDP to grow by 0.7% in 2013 and 1.7% in 2014, buoyed by policy measures stimulating domestic demand, as well as a modest rise in net exports. Against the background of subdued economic growth, unemployment is expected to stay high by Danish standards, at 7.7% in 2013 and 7.6% in 2014. Inflation is expected to ease from 2.4% in 2012 to 1.1% in 2013, rising slightly to 1.6% in 2014, due to weak underlying price pressures and excise tax cuts. However, the slowdown of external demand is expected to drag down the GDP growth, despite the improvement in Denmark's cost-competitiveness over the last couple of years.

Denmark's public finances are expected to improve compared to 2012, with the budget deficit shrinking from 4% in 2012 to 1.7% of GDP in 2013, thereby meeting the excessive deficit procedure recommendation by the 2013 deadline. The Commission estimates that the deficit will rise to 2.7% of GDP in 2014 (not taking into account the one-off pension measures, which were not known at the time of the forecast). Denmark's medium term objective (MTO) is a structural deficit of 0.5% of GDP. According to the Commission's Spring Forecast, Denmark already fulfils its MTO. Moreover, Danish authorities aim for a balanced budget in structural terms by 2020. Public debt is projected to remain at a relatively low level of around 45% of GDP, rising slightly to 46.4% in 2014, though still significantly below the EU's 60% threshold.

Key Issues

The economic crisis hit Denmark relatively hard and resulted in a significant drop in employment, though the authorities have managed to cope with the downturn relatively well. However, in April 2013 the Commission concluded that Denmark was experiencing macroeconomic imbalances, which deserve closer monitoring and effective policy action.

Denmark is making progress in implementing the 2012 CSRs and has an active reform agenda, though most of the reforms will have an impact only in the medium to long term. A comprehensive reform of the early retirement pension schemes has been implemented. Reforms of the disability pension and the subsidised employment schemes have been adopted. Steps have been taken to reform the public school, vocational training and student allowance systems and the government intends to increase competition in a number of services sectors, though only partial progress has been made. Over the short to medium term, Denmark does not seem to face particular challenges with its public finances, though it should continue to lower the deficit sustainably below 3% of GDP.

To stimulate economic growth and secure adequate financing for ambitious welfare policies, Denmark needs to get back on track by boosting productivity growth and competitiveness. The stability of the financial system, in particular the housing market, also remains an issue of concern, while Denmark also needs to enhance its long-term labour supply and the cost effectiveness of the education system.

- **Competitiveness**: Denmark has lost significant export market shares over the last decade, and prices are about 14% higher for services and 5% higher for goods compared to an average of seven similar EU countries. This is partly because of the low level of competition in some sectors (for example, the barriers to entry for certain professions in the retail sector). The authorities have set up a commission to work on boosting competitiveness and productivity.

- **Labour market**: The key jobs challenge continues to be how to increase long-term labour supply, particularly in the light of an ageing population. This problem could be eased by reintegrating people, such as those with migrant backgrounds, into the labour market, as the employment rate for non-EU nationals (54.5 % in 2012) is considerably lower than the overall employment rate (75.4%) and is also below the EU average.

- **Education**: Despite Denmark's high proportion of expenditure on education, cost-effectiveness is weak, there is a lack of apprenticeship places and drop-out rates from high school and vocational education are high (9.1% overall in 2012). Ambitious solutions are needed as these measures are vital to improve low productivity growth, increase labour supply and ensure that the future skills demands are met.

- **Financial sector**: High private-sector debt, particularly household debt – which increased by 52% between 2001 and 2009 – remains a risk to financial and economic stability, and has knock-on effects for domestic demand. Measures to address the risks in the banking and housing sectors have been appropriate, but limited. All these measures go in the right direction, but close monitoring will be required in order to make sure they have the desired impact.

1. INTRODUCTION

In May 2012, the Commission proposed a set of country-specific recommendations (CSRs) for economic and structural reform policies for Denmark. On the basis of these recommendations, the Council of the European Union adopted five CSRs in the form of a Council Recommendation in July 2012. These CSRs concerned public finances, taxation, long-term labour supply and the labour market, the cost-effectiveness of the education system and the stability of the housing market and financial system. This staff working document (SWD) assesses the state of implementation of these recommendations in Denmark.

The SWD assesses policy measures in light of the findings of the Commission's Annual Growth Survey 2013 (AGS)[1] and the second annual Alert Mechanism Report (AMR),[2] which were published in November 2012. The AGS sets out the Commission's proposals for building a common understanding of the priorities for action at national and EU level in 2013. It identifies five priorities to guide Member States to renewed growth: pursuing differentiated, growth-friendly fiscal consolidation; restoring normal lending to the economy; promoting growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; and modernising public administration. The AMR serves as an initial screening device to determine whether macroeconomic imbalances exist or risk emerging in Member States. The AMR found positive signs that macroeconomic imbalances in Europe are being corrected. To ensure that a complete and durable rebalancing is achieved,

[1] COM(2012) 750 final
[2] COM(2012) 751 final

Denmark and thirteen other Member States were selected for a review of progress in addressing these imbalances.[3]

Against the background of the 2012 Council Recommendation, the AGS and the AMR, Denmark presented updates of its national reform programme (NRP) and of its convergence programme on 30 April 2013. These policy plans provide detailed information on progress made since July 2012 and address most of the challenges identified in last year's Staff Working Document. Broad coherence between the two programmes has been ensured. The national reform programme confirms Denmark's commitment to address shortcomings in the areas of competition, the labour market, the education system and the financial sector. The convergence programme demonstrates Denmark's commitment to comply with the recommendations of the Excessive Deficit Procedure, improve the budgetary position towards the medium-term objective and ensure the long-term sustainability of public finances in line with the Stability and Growth Pact.

Regarding the stakeholder participation, the national reform programme went through a consultation process involving regional and local authorities as well as interest organisations, including organisations that work on social issues. A consultation was organised through the Contact Committee for the Europe 2020 Strategy, involving the above-mentioned bodies. It channelled the discussion of the NRP between national and regional authorities as well as interest organisations. The NRP was sent to the Committee for consultation in mid-March and its comments were taken into account when preparing the programme.

Overall assessment

The analysis in this SWD leads to the conclusion that Denmark has made some progress on measures taken to address the CSRs contained in the Council Recommendation. The policy plans submitted by Denmark are relevant, specific and credible but an effective implementation of the measures needs to be monitored.

The overall goal of the active economic reform agenda is to put the Danish economy on a sustainable path, in line with the government's 2012 national reform programme and revised national 2020 plan, in particular to ensure the preservation of the Danish welfare system. Over the short to medium term, with the new economic reforms, Denmark does not seem to face particular sustainability challenges. A comprehensive reform of the early retirement pension schemes has been implemented. Reforms of the disability pension and the subsidised employment schemes have been adopted. Steps have been taken to reform the public school system, the vocational training system and the student allowance system. However, only partial progress has been made in implementing the 2012 recommendation on education policy and competition in the services sector, as government proposals have not yet been adopted or fully implemented in these areas. Limited progress has been made concerning the recommendation on the stability of the housing market and measures fostering prudent lending and promoting mortgage amortisation.

The challenges identified in July 2012 and reflected in the AGS remain valid. In the short term, the main challenge is to spur economic recovery by boosting productivity and competitiveness, better utilising the labour force potential and strengthening the stability of

[3] 13 in-depth reviews were published on 10 April 2013. While selected for an in-depth review in the AMR, Cyprus was ultimately not reviewed under the Macroeconomic Imbalance Procedure in view of the advanced preparations for a financial assistance programme.

the financial system. Improving the quality and efficiency of education would help buttress innovation and human capital, improving the medium- and long-term growth prospects.

2. ECONOMIC DEVELOPMENTS AND CHALLENGES

1.1. Recent economic developments and outlook

Recent economic developments

The economic crisis hit Denmark relatively hard and resulted in a significant drop in employment. However, Denmark has managed to cope with the crisis rather well, and in spite of increasing unemployment and deteriorating social conditions automatic stabilisers and government measures have played their part without jeopardising public finances and debt levels. Interventions in the financial sector have been relatively successful so far in terms of securing financial and fiscal stability.

The Danish economy had already started to slow down before the onset of the global economic and financial crisis, amidst a correction in the real estate market. In 2012, these developments were compounded by the general weakening of the the global economy and the on-going sovereign debt crisis in the euro area. This had a negative impact on net exports and domestic demand and was further aggravated by continued deleveraging of households and firms, depressed consumer and business confidence and falling employment. At the same time, the 'flight to security' that happened in response to the sovereign debt crisis has led to strong demand by international investors for highly-rated mortgage bonds and government securities from Denmark. This resulted in very low interest rates, which currently underpin a still fragile housing market.

The crisis has taken its toll on the labour market. Employment fell both in 2011 and 2012 with the unemployment rate reaching almost 8 %, which is high by Danish historical standards. While still performing well in a European comparison, the indicators tracking the risk of poverty and social inclusion in Denmark have increased, especially for people in disadvantaged groups, such as those with a migrant background.

Economic outlook

The economy is expected to gain traction in 2013 after the downturn in 2012. According to the 2013 Commission Spring Forecast, the economy is expected to return to growth in 2013, with real GDP expected to rise by 0.7 % on the back of policy measures boosting domestic demand. Private consumption is projected to grow moderately supported by low interest rates and rising wages. Furthermore, the 'investment window' tax breaks, which will continue until the end of this year, are projected to temporarily boost investment. However, the slowdown of external demand is expected to drag down GDP growth despite the improvement in Denmark's cost-competitiveness over the last couple of years. Consumer price inflation is expected to ease further in 2013 to 1.4 % due to weak underlying price pressures and excise tax cuts. Real GDP is set to rise further in 2014 to around 1.7 % with positive net export growth expected to add to a modest rise in domestic demand. Employment has surprised on the positive side in 2012, but the drop in economic activity by the end of the year is expected to have negative effects on employment in the first half of 2013. However, the gradual pick-up in economic growth in the course of this year is expected to ensure a gradual turnaround in the labour market in the second half of 2013.

The economic scenario underlying the national reform programme and the convergence programme seems realistic. It projects real GDP to grow by 0.7 % in 2013 and 1.6 % in 2014, which is broadly in line with the Commission's 2013 Spring Forecast.

The Danish government is focused on improving growth, employment and competitiveness via structural reforms and a modernisation of the public sector. By improving the conditions for private companies and labour market and education reforms, the government aims to boost annual potential GDP gowth by a third of a percentage point on average from 2014 to 2020.

Private employment may increase by 150,000 persons by 2020, according to Danish authorities' estimates. This, however, includes 80 000 persons from the expected economic recovery, while already implemented reforms and demographic factors are expected to increase private employment by 37 000 persons. Future reforms and the effects of the 2012 reforms of taxes, disability pensions and flex-jobs are estimated to increase employment by 33 000 persons.

