EUROPEAN COMMISSION

Brussels, 30.5.2012
SWD(2012) 304 final

COMMISSION STAFF WORKING DOCUMENT

Assessment of the 2012 national reform programme and convergence progamme for DENMARK

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

on Denmark's 2012 national reform programme and delivering a Council Opinion on Denmark's convergence programme for 2012-2015

{COM(2012) 304 final}

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EXECUTIVE SUMMARY

In 2012, the Danish economy is expected to pick up slightly as compared to 2011, with a foreseen GDP growth of 1.1%. Unemployment more than doubled from a record low of 3.4 % in 2008 to 7.6 % in 2011 and is expected to remain broadly stable in 2012 at 7.7%.

A reform of the voluntary early retirement pension scheme was adopted last year, establishing a good basis for raising the effective retirement age. In addition, an ambitious budget law was recently agreed. The government has announced a comprehensive set of reforms to raise labour supply further, improve competitiveness, and lower income taxes.

The budget deficit must be reduced to comply with the EDP recommendation and further reforms are warranted to increase the labour supply. The quality of compulsory and upper secondary education needs to be improved to tackle problems of future skills imbalances and low productivity growth. In this respect, further steps are also warranted to remove obstacles to competition. In addition, strengthening the medium-term stability of the housing market remains a challenge, partly on account of the rise in household debt and its composition on the back of the housing boom prior to the crisis.

1. INTRODUCTION

In June 2011, the Commission proposed five country specific recommendations (CSRs) for economic and structural reform policies for Denmark. On this basis, the Council of the European Union adopted five CSRs in July 2011. These recommendations concerned public finances, the pension system, the labour market, education, competition, and the housing market and financial system.

In November 2011 the Commission published its Annual Growth Survey for 2012 (AGS 2012) in which it set out its proposals for building the necessary common understanding of the priorities for action at national and EU level in 2012. It focuses on five priorities — ensuring growth-friendly fiscal consolidation, restoring normal lending to the economy, promoting growth and competitiveness, tackling unemployment and the social consequences of the crisis, and modernising the public administration — and encourages Member States to implement them in the 2012 European Semester.

Against this background, Denmark presented updates of its national reform programme and convergence programme in April 2012. These programmes detail the progress made since July 2011 and future plans. This Staff Working Document assesses the state of implementation of the 2011 CSRs as well as the AGS 2012 in Denmark, identifies current policy challenges and examines the country's latest policy plans in this context.

Overall assessment

In 2011, the Danish government deficit was kept below 3% due to extraordinary pension yield tax revenue, as was also the case in 2010. The country also managed to cut public spending as part of its consolidation strategy under the Excessive Deficit Procedure (EDP). Furthermore, the reform of the voluntary early retirement pension scheme was adopted, thus establishing a good basis for raising the effective retirement age. Moreover, an ambitious budget law was recently agreed on among the government and a majority in parliament.

The government, which came into office in October 2011, has announced a number of reforms of relevance to the CSRs on public spending, the labour market, education, competition and tax policy, most of which have not yet been implemented. Therefore, some of the Danish CSRs may only be considered partially implemented and many of the challenges identified in July 2011, and reiterated in the AGS 2012, remain valid.

Denmark continues to face challenges in the areas of public finances, labour supply, education, competition and the housing market. The budget deficit must be reduced to comply with the EDP recommendation. Reforms of the disability pension and flex-job schemes are warranted to increase the labour supply. Improving the quality of compulsory and upper secondary education would mitigate the problems of future skills imbalances, have a positive impact on the future labour supply and contribute to productivity growth. In this respect, further steps to remove obstacles to competition could also be taken, including the reinforcement of competition law. In addition, strengthening the medium-term stability of the housing market remains a challenge, partly on account of the rise in household debt and its composition on the back of the housing boom prior to the crisis.

The policy plans submitted by Denmark are relevant and credible but concrete policy action in some areas has been postponed. The possibility of liberalising the services sector is still being examined. The possibility of increasing public procurement in municipalities and regions will be dealt with in negotiations with regional and local governments in June. A survey on the risks related to the distribution of loans and assets across households is being prepared by the Ministry of Business and Growth. However, the government has announced that it will not change the property tax during the current electoral cycle. Headline targets are generally high but given Denmark's starting point, some of the required improvements towards the targets do not appear to be ambitious. However, Denmark's target to reduce greenhouse gas emissions in non-ETS (emissions trading system) sectors by 20 % by 2020 is ambitious and can only be achieved if additional policy measures are implemented.

2. ECONOMIC DEVELOPMENTS AND CHALLENGES

2.1. Recent economic developments and outlook

The partial recovery of the Danish economy in 2010 was driven predominantly by fiscal stimulus measures, export growth and the turnaround in the inventory cycle. The anticipated shift from the public to the private sector as a major growth driver has been indecisive thus far. Despite solid exports, the overall performance of the Danish economy was subdued in 2011, with GDP growth reaching only 1 %, owing in particular to consolidation efforts among households and firms in the light of the ongoing sovereign debt crisis. The sovereign debt crisis has, on the other hand, led to strong demand for the highly rated Danish mortgage bonds and government securities, resulting in low interest rates that are currently underpinning the still fragile housing market.