1.2. Challenges

Denmark faces significant challenges to boost its competitiveness and productivity and growth, increase competition, enhance its long-term labour supply and the cost effectiveness of the education system. The stability of the financial system, in particular the housing market, also remains an issue of concern. These issues were already identified in the 2012 SWD. In July 2012, relevant policy responses were noted and integrated in the CSRs of the Council Recommendation issued for Denmark. In line with the ‚AGS, the AMR, and the 2013 in-depth review (see Box 1), the policy challenges for Denmark identified in the 2012 Commission SWD remain essentially unchanged, despite progress with the reform agenda and its implementation.

To stimulate economic growth and secure adequate financing for ambitious welfare policies, Denmark needs to boost productivity growth and competitiveness. Denmark has lost significant export market shares over the last decade. These losses seem to be linked to the deterioration of Denmark's cost competitiveness, reflecting relatively high wage growth and low productivity growth compared with its trading partners. Continued losses of export market share despite the recent improvements in cost competitiveness suggest that non-cost-related factors may also play a role. One of these factors is arguably the geographical destination of Danish exports, which do not seem to sufficiently target high-growth emerging markets.

An important cause of slow productivity growth appears to be the low level of competition in some sectors, in particular services. Despite the steps already taken in the services sector to improve the regulatory framework (e.g. abolishing the rules on shop opening hours), there are still significant barriers to entry, especially in the retail services and in the construction sector.

The key labour market challenge continues to be the increase in the long-term labour supply, in particular in the light of demographic ageing. At the same time, there is an increasing amount of people finding themselves at the margins of the labour force, such as those with a migrant background, the long-term unemployed and people with reduced work capacity. This is an additional labour market challenge, putting to the test the ability of the Danish flexicurity model to assist these groups' reintegration in the labour market.

The education system continues to face challenges in improving cost-efficiency. Despite Denmark's high proportion of expenditure on education in GDP, cost-effectiveness is weak, the upper secondary completion rates are low and drop-out rates are high (especially in the youth vocational education system). The challenges faced by the youth vocational educational programmes are linked to their quality and a lack of apprenticeships. Moreover, the transition periods between different levels of education and from the education system to the labour market are among the longest in the EU. It is vital to overcome the education challenges in order to improve the low productivity growth, increase labour supply and ensure that the future skill demands are met.

Financial stability remains as an issue of concern as housing market developments and high private sector debt continue to affect the economy's macroeconomic performance. Excessive swings in house prices and high debt had contributed to wide fluctuations in private consumption, whilst high private-sector debt, in particular of households, remains a risk to financial and economic stability. Recent research into the distribution of assets and liabilities across households shows that a high proportion of overall household debt is held by high-income households, which are better equipped to service their debt if interest rates rise. Nevertheless, if a number of risks, such as rising interest rates, a further fall in house prices and continued low growth and rising unemployment, materialise simultaneously, this would pose a significant challenge for the Danish mortgage system. Regarding the property tax system, although cadastral values continue to be updated every two years to reflect market values, the value for the purpose of taxing property has been frozen in nominal terms since 2002, which is presumed to have contributed to the housing bubble.

Box 1. — Summary of the 2013 in-depth review (IDR) under the Macroeconomic Imbalance Procedure (MIP)

In the 2012 AMR the Commission recommended to take a closer look at imbalances in Denmark that had been identified in May 2012. To this end, the second 2013 In-Depth Review (IDR) took a broad view of the Danish economy, in line with the scope of the surveillance under the Macroeconomic Imbalance Procedure, to examine the persistence of macroeconomic imbalances and the remedies. The IDR concluded that Denmark was experiencing macroeconomic imbalances that warranted monitoring and policy action. Particular attention should be given to the continuing adjustment in the housing market, the high level of indebtedness of households and in the private sector and to the drivers of external competitiveness.

The main findings from this analysis are as follows:

- The continued losses in export market shares in goods seem to be linked to a deterioration of Denmark's cost competitiveness over the last decade, due to relatively high wage growth and weak productivity growth compared with its trading partners. Furthermore, nominal effective exchange rate movements have undermined Denmark's competitiveness. Recently, wage and terms-of-trade developments have improved its cost competitiveness, but low productivity growth remains a cause for concern.

- Regarding non-cost-related factors, the geographical composition of Danish exports, which do not seem to be sufficiently represented in high-growth emerging markets, may also have a negative impact on its market share. However, a relatively favourable product composition of Danish exports has partly compensated for adverse impact of the geographical destination of exports.

Regarding cost-related factors, trends appear to have shifted in more recent years. Unit labour costs have fallen, partly reflecting slower wage growth, but also a cyclical catch-up in productivity growth. In the coming years, wages in Denmark are expected to rise more slowly than in competitor countries, which will boost its cost-competitiveness.

- High household debt is an imbalance that poses increased economic risks, in particular given the potential effects on the financial sector and on private consumption, although the analysis in the IDR notes certain improvements. Recent research into Danish household debt indicates that the risks to financial stability from household indebtedness are relatively contained. Nevertheless, if multiple risk factors were to arise simultaneously, such as rising interest rates, a further fall in house prices and continued low growth and rising unemployment (unlikely though as that is), it would be a major test for Denmark's mortgage system.

A wide range of policy responses could be considered to tackle the above challenges. As regards external competitiveness, wage developments should track productivity trends. Productivity could be boosted by removing obstacles to competition and by removing barriers for firms' use of knowledge. Non-price competitiveness would improve if exports showed more geographical flexibility and the adaptability to adjust to changes in global demand.

With regard to the high level of household debt, measures could be considered to improve the stability of the housing market and the financial system in the medium term. Recent and planned initiatives aim to improve the robustness of the mortgage credit system, limit policy incentives to take up debt and reduce the risk of an unsustainable build-up of household debt.

3. ASSESSMENT OF POLICY AGENDA

1.3. Fiscal policy and taxation

Budgetary developments and debt dynamics

According to the medium-term budgetary strategy of the 2013 Convergence programme the fiscal deficit will fall below the 3% of GDP reference value by the 2013 deadline set by the Council with a structural improvement of 1½ % of GDP between 2010 and 2013. Furthermore, the programme aims to reach a medium term objective (MTO) of at least a balanced budget in structural terms in 2020. The MTO remains unchanged compared to last year's programme, and reflects the objectives of the Stability and Growth Pact. For the years 2013 to 2020, the structural deficit fulfils the minimum requirement in the Fiscal Compact of a deficit not exceeding 0.5 % of GDP.

The general government deficit reached 4.0% of GDP in 2012, which is very close to the deficit forecast of 4.1% in last year's programme. The deficit in 2012 reflects an extraordinary increase in public expenditure by 2% of GDP in 2012 due to the one-off repayment of the Voluntary Early Retirement Pension (VERP) contributions and the planned frontloading of public investments.

The convergence programme's' projection of a budget deficit of 1.6% of GDP in 2013 is in line with the Commission's Spring Forecast of 1.7%. The improvement of the headline balance compared to 2012 is to a large degree driven by one-off measures. In 2012, the repayment of the VERP contributions reduced the budget deficit by approximately 1¾ % of GDP. In 2013, the possibility of moving forward taxation of existing capital pensions at favourable conditions is expected to improve the budget deficit by close to 1 % of GDP.

The convergence programme projects the headline budget balance to deteriorate to -1.7 % of GDP in 2014 and to -2.8 % of GDP in 2015, before improving to -2.0% of GDP in 2016. The small change in the headline deficit from 2013 to 2014 reflects broadly unchanged interest expenditures and the slight deterioration in the primary balance is due to the government consolidation efforts being more than offset by lower revenues from one-off items. In the Commission's Spring Forecast, the fiscal balance is expected to be at -2.7 % in 2014. The divergence with the authorities' forecast is mainly due to an extension of the one-off capital pensions measure into 2014, which was not known by the time of the finalisation of the Commission's forecast.

According to the convergence programme, public expenditure and revenue are forecast to fall by 0.8 and 0.9% of GDP, respectively, in 2014. On the expenditure side, the fall can be mainly attributed to a lower share of public consumption on the back of the Growth Plan and a lower share of income transfers. On the revenue side, the fall comes from lower revenues from direct and indirect taxes, including from pension yield taxes. From 2014 to 2016, expenditure and revenue are expected to decrease by 1.9 and 2.2% of GDP, respectively. The main causes of the expected decrease in the share of public revenues up to 2016 are the phasing-out of the capital pension taxation measure in 2014 while the decrease in the expenditure share is forecast to result from the dampening effect of the 'Growth Plan' (see Box 4) on public consumption.

According to the convergence programme, Denmark aims to fulfil the EDP recommendation by the 2013 deadline set by the Council. The main fiscal consolidation measures are specified in the 2009 Spring Package 2.0, the 2010 Consolidation Agreement and the fiscal bill for 2012 (see Box 2). The Commission's Spring Forecast projects the headline budget balance to fall to -1.7% of GDP in 2013. Hence, the risks for breaching the 3% reference value appear to be very limited. The bottom-up approach, as calculated by the national authorities, shows an annual improvement of the structural balance of 0.8 percentage points in 2011, 0.3 percentage points in 2012 and 0.6 percentage points in 2013.[4] While the discretionary measures described in the convergence programme appear plausible to secure the required cumulative structural budget improvement of 1.5% of GDP between 2011 and 2013, the targeted improvement of the structural budget balance of 0.6 percentage points of GDP in 2013 is ambitious and requires considerable efforts.

The convergence programme foresees a deterioration of the structural balance (recalculated with the commonly agreed methodology) from 0.3 % of GDP in 2013 to -0.6 % of GDP in 2016. Taking into account the ¼ percentage point margin when evaluating the (recalculated) structural balance, Denmark is projected to respect its MTO of -½ % of GDP in the years from 2014 to 2016. The structural balance as calculated by the national authorities is projected to be between 0 and -½ % of GDP in the period 2013-2016. According to the information provided in the Programme, the growth rate of government expenditure, net of discretionary revenue measures, from 2014 to 2016 will not exceed the reference medium-

[4] This result contrasts to the cyclically adjusted balance net of one-off and temporary measures, as recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology. According to this calculation the structral balance improves from -0.1% of GDP in 2010 to 0.3% of GDP in 2013. However, this method does not filter out very volatile revenue items – such as the revenues from North Sea oil extraction and the pension yield tax – which plays an important role when assessing the Danish public finances.

term rate of potential GDP growth (1.12%). The expenditure projections confirm an appropriate adjustment to the MTO. The Commission's Spring Forecast expects the growth rate of public expenditure to exceed somewhat the lower reference rate in 2014, but this deviation is not deemed to be significant.

Denmark has reduced its gross public debt from 46.4 % of GDP in 2011 to 45.7 % in 2012, despite running a 4% of GDP fiscal deficit. The convergence programme plans a further reduction of the debt ratio by 2014, a stabilisation in 2015-17 and a further decrease to around 40% of GDP by 2020. Medium-term debt projections (Graph below Table V in annex) also confirm that full implementation of the programme would lead to lower debt in 2020. The debt ratio is thus expected to stay well below the 60 % reference value in the Stability and Growth Pact and the debt reduction benchmark is therefore not applicable.

Box 2. Main fiscal consolidation measures

Denmark's fiscal consolidation effort is based on the financing elements of the 2009 Spring Package 2.0, the 2010 Consolidation Agreement and the fiscal bill for 2012. According to the convergence programme, the effect from these initiatives, measured by the direct revenue effect, amounts to 2.2 % of GDP over the period 2011-201313. A number of other factors influence the structural balance negatively, for example a structural fall in revenues from North Sea oil extraction. Net of these effects, the public finances are projected to improve by 1.7 % of GDP when measured by the bottom-up methodology and by 1.5 % by the top-down methodology as calculated by the national authorities.

Revenue	**Expenditure**
2011	
• Financing elements Spring Package 2.0 (0.1 % of GDP) • Financing elements Consolidation Agreement (0.3 % of GDP)	• Lower growth in public consumption (-0.7 % of GDP) • Public investment (0.1 % of GDP) • Social transfers (-0.1 % of GDP)
2012	
• Financing elements Consolidation Agreement (0.1 % of GDP) • Financing elements Fiscal Bill 2012 (0.2 % of GDP)	• Lower growth in public consumption (-0.1 % of GDP) • Public investment (0.1 % of GDP) • Social transfers (-0.2 % of GDP)
2013	
• Financing elements Spring Package 2.0 (0.2 % of GDP) • Financing elements Consolidation Agreement (0.1 % of GDP) • Financing elements Fiscal Bill 2012 (0.1 % of GDP)	• Lower growth in public consumption (-0.1 % of GDP) • Public investment (-0.2 % of GDP) • Social transfers (0.1 % of GDP)

Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure. The degree of detail reflects the information made available in the convergence programme and, where available, of a multiannual budget.

Box 3. Excessive deficit procedure for Denmark

On 13 July 2010, the Council decided that an excessive deficit existed in Denmark and adopted the most recent Council Recommendation under Art. 126(7) TFEU. The Council recommended that the Danish authorities should put an end to the present excessive deficit situation by 2013.

Specifically, in order to bring the general government deficit below 3% of GDP in a credible and sustainable manner, the Danish authorities were recommended to (a) implement the fiscal measures in 2010 as envisaged; (b) ensure an average annual structural adjustment of ½% of GDP over the period 2011-2013; (c) specify the measures that are necessary to achieve the correction of the excessive deficit by 2013, cyclical conditions permitting, and to accelerate the reduction of the deficit if economic or budgetary conditions turned out better than expected at the time the EDP recommendations were issued.

An overview of the current state of excessive deficit procedures is available on: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm (please refer to country sections at the bottom of the page).

Long-term sustainability

Denmark does not appear to face short-term, medium-term or long-term sustainability challenges. Government debt (45.7 % of GDP in 2012 and expected to rise to 46.4 % in 2014) is below the 60 % of GDP Treaty threshold, which gives the country some fiscal space over the medium term. Fiscal sustainability risks would be further mitigated if the structural primary balance returned to the higher values observed in the past., such as the average for the period 1998-2012.

Taking more measures to contain age-related expenditure growth would contribute to the long-term sustainability of public finances. In particular, expenditure on long-term care could become a fiscal challenge. Indeed, at 4.5 % of GDP in 2010 Denmark had the highest current expenditure on long-term care as percentage of GDP in the EU. On the other hand, the reforms of the Voluntary Early Retirement Pension scheme and the linkage of the statutory retirement age to life expectancy will improve the sustainability of public finances in the long term.

Fiscal framework

Denmark is applying a medium-term budgetary framework (MTBF) to all levels of government. In multi-annual plans it sets annual growth targets for public consumption expenditure volumes at central, regional and local level. The basic rule of budgetary policy is to achieve a structural general government balance or surplus in the medium to longer term. The MTBF is not based on constitutional or legal acts; it is a political commitment to achieve fiscal sustainability over the longer term. Nevertheless, the multi-annual plans have parliamentary support and serve as an anchor for fiscal policy planning in the annual budget process. Regional authorities (accounting for 20% of total public expenditure) and local authorities (accounting for 50% of total expenditure) play an important role in administering public expenditure. The Ministry of Finance and the Ministry of Economic Affairs and the Interior function as monitoring and enforcing bodies.

Despite the positive track record of its fiscal framework, Denmark has a history of substantial expenditure overruns, in particular at regional and local levels. Hence, the 2010 Fiscal Consolidation Agreement and the annual fiscal bills since 2011 contain penalties and tighter budgetary control in order to tighten expenditure control in the municipalities and regions. These mechanisms have proved effective. The penalties are now laid down in an ambitious budget law adopted by the parliament in June 2012. Under the new budget law, the parliament will set expenditure ceilings at central, regional and municipal level for four years starting from 2014.

The new spending regime heralds a significant shift towards a better controlled expenditure policy. Particularly, planned spending is now based on a scenario that takes into account only the effects of measures for which there is a majority in parliament. In previous medium-term plans, it was usually assumed that planned spending initiatives could be financed in the future through unspecified measures, which often proved difficult to find.

Tax system

Denmark still has the highest tax-to-GDP ratio in the EU, despite recent reductions.[5] Standard tax performance indicators suggest that the tax system is well designed with rather broad tax bases and low tax compliance costs. The implicit tax rate on labour is close to the EU average, but the marginal tax rate is relatively high for high-income earners.[6] The tax burden on corporate income is at the EU average but revenue from indirect taxes is significantly above average. Danish consumption taxes account for the highest share of GDP in the EU. The proportion of recurrent property taxes — considered to be one of the least distortive types of tax — remains above the EU average.

The 2009 and 2012 tax reforms lowered the tax burden on labour and reduced the progressivity of personal income tax in order to boost employment and growth. The 2009 tax reform, which being implemented between 2010 and 2019, aims at reducing the high marginal tax rates on personal income while at the same time reducing mortgage interest deductibility and increasing energy, transport and environmental taxes and excise duties on health-related products such as dietary fats, confectionery, soft and alcoholic beverages and tobacco. The 2012 tax reform, which will be implemented between 2013 and 2023, aims at gradually raising the threshold for the top income tax rate and increasing the employment allowance. It will be financed in part through the indexation of some excise duties but mainly through cuts in public expenditure. The direction taken with these tax reforms was somewhat reversed in the 2013 budget, with the abolition of excise duties on fat introduced by the 2009 tax reform and the reversal of the extension of excise duties on confectionery being financed through higher personal income taxes. In addition to the above-mentioned measures, the 'Growth Plan' on which the government reached an agreement with the opposition in end-April 2013, aims to reduce costs for businesses through targeted tax cuts and increased public investment.

[5] Although the tax-to-GDP ratio dropped by over three percentage points from 2005 to 47.7 % in 2011, Denmark shows the highest ratio in the EU. One reason why the tax-to-GDP burden appears to be higher than for other countries, is that Denmark has both a tradition of using gross recording and of taxing transfer incomes such as pensions.

[6] Labour is taxed through relatively high taxes on personal income, with limited use of social contributions.

Box 4. 'Growth Plan' assessment

The agreements on the 'Growth Plan' is a set of measures designed to improve productivity and competitiveness and to generate private sector employment. This is to be achieved through a combination of tax cuts (across the board, but also sector-specific), initiatives to improve financing conditions among companies and increased public investment. The initiatives in the plan amounts to an accumulated DKK 75 billion [€ 10.1 billion] over the period 2014 to 2020 (close to ½ % of GDP), leading to a projected increase in private employment of 17,000 persons in structural terms by 2020.

According to the government, the 'Growth Plan' is fiscally neutral. It is financed by lower public consumption growth in 2014 to 2017 and a regulation of public wages, generating annual savings of around DKK 5.8 billion [€ 0.8 billion] by 2020. In addition, municipal service expenditure will be frozen from 2013 to 2014 (creating a permanent saving of DKK 2 billion [€ 0.3 billion]). Dynamic effects are expected to generate revenues of DKK 1.3 billion [€ 0.2 billion] in 2020.

The gradual reduction of the corporate tax rate from 25 % to 22 % is the largest revenue reducing item in this plan. Another main item is the abolition of the energy-saving tax and the lowering of other energy taxes, with a view to striking a better balance between environmental considerations and competitiveness of businesses. The third main item will be the increase in public investment. The public spending cuts will weigh on economic activity but overall the reform programme is expected to create a positive net effect in the end. While the final impact of the 'Growth Plan' is subject to great uncertainty, it sets good framework conditions that have the potential to boost growth in the coming years.

Regarding the tax system for housing, cadastral values continue to be updated every two years to reflect market values, but the property value tax has been frozen in nominal terms since 2002. This has reduced the effective property value tax and will gradually erode revenue, if not changed. Although the property tax freeze has arguably contributed to the housing bubble between 2003 and 2007, the government does not intend to review the property value tax system in the near term. Given the high overall tax burden, it could be considered to make the most of the least distortive and most growth-friendly revenue sources, such as recurrent property taxes, to ease the direct tax pressure on capital and labour, at least in the medium term, while taking into account the current need to stabilise the housing market. In addition, there may be the potential to make overall vehicle taxation more efficient while maintaining revenue and the current system's contribution to reducing CO_2 emissions and other transport-related externalities.[7]

1.4. Financial sector

The stability of the financial system and of the housing market remain issues of a high concern in Denmark. The high level of household indebtedness has been in the focus for some years but recent research suggests that, although to date the risks to financial and economic stability seem to be contained the situation would require continued monitoring.

Private sector indebtedness and the housing market

[7] Danish Council of Environmental Economics: Economy and Environment (2013), Chapter II (car taxation). English summary: http://www.dors.dk/graphics/Synkron-Library/Publikationer/Rapporter/Miljo_2013/Trykt/M13_English_summary.pdf

In 2012 the Council Recommendation for Denmark contained a CSR concerning the stability of the financial system and the need to consider further preventive measures to strengthen the stability of the housing market. Although high levels of household gross debt have long been a structural feature of the Danish economy, housing market developments have contributed to the build-up of excessively high household debt levels, that may be considered beyond sustainable levels. As a result of the sharp rise in house prices and the accompanying surge in residential investment, the debt of Denmark's households increased markedly, by 52 %, between 2001 and 2009. The composition of mortgage loans has also changed since 2003 with deferred-amortisation loans (which are instalment-free in the initial years of the loan) and adjustable-rate loans becoming more popular than the less risky but more expensive fixed-rate loans.

The high level of household debt may pose risks not only to financial sector stability but also to private consumption. The household debt-to-gross disposable income ratio decreased from an historical high of 302% in 2009 to 286% in 2011. According to a recent report by *Danmarks Nationalbank*,[8] the share of variable-rate loans in total lending by mortgage banks rose from 46 % in the beginning of 2005 to 68 % in the third quarter of 2012. Over the same period, the share of deferred-amortisation loans in total mortgage lending rose from 20 % to 56 %. Worryingly, these proportions are particularly high among households with the lowest incomes, considered to be the most vulnerable group. For this reason country-specific recommendation addressed in 2012 to Denmark called for action to improve the stability of the housing market, taking into account the results of a study by the Ministry of Business and Growth on the distribution of assets and liabilities across households. This study indicated that the risks to financial stability from household indebtedness are relatively contained, due, in particular, to the large proportion of overall household debt held by high-income households, which are better equipped to service their debt if interest rates rise. Accordingly, even if interest rates were to rise quite substantially, the potential volume of loans that households would not be able to service does not seem to pose a threat to the financial stability of the economy. Nevertheless, in the current fragile financial and macro-economic environment, the high level and the composition of mortgage debt have increased the exposure of the financial system to adverse developments. As pointed out in the 2013 In-Depth Review for Denmark, in the event of a simultaneous materialisation of a number of risks, such as low growth, rising unemployment, rising interest rates and a fall in house prices, Denmark's financial stability could be severely undermined.