In 2012 and 2013, real GDP is expected to grow by 1.1 and 1.4%, respectively, driven primarily by domestic demand until the global economy gradually becomes stronger towards 2013. Export growth will be substantially lower in 2012 than in 2011 due to a less favourable external environment. In 2013, exports are expected to pick up on the back of a rise in world trade. Credit conditions are expected to remain tight and gross fixed capital formation continues to be driven largely by public initiatives, in line with the government's 'kick-start' stimulus package and supported by large-scale infrastructure projects. Private consumption is expected to accelerate in the course of 2012 as contributions to the voluntary early retirement pension scheme are to be reimbursed following the adoption of the retirement reform by the Danish Parliament. However, it is envisaged that a fragile housing market and a stagnating labour market will continue to restrict consumer spending. Moreover, households are likely to continue with the needed balance-sheet deleveraging and to maintain precautionary savings at a relatively high level during the current period of increased economic uncertainty. Real wages are likely to be contained by elevated inflation and moderate increases in the spring round of private sector wage agreements. As a result of the sustained significant increase in energy prices over the past year as well as the effects of tax hikes, the Harmonised Index of Consumer Prices (HICP) is projected to be around 2.6% this year before dropping to 1.5% in 2013.

In the absence of adverse financial and external developments, GDP growth could average 2% annually in 2014-2015**.** This should bring the unemployment rate down to around 6.6% by the end of 2015. The recently concluded pension reform and other reforms undertaken to raise labour supply, together with the normalisation of the economic cycle, should make it possible to keep growth at this level in the medium term.

The national reform programme and the convergence programme provide an integrated overview of fiscal consolidation efforts, the key structural reforms and the reforms that underpin macro-economic stabilisation. Both documents share the same economic outlook and quantify the impact of the proposed structural reforms on growth. The outlook for 2012 and 2013 is broadly in line with the most recent Commission forecast.

2.2. Challenges

The main policy challenges for the country have remained broadly unchanged compared to the situation described in the 2011 Commission Staff Working Document. However the government has made some progress with its reform agenda which needs to be taken into account.

In particular, continued fiscal consolidation is required to meet the requirements under the EDP and reach the medium-term objective (MTO) for the deficit. With the government's 'kick-start' stimulus package, the consolidation strategy has become more back-loaded than previously planned and considerable consolidation efforts will be required in 2013. Moreover, as pointed out in the 2011 Commission Staff Working Document, Denmark has a history of substantial expenditure overruns, in particular at the regional and local levels, and better expenditure controls at all levels of government are necessary if Denmark is to meet its short- and long-term deficit targets. To this end, the government and a majority in parliament recently agreed on an ambitious budget law which will come into force in 2014.

The main challenge for the labour market has been to increase labour supply overall, in particular labour force participation among older workers, by raising the effective retirement age. In this regard, Denmark has implemented an ambitious reform of the voluntary early retirement pension scheme and brought forward the planned increase to the statutory retirement age and linking to life expectancy. Attention now needs to be given to other areas such as reforms of the disability pension and subsidised employment (flex-job) schemes. These schemes include approximately 10 % of the working-age population, which constitutes a significant labour supply potential. There is also potential for increasing the labour market participation of immigrants, especially female immigrants from countries outside the EU for whom the employment rate was only 50.2 % in 2010.

Another key challenge is slow productivity growth. Addressing the low level of competition in specific sectors could improve productivity growth. The problem of low productivity growth is especially evident in the services and construction sectors, which are also significantly less innovative and where the problem of weak competition is greater. Furthermore, there are still significant barriers to entry into the services sector and public procurement in municipalities and regions ought to be increased. In this context, it is important to ensure that competition law sanctions are a sufficientl deterrent.

Yet another challenge related to Denmark's poor productivity performance, is the education system. Despite Denmark's generous spending on its education system, educational outcomes are only average in some key areas. The upper secondary completion rate is low largely due to high early drop-out rates from vocational youth education. Moreover, Danish students complete their education relatively late. Addressing the educational challenges should also be seen in the context of future skills needs and possible labour shortages. Improving overall education levels and educational quality could have a positive impact on the labour supply and productivity growth.

Furthermore, the build-up of debt levels, which has been fuelled by the housing boom between 2004 and 2007, creates higher potential risks for the economy and financial stability, although these risks are mitigated by the characteristics of Denmark's sophisticated mortgage-backed bond market and a globally robust financial situation of the majority of households with assets considerably in excess of liabilities. Still, only limited measures to dampen pro-cyclical fluctuations of house prices have been introduced in the aftermath of the house price correction.

Box 1. Summary of the results of the in-depth review under the macroeconomic imbalances procedure

The main observations of this review are:

Certain macroeconomic developments notably in the areas of competitiveness and household debt deserve to be monitored and to feature in economic policy considerations so as to reduce the risk of adverse effects on the functioning of the economy.