Measures to address the risks to financial stability in Denmark have been appropriate. The Danish authorities have taken measures to improve the robustness of the mortgage credit system, such as a risk labelling scheme for housing mortgage loans and the formalisation of informal requirements for borrowers, according to which variable-interest and/or deferred-amortisation loans are only granted if the household can afford a fixed-interest loan with non-deferred amortisation. The mortgage credit institutes, which belong to the private sector, have also taken measures to ensure the provision of additional collateral. While these measures go in the right direction, they need to be closely monitored so as to assure that they have the desired impact.

Banking

The financial sector is recovering from the housing market crisis, which is still weighing on bank profitability, and losses on non-performing loans remain significant. In 2012, total bank assets in Denmark grew by 1.1%, a rate comparable to previous years.. Total bank

[8] *Danmarks Nationalbank* (2012).

assets grew by 1.1 %. Lending to households remained flatand lending to companies was negative. On the liabilities side, the exceptionally low share of non-financial entities'deposits in the balance sheet resulted in a still very high loan-to-deposit ratio of of 296% in 2012, down from 306% in 2011.. Capital adequacy of the Danish banks improved in 2011.[9]The net operating income of banks declined, mainly due to the fall in lending volumes and increasing funding costs, reflecting the 2011 turmoil in the international markets. The low income combined with the persisting write-downs for non-performing loans has resulted in low profitability of Danish banks.

Denmark's financial supervision framework has been strengthened in recent years. This was achieved in particular by bringing in the so-called 'supervisory diamond'[10] and other tools to monitor individual banks more closely, by creating a bank resolution regime based on the Financial Stability Company[11] and by setting up new institutions responsible for macro-prudential oversight[12] of the financial sector and the economy.

Given the high share of market funding, the Danish banking sector is exposed to relatively high liquidity and refinancing risks. In recent years, the Danish banks have made attempts to strengthen their funding structure. The share of retail deposits has been increasing, especially in smaller banks. Regarding market funding, short-term debt issuance fallen and long-term issuance was substantial in 2012, resulting in longer and more evenly spread average bond maturities. However, the largest banks' increasing dependence on short-term funding from foreign banks was a negative development since it has the potential to increase liquidity risks. The tackling of funding risks has been supported by the Danish Financial Stability bringing in requirements on excess liquidity coverage and by making the funding ratio binding since 2012.

The forthcoming new regulatory requirements may pose challenges to the Danish banking sector. The expected increase in risk weighting of mortgage bonds is a particular concern for banks, given the role of this instrument in the Danish banking market. Another concern is the 40 % limit for mortgage bonds in the portfolio of liquid assets needed to comply with the Basel III liquidity requirements.

Access to finance

Lending conditions are not expected to return to pre-crisis levels any time soon. In 2012, the level of outstanding loans to non-financial corporations decreased by 2 %, bringing theaccumulated decrease since 2008 to almost 5 %.[13].Access to loans has become increasingly difficult for small and medium-sized enterprises (SMEs) since the start of the economic crisis in spite of the very low interest rates in Denmark: the rejection rate for loan applications is 20 % (compared to the EU of 15 %) and the cost of credit is 50 % higher than for large companies.[14] This may also have a negative impact on the development of innovative research projects by SMEs.

[9] This was confirmed by the EBA 2012 EU Capital Exercise, in which the four participating Danish banking groups demonstrated strong capital buffers as per June 2012. Three of them increased their buffers compared to the previous year and one showed a decrease.

[10] A set of five supervisory requirements with benchmark values phased in in the period 2010-2012.

[11] During the crisis, the Danish authorities resolved one third of banks out of the total pre-crisis number of institutions, but their aggregated assets corresponded to only 6 % of the sector.

[12] The Systemic Risk Council and the interagency committee to develop prudential arrangements for systemically-important financial institutions (SIFIs).

[13] ERST, Danish government.

[14] European Commission, Small Business Act Fact Sheet 2012.

The authorities have adopted some initiatives to tackle the problem of corporate financing: the 'Danish Growth Capital' (Dansk Vækstkapital, a state investment fund), the 'Development Package' (Udviklingspakken) and a 'Credit Package'. The latter includes measures related to additional subordinated loans, which range from Vækstfonden loans to to guarantees from the Export Credit Agency (EKF) to support export- oriented projects. A study is being prepared on the corporate bond market. In addition, an initiative is aimed at providing a credit guarantee scheme for smaller bank loans (up to DKK 2 million [€ 0.3 million]), to be run from 2013-2015.

1.5. Labour market, education and social policies

Increasing the labour supply remains a key long-term challenge for Denmark. Combining ambitious labour market reforms with improvements of the effectiveness of the education system, reducing drop-out rates and increasing the number of apprenticeships will help to increase employment, in particular for young people. Removing labour market bottlenecks is crucial for increasing Denmark's economic growth potential and could directly feed into productivity and competitiveness gains.

Labour market

Denmark has traditionally had a very well-functioning labour market with smooth labour market transitions, high employment rates and universal social protection. Nevertheless, it was affected by the crisis. In 2012, the employment rate for people aged 20-64 was 75.4 %, which is above the EU average of 68.5 %. The unemployment rate more than doubled from its record low of 3.4 % in 2008 to 7.5 % in 2012. However since 2010 it started to stabilise at 7.5 %. The unemployment rates for disadvantaged groups, such as people with migrant background, low skilled workers, long-term unemployed, people with reduced work capacity and older workers, are higher than the average. Youth unemployment has also increased, although it remains well below the EUaverage. Long-term unemployment, as a proportion of total unemployment, rose from 13.5 % in 2008 to 28.0 % in 2012. In addition, the share of people living at a risk of poverty and in low work-intensity households increased markedly between 2008 and by 2.6% and 3.1% respectively.

In 2012, the Council recommendation addressed to Denmark included a CSR concerning the labour market and the need to take further steps to enhance long term labour supply. The policy response was to reform of the disability pension and flex-job systems, which has been adequate. These schemes cover approximately 10 % of the working-age population, which constitutes a significant labour supply potential. The main elements of the reforms include new individual resource programmes for persons under the age of 40 (instead of a disability pension) and better targeted subsidies in the flex-job scheme. One objective is that as many as possible should work in the ordinary job market. As a consequence of the reform all municipalities are now required to establish rehabilitation teams. The teams will ensure that people with complex problems receive support across the areas of employment, health, social services and education, with a focus on individual needs. Persons below 40 years will, as a general rule, not have access to disability pension, but will instead undergo a labour market reintegration process. The reform also amends the flex-job system. Persons under 40 years may receive a flex-job for a maximum of five years, while people over 40 years will have a possibility to keep the flex-job after the five-year period. Under the new scheme the highest subsidies will be paid to persons with the lowest incomes, while presently the highest subsidies are paid to persons with the highest salaries. The reform bill was adopted by the parliament on 23 December 2012 and came into effect from 1 January

2013 (the reform aims to save DKK 1.9 billion in total [€ 0.3 billion]). Furthermore, two new committees have been set up to review Denmark's active labour market policies (ALMP). At present, Denmark's spending on ALMP in terms of GDP is the highest in the EU. The committee will examine how to ensure that in the future ALMP can provide quick and lasting employment opportunities based on individual needs, respecting the principle of availability to work and ensuring optimal cooperation between the public employment service and private companies.

There is room for increasing the labour market participation of people with a migrant background. At 54.5% in 2012, the employment rate of non-EU citizens was considerably lower than the overall employment rate and also below the EU average. The government aims at increasing the number of employed workers with a migrant background by 10 000 by 2020 in order to reduce the employment gap compared with the rest of the working population. The authorities are not considering initiatives specifically targeted at people with migrant background, but plans reaching this target through ongoing reforms of the social benefit system and active labour market measures, as outlined in the government's vision paper from November 2012. Furthermore, an agreement was reached in April 2013 between the government and the opposition on a reform of the national social assistance scheme. The main objective is to break the practise of passive support, where people are left on social assistance for years with limited assistance or follow-up. For people below 30, the reform reduces the level of social assistance to that of a student allowance. It will be important to monitor the effect of the envisaged changes on regular employment and on levels of poverty and material deprivation. Moreover, the 'Acute' package approved in August 2012 introduces additional active labour market measures for people losing their rights to unemployment benefits due to the recent shortening of the length of eligibility and for young people. The apprenticeship and vocational training initiatives included in the 2013 budget are also expected to have a positive impact on the employment levels of young people with a migrant background. However, besides the reform of the cash benefit system, there may be a need for further measures designed to break down the additional barriers to labour market participation faced by this group, to facilitate their integration on the labour market.

The risk of marginalisation of the growing group of unemployed is an emerging challenge on the Danish labour market. The marked increase in long-term unemployment since the beginning of the crisis suggests that an increasing amount of people has been losing their foothold on the labour market. This is confirmed by a significant increase in the number of people receiving cash benefits, many of them classified by the Public Employment Service as not being fit to work. Recent reforms of the social and unemployment benefit systems have reshaped the balance between security and flexibility on the Danish labour market, putting more weight on ALMP so as to assure that people who are at the margins of the labour market are keptas close as possible to employment, in order to avoid the loss of human capital and an increase in inequality.

The overall progress in addressing the country-specific recommendation on the labour market has been significant. The disability pension reform, the reform of flex jobs and the cash benefit reform respond adequately to the recommendation, but the practical implementation and effects of the reforms will need to be closely monitored and followed up by further measures if necessary. In order to raise long-term labour supply and reduce the risk of unemployed people becoming marginalised,, further efforts are warranted to enhance the employability of those people, who are the furthest from the labour market, including people with a migrant background, the low-skilled and the long-term unemployed.

Education

Despite Denmark's generous spending on its education system, educational outcomes are dismal in a number of key areas. The upper secondary completion rate is low, and early drop-out rate from vocational youth education is high. This high drop-out rate seems to be linked to insufficient quality of educational programmes, a lack of apprenticeship places and insufficient basic skills such as literacy and numeracy. Furthermore, lengthy study periods at tertiary level have long been a characteristic of the Danish higher education system. The relatively poor performance of the education system is arguably one of the factors contributing to weak productivity growth.

In 2012, a country-specific recommendation given to Denmark addressed the need to improve the cost-effectiveness of the education system. The authorities have set ambitious targets and implemented plans that partly address the challenges faced by its education system. The government is planning general reforms of the compulsory (primary and lower secondary education) and upper secondary and tertiary education system, with the aim of improving cost-effectiveness, enhancing quality and decreasing the number of drop-outs. In December 2012, the Danish government proposed a reform of the public school system (*folkeskolen*) aiming at increasing the number of hours students spend in school and at more practical training, activity-based education and improving basic skills.The proposal is still under negotiation in the parliament, with a view to implement the reform in the school year 2014-15. As regards vocational education and training (VET), the budget for 2012 provided funding for 10.400 additional apprenticeship places and created 1 500 extra in-school training places. There is a political agreement to improve quality in vocational training and strengthen the 'education guarantee' (ensure the apprenticeship places). In addition, as part of the 2013 budget, a political agreement was reached on increasing the use of social clauses on training and apprenticeships in public procurement. Moreover, reforms are in preparation and the Expert Committee on Vocational Youth Education (formed by representatives of the government, municipalities, regions and social partners) is due to make its final proposals before summer of 2013 in order to find a solution to the continuing problem of a lack of private apprenticeships and high drop-out rates. The reform should also strengthen the role of guidance centres and trade committees and support high-quality and attractive upper secondary VET. Additional recent measures, including the recently announced reform of the students allowance scheme, should accelerate the throughput of students. Under this reform, receipt of student allowances will become more dependent on academic progress. For 2013, in order to address youth unemployment, the government has proposed a new package stimulating job rotation, apprenticeships and vocational education.

Some progress has been made in addressing the country-specific recommendation on the education system. While the measures adopted so far go in the right direction, but the reform of public school system is still at an early stage stage and its implementation will need close monitoring. Lasting and ambitious solutions are needed to remedy the lack of places for apprenticeships, to address the high drop-out rates in the vocational youth educational system and to improve thecareer guidance system.

1.6. Structural measures promoting growth and competitiveness

Spurring growth and competitiveness remains a key challenge for Denmark. In order to boost Denmark's external competitiveness educational outcomes need to improve and obstacles to competition need to be removed. The findings of the Productivity Commission, expected by the end of 2013, will be central to a more comprehensive policy agenda. A continued focus on wage moderation and productivity growth, resulting in further improvements to cost competitiveness, should limit and reverse the trend of declining export market shares of goods.

Internal market, liberalisation and competition

In 2012 the Council recommendation for Denmark contained a CSR on competition policy and the need to remove related obstacles. Structural features, such its small market size and large public sector, influence the conditions for competition in the Danish economy. Despite the efforts already made to improve the functioning of the regulatory framework, for instance by loosening the restrictions on shop opening hours, evidence suggests that there are still obstacles to efficient competition in several areas of the economy.[15]

Weak domestic competition is resulting in high mark-ups of services and goods prices According to an analysis made by the Danish Competition Authority[16], prices in Denmark are about 14 % higher for services and 5 % higher for goods compared to an average of sevencomparable EU countries[17], and a substantial part of this difference would be due to weak competition. Services stand out as the main challenge, as they are often less tradable than goods and frequently subject to specific regulation. According to the Danish Competition Authority, this is the case in the construction and the retail sector, and these two sectors have shown poor productivity developments over the past decade. The preliminary findings from the Danish Productivity Commission are identify the service sector as a potential area for improvement. Although Denmark has transposed the Services Directive, some restrictions remain for cross-border service providers. However, challenges also remain for the goods sector. For instance, EU firms who have already passed the internal market requirements may encounter additional specifically Danish technical requirements, which may constitute entry barriers to the Danish market[18]. While Denmark generally complies well with internal market rules, including the service directive, it should be able to generate additional growth by removing further obstacles to competition. A liberalisation of planning and zoning restrictions could for example boost competition in the retail sector..

The Danish government launched a 'competition package' in October 2012, which sets out to improve competition in Denmark through three broad channels: the competition law, sectorial issues (notably non-tradable services) and measures to increase the effectiveness of public services. In December 2012, the Danish government amended the Competition act, which included a significant increase in the level of fines for undertakings and natural persons and made it possible to significantly increase the level of fines for businesses and individuals and impose custodial penalties on individuals participating in cartels. The new legislation is expected to improve competition and enhance compliance with international standards. The government has also appointed a Productivity Commission to come up with recommendations (by the end of 2013) on how to increase productivity in the Danish economy and created

[15] See for instance European Commission: 'The Industrial Performance Scoreboard 2012'.
[16] See competition and consumer report 2011 from the Danish Competition and Consumer Authority.
[17] Corrected for differences in VAT, excise duties and levels of prosperity.
[18] According to a recent Conference held by The Association of Danish Industry and the European Commission on the topic of obstacles in the internal market

business-government task forces (Growth Teams) to make policy recommendations in specific areas, such as better regulation, public-private partnerships, attracting foreign direct investment, export promotion and branding.

Improving competition in several regulated services through sectorial measures requires continued efforts. In 2011, the Competition Authority and the government launched a number of initiatives to improve the regulation of services[19] and the competition package from 2012 sets out additional sectorial projects[20]. Furthermore, the Competition Authority is planning to present sectorial strategies for 10-15 priority sectors in Denmark. Some additional useful steps have been taken, including a review of consumer policies from August 2012 containing proposed 23 proposals for initiatives to make it easier for consumers to make active choices.

The public sector in Denmark is relatively large and the effectiveness of the provision of public services is thus of high importance to the overall economic performance of the country. Although, Denmark's public sector is generally well managed, further improvements in performance could generate relatively large benefits. According to the notices of contracts awarded published in Tenders Electronic Daily (TED), local and regional authorities published slightly more procurement contracts as a percentage of the national total than their counterparts in the EU (52 % against 44 % in on average 2006-2011). A report from the Danish Competition Authority on competition in the public sector from December 2012 indicates that the greatest potential for further opening up to competition is within the health area, which is administered by the regional authorities. For local authorities, the social area represents the largest potential for open procurement. As the procurement performance of local authorities differs widely, there appears to be room for improvement at some authorities. Studies by the Danish Procurement Council show that public procurers find the procurement rules too difficult to apply and that complaint cases can impose large costs on procurers. Therefore, the government is planning to introduce a new legislation on public procurement, which will also implement the new EU directives in this area while emphasising effective, simple and more flexible rules and a more effective complaint system. The government also intends to inform procurers better about the procedures to be followed.

To address the broader competitiveness challenge, a 'Growth Plan' has been agreed, the aim of which is to create new jobs by 2020, primarily by cutting costs for businesses, has been agreed. Its main features are a gradual reduction of the corporate tax rate (from 25 % to 22 %), lower excise duties on energy and packaging, reintroduction of tax credits for construction works in private homes, lower costs on waste water, increased public investment and investment in rural regions. According to the government, the plan is to be fully financed and will not jeopardise the objectives of the government's budget policy. Nevertheless, the actual effect of the package remains to be seen. Some additional useful steps have been taken by the government to increase competition, including a review of consumer policies from August 2012 containing proposed 23 initiatives to make it easier for consumer to make active choice.

The analysis leads to the overall sconclusion that some progress has been made with regard to CSR 4. The effectiveness of measures taken by the government, notably in the sectorial and public services area, remains to be seen. Various policy initiatives are still at a

[19] Such as construction, telecommunications, electricity, postal services, taxi services and pharmacies.

[20] In the field of TV-distribution, pharmacies, dentists, the retail sector, construction, energy, waste, financial services, real estate agents, local train services, taxi services, etc.

very early stage of implementation and continued efforts are needed to ensure effective implementation.

Research and innovation

In December 2012, Denmark launched a strategy to boost innovation. The innovation environment for firms in Denmark is favourable and compares well with its European peers. Denmark achieved its R&D investment target of 3 % already in 2009. However, in some areas, Denmark lags behind other innovation leaders, in particular in private funding for innovation, in some aspects of entrepreneurship, in cooperation between universities and business and in the intensity of local competition. The country may face growing challenges to maintain its leading position in the global competition in the field of environmental technologies. To tackle these challenges, Denmark has recently launched reforms and initiatives to boost innovation and has adopted a new comprehensive innovation strategy. Given the low productivity growth in Denmark and the need to shift to broader innovation activity in firms, Denmark would benefit from combining the strategic focus of its innovation policy with effective public investments in R&D.

Energy, climate and environment

Regarding energy efficiency, Denmark continues to slowly decrease its primary energy consumption. Transport and household energy consumption are by far the largest final consumption sectors. The public sector is fulfilling an exemplary role by reducing the energy consumption in national administration buildings. The Danish Energy Agency assesses and publishes the government institutions' energy consumption and presents it to the Energy Committee of the Danish parliament. This monitoring should be aligned with the requirements put forward by the Energy Efficiency Directive. The national energy saving obligation scheme is currently being revised.

Under the Europe 2020 Strategy, Denmark has to reduce its carbon emissions not covered by the EU Emissions Trading Scheme by 20 % in 2020 compared to 2005. Domestically, the government has pledged to reduce all carbon emissions by 40% in 2020. According to the latest national projections,[21] Denmark is expected to reduce its non-ETS greenhouse gas emissions by 2 2%, which would meet the 2020 target. A climate plan is expected to be published in spring 2013, with the required legislation scheduled for late 2013. The plan is expected to set out the strategy to achieve the target of the 40 % emissions reductions by 2020.[22] Non-ETS emissions were 7.2 % below the 2005 level in 2011.

Currently energy labelling of buildings and support schemes for household wind turbines are being implemented, but the challenge remains to further reduce emissions in the energy sector. In the transport sector, since vehicle and fuel taxation appear to be the highest in the EU (1.5 % of GDP), further emissions reductions should come through shifts to the use of public transport modes and towards taxing actual transport use. Earlier plans to introduce green road pricing for cars have been scrapped, and a dedicated commission is

[21] Source: European Environmental Agency: *Greenhouse gas emission trends and projections in Europe 2012 — Tracking progress towards Kyoto and 2020 targets*, http://www.eea.europa.eu/publications/ghg-trends-and-projections-2012.

[22] http://www.kemin.dk/da-DK/KLIMAOGENERGIOGBYGNINGSPOLITIK/danmark/reduktionafdrivhusgasser/Maalsaetninger_og_rammer/Sider/Forside.aspx.

currently working on proposals for the reduction of congestion and pollution in and around Copenhagen. Greenhouse gas emissions from agriculture have not fallen since 2005 and their share in total emissions is rising. The Nature and Agriculture Commission was set up in mid-2012 and is due to report by April 2013 on recommendations and measures for structural change in this sector.

As set out in the National Energy Agreement for 2012-20, measures should be taken to drive the change towards 100 % renewable energy in 2050. As of 2010 (latest available data), Denmark's share of renewables in energy consumption stood at 21.8 %. Meeting its national renewable energy sources target of 30 % in 2020 would require developing a consistent, stable and predictable renewable energy policy, including further implementation of the Danish national renewable energy action plan. Moreover, particular attention is needed to ensure the supply of intelligent demand solutions and investment in electricity grids as Denmark is expected to have more than 50 % renewable electricity by 2020.

There is further room for Denmark to step up efforts to address key challenges within the broader context of resource efficiency. The amount of municipal waste generated in Denmark is the highest in the EU, and the country has the highest proportion of incinerated waste (54 %). Reducing waste generation would improve the resource efficiency of the Danish economy. Denmark is a leading exporter of environmental solutions and technology and a number of sectors have high potential for future eco-innovations and resource efficiency, including industry, shipping, bio-technology and water technology.

1.7. Modernisation of public administration

It is widely recognised that the Danish public administration system performs well, when compared with other countries. Composite indicators regarding government effectiveness, corruption and fraud, business start and licenses, public procurement, tax compliance and administration, and civil justice are above the EU average.[23] However, regarding the efficiency of the public sector, the burden for firms in participating in public procurement competitions, both in terms of costs (relative to GDP) and of person-days needed, Denmark is above the EU average. In addition, regarding civil justice, there is room to improve the indicator on the costs (expressed as percentage of the claim) of contract disputes: court costs, enforcement costs and average attorney fees.

Regarding the public administration modernisation, the indicators tracking the availability of e-government services and the use of evidence-based instruments are above the EU-average. This is due to the spread of ICT applications, modern human resources management techniques and evidence-based steering and planning instruments. Denmark's NEM-ID system which is a common portal giving secure access to electronic public services and banking services is a good practice. Among the most recent initiatives, registering a property was made easier by allowing the electronic submission of property transfer applications at the land registry. However, e-health including patients e-records is an area where further progress is required.

[23] European Commission (2011-2012), "Excellence in public administration for competitiveness in EU Member States"

4. OVERVIEW TABLE

2012 commitments	Summary assessment
Country-specific recommendations (CSRs)	
CSR 1: 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. Thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards the MTO, including meeting the expenditure benchmark.	Significant progress - The 2013 budget aims to achieve a budget deficit of 2½ % in 2013 and 2¾ % in 2014. - 2020 plan includes MTO of max. 0.5 % structural deficit by 2020. - Budget law implements provisions of fiscal compact and sets expenditure ceiling at the central, municipal and regional level.
CSR 2: 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 a migrant background.	Significant progress - Tax reform from spring 2012 lowers taxes on earned income. - Reform of disability pension and the 'flex-job' system by creating rehabilitation teams and setting the minimum age of 40 to access the disability pension and 'flex-job' scheme. - 'Acute package' aims to create job opportunities for the long-term unemployed. - Reform of the social assistance scheme [also under CSR3] proposed by the government.
CSR 3: 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.	Some progress - The 2013 budget provides additional DKK 2.9 billion [€ 0.4 billion] for education and vocational training. - An expert committee is working on proposals (planned for spring 2013) to strengthen the quality of youth vocational education, create additional apprenticeships and provide a well-functioning youth education guarantee

	- The new youth reform package includes instruments to support weak students in the youth education system. - Planned reform of the public school system increases the number of hours students spend in school (6-15 years old). - In February, the government presented proposal to reform the student allowance system. - The new innovation strategy also coverss education measures
CSR 4: 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 have a sufficiently deterrent effect.	Some progress A Productivity Commission has been appointed with the task of advising the government by the end of 2013 on ways to increase competitiveness. - The government has updated the Competition act introducing more deterrent penalties under competition law, with higher fines and the possibility of custodial sentences. Refer also to the two other pillars of the Competition plan - Regarding the removal of obstacles to competition in the retail sector, the Danish law on opening hours expired and shop owners can open shops when they want. However, some restrictions remain in retail services sector and competitive bottlenecks in the provision of local public services still persist.
CSR 5: 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 tax system and the municipal land value tax system.	Some progress - The study on the distribution of assets and liabilities across households was published by the Ministry of Business and Growth in January. According to its results, household debt does not constitute a great risk to the economy as debt is concentrated in households with the highest income, which are robust to deal with interest rate hikes. - The government has implemented a ‘traffic light’ labelling scheme that labels mortgage loans according to their riskiness. - The government had formalised already existing requirements for borrowers to be allowed to take up variable rate and deferred-instalment loans, only if they can afford fixed interest rate and repayment

	loans. - Although cadastral values continue to be updated every two years to reflect market values, the property value tax has been frozen in nominal terms since 2002. The government has signalled no intention to review the property value tax system.
Europe 2020 (national targets and progress)	
Employment rate target: 75 %	Employment rate 2010: 75.8 % 2011: 75.7 %
R&D target: 3 %	Denmark reached its national 3 % R&D intensity target already in 2009 (3.16 %). Its ambition can thus be questioned. Since 2010 R&D intensity has remained at slightly above 3 % (2010:3.07 %, 2011: 3.09 %). In 2011 business R&D expenditure represented 2.09 % of GDP (national target: 2 %), public spending 0.99 % of GDP (target 1 %). Denmark has hence also reached the targets for public and private sector R&D spending, despite a slight decline in business research intensity in recent years.
Greenhouse gas (GHG) emissions target: -20 % (compared to 2005 emissions, ETS emissions not covered by this national target)	Change in non-ETS greenhouse gas emissions between 2005 and 2011: -7.2 % According to the latest national projections submitted to the Commission and when existing measures are taken into account, the target is expected to be met: -22 % in 2020 compared to 2005
Renewable energy target: 30 % Share of renewable energy in the transport sector: 10 %	Share of renewable energy in gross final energy consumption was 23.1% in 2011 and 0.2 % in transport. (Source: Eurostat April 2013. Only formally reported compliant biofuels with Art. 17 and 18 of Directive 2009/28/EC are included).
Indicative national energy efficiency target for 2020: primary energy consumption of 744.4 PJ (17.781 Mtoe) in 2020. This implies reaching a 2020 level of 17.8 Mtoe primary consumption and 14.8 Mtoe final energy consumption.	Denmark has set an indicative national energy efficiency target in accordance with Articles 3 and 24 of the Energy Efficiency Directive (2012/27/EU). It is also expressed in terms of an absolute level of primary and final energy consumption in 2020 and has provided information on the basis on which data this has been calculated.
Early school leaving target: <10 % (Less than 10 per cent school drop-out rates of the population aged 18-24)	Early school leaving rate: 2010: 11.0 % 2011: 9.6 %

	The EU target has already been achieved. Slight increase compared to 2006: 9.1 %
Tertiary education target: >40 % (At least 40 per cent of the population aged 30-34 having completed tertiary)	Tertiary attainment rate: 2010: 41.2 % 2011: 41.2 % The EU target has already been achieved. Slight decrease compared to 2006: 43 %
Target on the reduction of population at risk of poverty or social exclusion in number of persons: For DK: Reduce the number of people in households with low work intensity by 22,000 towards 2020.	Number of people in households with low work intensity: 2010: 433.000 persons

5. ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2009	2010	2011	2012	2013	2014
Core indicators								
GDP growth rate	2.8	1.5	0.2	1.6	1.1	-0.5	0.7	1.7
Output gap [1]	0.8	1.0	1.3	-3.8	-3.5	-4.5	-4.6	-4.0
HICP (annual % change)	1.9	2.1	2.0	2.2	2.7	2.4	1.1	1.6
Domestic demand (annual % change) [2]	2.9	1.9	0.6	1.6	0.3	0.3	1.3	1.3
Unemployment rate (% of labour force) [3]	5.7	4.9	4.4	7.5	7.6	7.5	7.7	7.6
Gross fixed capital formation (% of GDP)	19.4	19.6	20.4	16.9	17.2	17.5	17.7	17.4
Gross national saving (% of GDP)	21.0	23.1	24.2	22.7	23.2	22.8	22.4	22.5
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-0.9**	**1.3**	**3.2**	**-2.5**	**-1.8**	**-4.0**	**-1.7**	**-2.7**
Gross debt	**65.4**	**48.8**	**34.2**	**42.7**	**46.4**	**45.8**	**45.0**	**46.4**
Net financial assets	**-32.5**	**-18.9**	**0.4**	**1.6**	**-3.3**	**n.a**	**n.a**	**n.a**
Total revenue	56.5	55.5	56.0	55.0	55.7	55.5	56.1	54.1
Total expenditure	57.3	54.3	52.9	57.5	57.5	59.5	57.8	56.8
of which: Interest	5.0	3.0	1.7	1.7	1.8	1.6	1.6	1.6
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**3.6**	**2.8**	**3.2**	**9.3**	**9.2**	**9.8**	**9.7**	**10.4**
Net financial assets; non-financial corporations	**-60.3**	**-61.6**	**-85.9**	**-101.0**	**-88.6**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-2.9**	**-6.1**	**-9.8**	**0.3**	**2.5**	**n.a**	**n.a**	**n.a**
Gross capital formation	13.5	13.5	13.2	10.1	10.6	10.5	10.7	10.5
Gross operating surplus	20.1	20.6	19.9	20.8	20.7	21.4	22.0	23.0
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**-1.8**	**-1.1**	**-3.2**	**-0.7**	**-1.4**	**-0.3**	**-3.0**	**-1.9**
Net financial assets	**73.3**	**73.2**	**94.3**	**109.1**	**113.8**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	49.5	49.6	50.0	50.1	49.8	49.6	49.3	48.8
Net property income	1.6	1.2	1.2	1.0	1.0	1.3	1.8	1.8
Current transfers received	22.0	21.3	21.1	22.8	23.1	23.7	23.6	23.6
Gross saving	3.2	4.1	2.8	3.5	3.5	2.6	1.6	2.7
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**0.9**	**2.7**	**3.0**	**5.9**	**5.9**	**5.3**	**4.6**	**5.3**
Net financial assets	**22.9**	**13.9**	**1.8**	**-8.3**	**-22.6**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	4.0	5.9	3.5	5.6	5.2	4.4	3.9	4.3
Net primary income from the rest of the world	-1.1	-1.0	1.5	2.3	2.4	3.0	3.1	3.1
Net capital transactions	0.1	0.0	0.0	0.0	0.3	0.1	0.0	0.3
Tradable sector	40.8	40.2	37.9	37.0	36.4	36.1	n.a	n.a
Non tradable sector	44.8	45.5	47.2	49.1	49.6	49.8	n.a	n.a
of which: Building and construction sector	4.3	4.5	4.8	3.8	4.1	4.0	n.a	n.a
Real effective exchange rate (index, 2000=100)	93.4	93.8	106.3	109.3	107.6	104.0	104.3	103.6
Terms of trade goods and services (index, 2000=100)	93.5	96.1	100.1	103.9	101.4	101.2	101.3	101.3
Market performance of exports (index, 2000=100)	103.7	104.0	99.2	94.3	95.8	95.9	95.5	95.1

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source:

Commission services' 2013 spring forecasts (COM); Convergence programme (CP).

Table II. Comparison of macroeconomic developments and forecasts

	2012		2013		2014		2015	2016
	COM	**CP**	**COM**	**CP**	**COM**	**CP**	**CP**	**CP**
Real GDP (% change)	-0.5	-0.5	0.7	0.7	1.7	1.6	1.7	2.4
Private consumption (% change)	0.6	0.6	0.8	0.5	1.8	1.2	2.0	2.5
Gross fixed capital formation (% change)	1.4	2.2	2.5	3.3	0.7	1.9	2.7	6.1
Exports of goods and services (% change)	0.9	0.9	1.1	1.0	4.3	3.7	6.8	5.8
Imports of goods and services (% change)	2.5	2.5	2.2	2.0	3.7	3.3	7.1	6.5
Contributions to real GDP growth:								
- Final domestic demand	0.6	n.a.	1.2	n.a.	1.2	n.a.	n.a.	n.a.
- Change in inventories	-0.3	n.a.	0.1	n.a.	0.0	n.a.	n.a.	n.a.
- Net exports	-0.8	n.a.	-0.5	n.a.	0.5	n.a.	n.a.	n.a.
Output gap[1]	-4.5	-4.4	-4.6	-4.3	-4.0	-3.4	-2.5	-1.2
Employment (% change)	-0.5	-0.3	-0.2	-0.1	0.3	0.4	0.6	0.9
Unemployment rate (%)	7.5	7.7	7.7	7.6	7.6	7.3	6.9	6.4
Labour productivity (% change)	0.0	-0.2	0.9	0.8	1.4	1.2	1.1	1.4
HICP inflation (%)	2.4	2.4	1.1	1.1	1.6	1.5	1.8	1.7
GDP deflator (% change)	2.1	2.1	1.4	1.2	1.6	1.5	1.5	1.7
Comp. of employees (per head, % change)	1.2	1.0	1.4	1.6	2.1	2.0	2.2	2.4
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	5.3	5.2	4.6	4.7	5.3	5.0	5.3	4.8

Note:

[1] In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Commission services' 2013 spring forecasts (COM); Convergence programme (CP).

Table III. Composition of budgetary adjustment

(% of GDP)	2012	2013		2014		2015	2016	Change: 2012-2016
	COM	COM	CP	COM[1]	CP	CP	CP	CP
Revenue	**55.5**	**56.1**	**55.0**	**54.1**	**54.1**	**52.0**	**51.9**	**-3.6**
of which:								
- Taxes on production and imports	16.8	16.9	16.9	16.6	16.7	16.9	17.0	0.2
- Current taxes on income, wealth, etc.	30.4	31.4	31.4	30.1	30.8	28.8	28.7	-1.7
- Social contributions	1.9	1.6	0.9	1.4	0.9	0.9	0.8	-1.1
- Other (residual)	6.5	6.2	5.8	6.0	5.7	5.4	5.4	-1.1
Expenditure	**59.5**	**57.8**	**56.5**	**56.8**	**55.8**	**54.8**	**53.9**	**-5.6**
of which:								
- Primary expenditure	57.8	56.2	54.8	55.3	54.1	53.2	52.3	-5.5
of which:								
Compensation of employees	18.4	18.4	18.2	18.2	17.9	17.7	17.5	-0.9
Intermediate consumption	10.0	10.0	10.0	9.9	10.0	9.9	9.9	-0.1
Social payments	18.9	19.0	19.5	18.9	19.3	19.2	18.8	-0.1
Subsidies	2.6	2.7	2.7	2.6	2.6	2.6	2.5	-0.1
Gross fixed capital formation	2.5	2.3	2.2	2.1	2.2	2.0	2.0	-0.5
Other (residual)	5.5	3.9	2.2	3.6	2.1	1.8	1.8	-3.7
- Interest expenditure	1.6	1.6	1.7	1.6	1.7	1.6	1.6	0.0
General government balance (GGB)	**-4.0**	**-1.7**	**-1.6**	**-2.7**	**-1.7**	**-2.8**	**-2.0**	**2.0**
Primary balance	**-2.4**	**-0.1**	**0.2**	**-1.2**	**0.0**	**-1.2**	**-0.4**	**2.0**
One-off and other temporary measures	-1.6	1.1	0.7	0.0	0.3	-0.9	-0.7	0.9
GGB excl. one-offs	**-2.4**	**-2.8**	**-2.3**	**-2.7**	**-2.0**	**-1.9**	**-1.3**	**1.1**
Output gap[2]	-4.5	-4.6	-4.3	-4.0	-3.4	-2.5	-1.2	3.3
Cyclically-adjusted balance[2]	-1.2	1.1	1.0	-0.3	0.4	-1.3	-1.2	0.0
Structural balance (SB)[3]	**0.3**	**0.0**	**0.3**	**-0.3**	**0.1**	**-0.4**	**-0.5**	**-0.9**
Change in SB	*0.1*	*-0.3*	*-0.1*	*-0.3*	*-0.2*	*-0.4*	*-0.2*	-
Two year average change in SB	*0.3*	*-0.1*	*0.0*	*-0.3*	*-0.1*	*-0.3*	*-0.3*	-
Structural primary balance[3]	2.0	1.6	2.0	1.3	1.8	1.2	1.1	-0.9
Change in structural primary balance		*-0.4*	*0.0*	*-0.3*	*-0.2*	*-0.5*	*-0.2*	-
Expenditure benchmark								
Applicable reference rate[4]	0.86	0.86	0.86	1.12	1.12	1.12	1.12	-
Deviation[5] (% GDP)	0.6	-1.9	-1.9	0.4	-0.2	-0.3	-0.3	-
Two-year average deviation (% GDP)	0.0	-0.6	-1.4	-0.8	-1.0	-0.3	-0.3	-

Notes*:*

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

[3]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

[4] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t.The reference rates applicable to 2014 onwards have been updated in 2013.

[5] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A positive sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Convergence programme (CP); Commission services' 2013 spring forecasts (COM); Commission services' calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2007-2011	2012	2013		2014		2015	2016
			COM	CP	COM	CP	CP	CP
Gross debt ratio[1]	**38.1**	**45.8**	**45.0**	**44.0**	**46.4**	**42.4**	**43.5**	**43.8**
Change in the ratio	2.9	-0.6	-0.8	-1.8	1.4	-1.6	1.1	0.3
Contributions[2] *:*								
1. Primary balance	**-1.8**	**2.4**	**0.1**	**-0.2**	**1.2**	**0.0**	**1.2**	**0.4**
2. "Snow-ball" effect	**1.0**	**1.0**	**0.6**	**0.9**	**0.1**	**0.3**	**0.3**	**-0.1**
Of which:								
Interest expenditure	1.6	1.6	1.6	1.8	1.6	1.7	1.6	1.6
Growth effect	0.1	0.2	-0.3	-0.3	-0.7	-0.7	-0.7	-1.0
Inflation effect	-0.8	-0.9	-0.7	-0.6	-0.7	-0.7	-0.6	-0.7
3. Stock-flow adjustment	**3.7**	**-3.9**	**-1.5**	**-2.5**	**0.2**	**-1.9**	**-0.3**	**0.0**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

	2012	2013		2014		2015	2016
		COM / CP[3]	CP[4]	COM / CP[3]	CP[4]	CP	CP
Gap to the debt benchmark[5,6]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
Structural adjustment[7]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
To be compared to:							
Required adjustment[8]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

[3] Assessment of the consolidation path set in CP assuming growth follows the COM forecasts.

[4]Assessment of the consolidation path set in the CP assuming growth follows the CP projections.

[5]Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[6]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[7]Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[8]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP) budgetary projections for the previous years are achieved.

Source :

Convergence programme (CP); Commission services' spring 2013 forecasts (COM); Commission services' calculations.

Table V. Sustainability indicators

	DK		EU27	
	No-policy change scenario	**Programme (SCP) scenario**	**No-policy change scenario**	**Programme (SCP) scenario**
S2	1.7	2.0	3.0	1.3
of which:				
Initial budgetary position (IBP)	0.1	0.3	0.8	-0.9
Long-term cost of ageing (CoA)	1.6	1.7	2.2	2.2
of which:				
Pensions	-1.3	-1.2	1.0	1.1
Health care	0.7	0.6	0.9	0.8
Long-term care	2.6	2.6	0.6	0.6
Others	-0.3	-0.3	-0.4	-0.3
S1 (required adjustment)*	-2.5	-2.3	2.2	0.5
of which:				
Initial budgetary position (IBP)	-1.8	-1.4	0.0	-1.8
Debt requirement (DR)	-0.8	-1.1	1.9	1.9
Long-term cost of ageing (CoA)	0.1	0.2	0.3	0.4
S0 (risk for fiscal stress)**	0.24		:	
Debt, % of GDP (2012)	45.7		87.0	
Age-related expenditure, % of GDP (2012)	30.4		25.8	

Note:
The 'No-policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the Commissions' spring 2013 forecast until 2014. The 'Programme (SCP)' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented.
* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.
** The critical threshold for the S0 indicator is 0.44.

Source :
Commission services; 2013 stability programme.

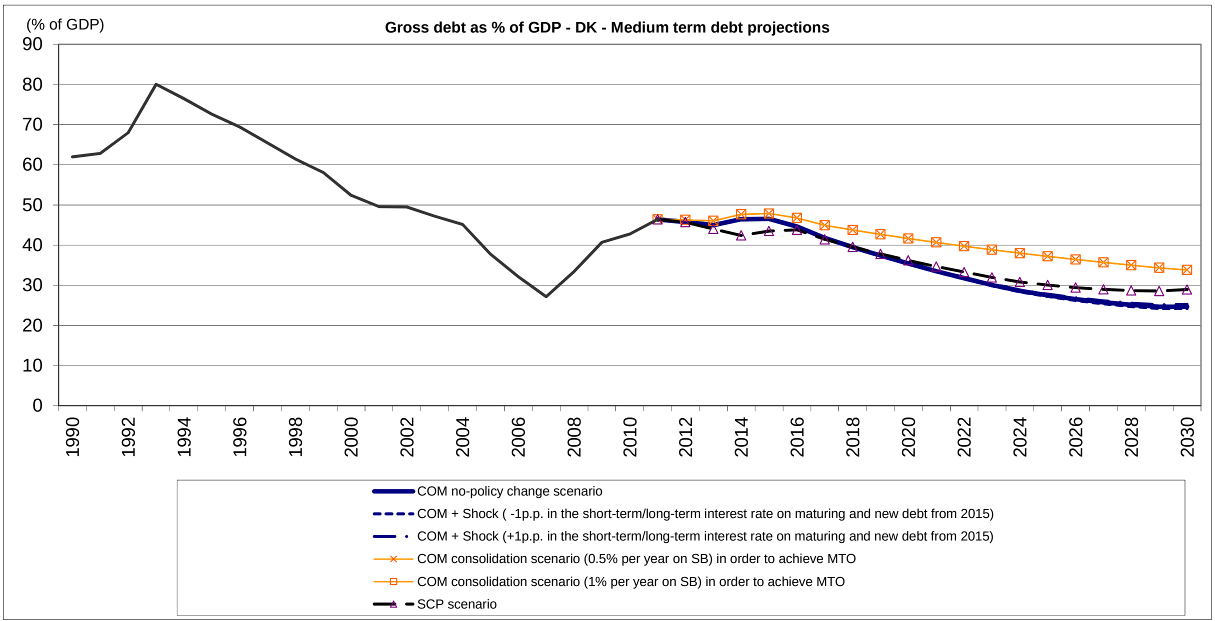

Table VI. Taxation indicators

	2002	2006	2008	2009	2010	2011
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	47.9	49.6	47.8	47.8	47.4	47.7
Breakdown by economic function (% of GDP)[1]						
Consumption	15.8	16.3	15.4	15.2	14.9	15.1
of which:						
- VAT	9.6	10.3	10.1	10.2	9.8	9.9
- excise duties on tobacco and alcohol	0.9	0.7	0.6	0.6	0.6	0.6
- energy	2.6	2.2	2.1	2.2	2.3	2.3
- other (residual)	2.7	3.1	2.6	2.2	2.2	2.2
Labour employed	21.2	19.9	20.6	20.6	19.4	19.3
Labour non-employed	4.9	4.7	4.8	6.4	5.0	5.1
Capital and business income	3.5	6.2	4.2	2.9	5.4	5.6
Stocks of capital/wealth	2.7	2.7	2.9	2.9	2.8	2.8
p.m. Environmental taxes[2]	4.8	4.8	4.2	4.0	4.0	4.1
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	60.2	64.7	62.4	59.2	58.3	59.0

Note:

1 Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2013) Taxation trends in the European Union, for a more detailed explanation.

2 This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.

3 The VAT efficiency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2012), Tax reforms in EU Member States, European Economy 6/2012 and Taxation Papers 34/2012 for a more detailed explanation.

Source: Commission

Table VII. Financial market indicators

	2008	2009	2010	2011	2012
Total assets of the banking sector (% of GDP)	464.0	494.2	481.3	476.1	475.8
Share of assets of the five largest banks (% of total assets)	66.0	64.0	64.4	66.3	…
Foreign ownership of banking system (% of total assets)	17.6	19.9	…	…	…
Financial soundness indicators:					
- non-performing loans (% of total loans)[1)]	1.2	3.3	4.1	3.7	4.2
- capital adequacy ratio (%)[2)]	12.4	16.1	16.0	17.2	17.9
- return on equity (%)[1), 3)]	7.0	-3.2	0.0	-0.6	1.0
Bank loans to the private sector (year-on-year % change)	11.1	-1.9	1.2	-1.3	-0.4
Lending for house purchase (year-on-year % change)	5.9	5.2	2.5	1.9	1.2
Loan to deposit ratio	308.2	301.1	307.9	306.2	295.5
CB liquidity as % of liabilities	5.5	1.9	0.6	0.9	1.4
Banks' exposure to countries receiving official financial assistance (% of GDP)[4)]	10.0	7.6	6.4	5.7	4.8
Private debt (% of GDP)	218.4	226.7	217.4	211.5	…
Gross external debt (% of GDP)[5)]					
- Public	13.8	16.0	16.0	21.1	22.9
- Private	41.7	47.0	47.1	43.9	44.3
Long term interest rates spread versus Bund (basis points)*	0.3	0.4	0.2	0.1	-0.1
Credit default swap spreads for sovereign securities (5-year)*	116.3	58.1	29.0	64.0	80.5

Notes:

[1)] Latest data (September 2012).

[2)] Latest data (March 2012).

[3)] Tier 1 capital.

[4)] Covered countries are CY, EL, ES, LV, HU, IE, PT and RO.

[5)] Latest data 2012Q3.

* Measured in basis points.

Source :

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VIII. Labour market and social indicators

Labour market indicators	2007	2008	2009	2010	2011	2012
Employment rate (% of population aged 20-64)	79.0	79.7	77.5	75.8	75.7	75.4
Employment growth (% change from previous year)	2.8	1.7	-2.3	-2.3	-0.4	-0.5
Employment rate of women (% of female population aged 20-64)	74.7	75.5	74.5	73.0	72.4	72.2
Employment rate of men (% of male population aged 20-64)	83.2	83.9	80.5	78.6	79.0	78.6
Employment rate of older workers (% of population aged 55-64)	58.9	58.4	58.2	58.4	59.5	60.9
Part-time employment (% of total employment, 15 years and more)	23.7	24.4	25.9	26.3	25.9	25.7
Part-time employment of women (% of women employment, 15 years and more)	35.5	36.0	37.5	38.4	37.6	36.4
Part-time employment of men (% of men employment, 15 years and more)	13.3	14.3	15.3	15.1	15.3	16.0
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	9.1	8.5	8.7	8.4	8.8	8.5
Transitions from temporary to permanent employment	:	:	:	:	4.1	:
Unemployment rate1 (% of labour force, age group 15-74)	3.8	3.4	6.0	7.5	7.6	7.6
Long-term unemployment rate2 (% of labour force)	0.6	0.5	0.6	1.5	1.8	2.1
Youth unemployment rate (% of youth labour force aged 15-24)	7.5	8.0	11.8	14.0	14.2	14.2
Youth NEET rate (% of population aged 15-24)	4.3	4.3	5.4	6.0	6.3	6.6
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	12.9	12.5	11.3	11.0	9.6	9.1
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	38.1	39.2	40.7	41.2	41.2	43.0
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	7.0	8.0	10.0	10.0	5.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	63.0	65.0	63.0	68.0	69.0	:
Labour productivity per person employed (annual % change)	-1.1	-2.4	-3.4	3.9	1.5	-0.1
Hours worked per person employed (annual % change)	-1.0	0.0	-1.6	0.1	0.2	-0.2
Labour productivity per hour worked (annual % change; constant prices)	-0.2	-2.5	-1.8	3.9	1.3	0.0
Compensation per employee (annual % change; constant prices)	1.3	-0.7	1.7	-1.4	0.9	-0.2
Nominal unit labour cost growth (annual % change)	4.8	6.1	5.9	-1.2	0.1	1.8
Real unit labour cost growth (annual % change)	2.4	1.8	5.2	-5.1	-0.6	-0.2

Notes:

[1] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed.

[2] Long-term unemployed are unemployed persons for at least 12 months.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	2006	2007	2008	2009	2010
Sickness/Health care	6.14	6.44	6.67	7.52	7.30
Invalidity	4.24	4.20	4.35	4.88	4.81
Old age and survivors	10.78	10.67	11.00	12.01	12.22
Family/Children	3.74	3.67	3.77	4.17	4.03
Unemployment	2.05	1.58	1.39	2.13	2.43
Housing and Social exclusion n.e.c.	0.66	0.69	0.70	0.75	0.75
Total	28.45	27.99	28.64	32.31	32.41
of which: means tested benefits	0.85	0.89	0.91	0.99	0.99
Social inclusion indicators	**2007**	**2008**	**2009**	**2010**	**2011**
At-risk-of-poverty or social exclusion[1] (% of total population)	16.8	16.3	17.6	18.3	18.9
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	14.2	12.7	14.0	15.1	16.0
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	18.3	18.6	20.6	18.4	16.6
At-Risk-of-Poverty rate[2] (% of total population)	11.7	11.8	13.1	13.3	13.0
Severe Material Deprivation[3] (% of total population)	3.3	2.0	2.3	2.7	2.6
Share of people living in low work intensity households[4] (% of people aged 0-59)	9.9	8.3	8.5	10.3	11.4
In-work at-risk-of poverty rate (% of persons employed)	4.2	5.1	5.9	6.6	6.4
Impact of social transfers (excluding pensions) on reducing poverty	56.8	57.6	58.0	54.3	54.2
Poverty thresholds, expressed in national currency at constant prices[5]	104460	106235	106229	107694	108360
Gross disposable income (households)	770904	796214	816971	853250	878394
Relative median poverty risk gap (60% of median equivalised income, age: total)	17.0	18.0	18.4	21.6	21.4

Notes:

[1] People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate (AROP): share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.

[5] For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)

Sources:
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product market performance and policy indicators

Performance indicators	2003-2007	2008	2009	2010	2011	2012
Labour productivity[1] total economy (annual growth in %)	1.1	-2.4	-3.4	3.9	1.5	-0.1
Labour productivity[1] in manufacturing (annual growth in %)	3.4	-5.5	-3.7	11.2	4.0	4.9
Labour productivity[1] in electricity, gas, steam and air conditioning supply (annual growth in %)	-4.2	-3.7	-8.3	16.6	-14.8	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	-2.6	1.8	-0.4	-8.6	8.7	-2.6
Total number of patent[2] applications per million of labour force	397.4	426.9	438.3	461.5	n.a.	n.a.
Policy indicators	**2003-2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Enforcing contracts[3] (days)	380	380	380	410	410	410
Time to start a business[3] (days)	6	6	6	6	6	6
R&D expenditure (% of GDP)	2.5	2.9	3.2	3.1	3.1	n.a.
Tertiary educational attainment (% of 30-34 years old population)	40.8	39.2	40.7	41.2	41.2	42.8
Total public expenditure on education (% of GDP)	8.17	7.68	8.72	n.a.	n.a.	n.a.
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	1.1	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	2.9	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	1.2	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

[1] Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Total number of patent applications to the European Patent Office (EPO) per million of labour force

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

[5] Aggregate Energy, Transport and Communications Regulation (ETCR).

*figure for 2007.

Source:
Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table X. Green Growth

		2002-2006	2007	2008	2009	2010	2011
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.11	0.11	0.10	0.11	0.11	0.10
Carbon intensity	kg / €	0.38	0.35	0.33	0.33	0.33	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0.78	0.81	0.77	0.66	n.a.	n.a.
Waste intensity	kg / €	n.a.	n.a.	0.08	n.a.	0.08	n.a.
Energy balance of trade	% GDP	1.3%	1.9%	1.7%	0.8%	1.1%	0.7%
Energy weight in HICP	%	n.a.	11	11	10	11	11
Difference between change energy price and inflation	%	n.a.	-1.6	4.1	-3.8	5.1	4.5
Environmental taxes over labour taxes	ratio	19.0%	18.4%	16.5%	14.4%	16.3%	n.a.
Environmental taxes over total taxes	ratio	9.8%	9.4%	8.8%	8.2%	8.4%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.08	0.08	0.07	0.07	0.07	n.a.
Share of energy-intensive industries in the economy	% GDP	9.9	6.9	7.2	6.5	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.09	0.10	0.09	0.10	0.10
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	0.03	0.06	0.05	0.06	0.07
Public R&D for energy	% GDP	n.a.	0.02%	0.03%	0.03%	0.05%	0.05%
Public R&D for the environment	% GDP	n.a.	0.02%	0.02%	0.03%	0.02%	0.02%
Recycling rate of municipal waste	ratio	94.8%	95.0%	95.9%	96.9%	96.5%	n.a.
Share of GHG emissions covered by ETS*	%	n.a.	43.8%	41.6%	41.8%	41.3%	38.2%
Transport energy intensity	kgoe / €	n.a.	0.33	0.37	0.39	0.35	n.a.
Transport carbon intensity	kg / €	n.a.	0.85	0.95	0.99	0.90	n.a.
Security of energy supply							
Energy import dependency	%	n.a.	-24.7%	-21.7%	-20.4%	-16.9%	-8.5%
Diversification of oil import sources	HHI	n.a.	0.19	0.17	0.22	0.12	n.a.
Diversification of energy mix	HHI	n.a.	0.28	0.26	0.28	0.27	0.27
Share renewable energy in energy mix	%	n.a.	15.6%	16.8%	16.8%	19.2%	21.5%

Country-specific notes:

The year 2012 is not included in the table due to lack of data.

General explanation of the table items:

Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated below

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)

Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)

Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)

Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)

Waste intensity: waste (in kg) divided by GDP (in EUR)

Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP

Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP

Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)

Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"

Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR)

Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP

Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.

Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste

Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP

Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)

Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transp industry gross value added (2005 EUR)

Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector

Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption international bunkers

Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin

Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels

Share renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents

*Provisional data (15 April 213). Commission Services and EEA.

** For 2007 average of S1 & S2 for DE, LU, NL, FI, SE & UK. Other countries only have S2.

*** For 2007 average of S1 & S2 for IT, NL, FI, SE & UK. Other countries only have S2.