Denmark has lost considerable market shares in goods exports due to a deterioration in the country's competitive performance. Furthermore, lower growth among Denmark's trading partners than among those of the EU suggests that Danish exports would benefit from being better represented in high-growth emerging markets.

The deterioration in Denmark's competitive performance seems to be linked to a rise in relative unit labour costs, reflecting in particular relatively higher wages and weaker productivity growth in Denmark than abroad. While the effect of high unit labour costs has been attenuated to some extent by favourable terms-of-trade developments, an adjustment in unit labour costs is warranted, either via lower wage growth or higher productivity growth. Possible areas for relevant policy responses to addressing the latter could include removing obstacles to competition and improving the quality of the educational system.

While the high household gross debt to some extent is a structural feature of the Danish economy, with household assets considerably exceeding liabilities, concerns are emerging about high levels of household debt, as developments in the housing market seem to have caused the debt to move beyond levels that can be explained by structural factors. This poses higher potential risks to financial and economic stability.

Risks in terms of financial stability seem small. However, to get a clearer view of the situation, more information on the distribution of the type of assets and liabilities across households is necessary. Risks in terms of economic stability seem more pronounced, as the consequences of excessive swings in house prices and high debt have already been exposed. The latter have contributed to large fluctuations in private consumption, currently constraining the economy's ability to recover as households are deleveraging.

With a view to correcting the procyclical effects of and the debt bias in housing taxation, a realignment of the property value tax to actual market values could be considered or, as a second best option, a further reduction in the tax deductibility of interest payments. Furthermore, removing the ceiling of the annual increase in the municipal land value tax could prevent procyclical effects of lagged tax increases. Such changes could be introduced gradually, taking into account the current need for stabilisation in the housing market.

3. ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

The medium term budgetary strategy in Denmark's 2012 convergence programme aims to bring the general government deficit below the 3% reference value by 2013, in line with the deadline set by the Council, and achieve the Medium Term Objective (MTO) of at least a structurally balanced budget in 2020, i.e. outside the programme period. This MTO is unchanged from last year's convergence programme and adequately reflects the requirements of the Stability and Growth Pact. Furthermore, the structural deficit in the programme remains below the minimum requirement for all years between 2013 and 2020, in accordance with the Fiscal Compact's target of a structural budget balance of at least -0.5% of GDP.

Contrary to last year, the convergence programme builds on a 'no-policy-change assumption', i.e. only the effects of reforms already adopted are included in the programme. The main policy measures are the reform of the voluntary early retirement and the statutory retirement pension schemes, the fiscal bill for 2012 (including an investment-based 'kick-start' stimulus package), tax policy measures based on the 2010 consolidation agreement and the 2009 tax reform as well as a normalisation of public investment from 2013 onwards. On the basis of these measures and an annual real growth in public consumption of 0.6% in 2014-2020, the general government finances are projected to be in balance by 2020.

Box 2. Recently released 2020 plan

The assessment in this document is based on the reform agenda as specified in the national reform programme and the convergence programme submitted by the Danish government on 30 April 2012. On 8 May, the Danish government released its 2020 plan, a medium-term budgetary strategy specifying a number of planned reforms in addition to the reforms already adopted which formed the basis of the 2012 convergence programme. In line with the convergence programme, the 2020 plan aims to bring the general government deficit below the 3% reference value by 2013 and achieve the Medium Term Objective (MTO) of at least a structurally balanced budget in 2020. The measures in the 2020 plan are intended to raise employment by 60 000 persons towards 2020 compared with the convergence programme and increase GDP growth by ¼ of a percentage point on average between 2014 and 2020. On the basis of these reforms, public consumption will grow by 0.8% on average from 2014 to 2020 instead of 0.6% as planned in the convergence programme, while the MTO is still expected to be met in 2020.

The new plan includes initiatives to increase the labour supply and strengthen public finances by lowering taxes on income as part of a fully-financed tax reform, by reforming the disability and subsidised employment (so-called 'flex-job') schemes, by getting students through the educational system at an earlier stage and reforming the state education grant system. Working hours will be increased in a tripartite agreement. In order to raise productivity growth, the government plans a number of initiatives in the areas of education (see section 3.3), competition, and R&D and innovation.

The budgetary outcome in 2011 was significantly better than planned. The government deficit reached -1.8% of GDP instead of 3.8% as previously forecast. The difference can mainly be attributed to significantly higher revenues (3.2 percentage points (pps) of GDP) primarily due to extraordinary higher revenue from pension yield taxation, a flat-rate tax levied on pension fund returns. The higher revenues were related to lower-than-expected interest rate levels implying higher returns on interest-sensitive assets in the pension fund portfolios. The higher revenues were partly offset by expenditure that exceeded the target by 1.2 pps of GDP, mainly because of base effects. Accordingly, nominal interest rate expenditure growth was markedly higher than planned (7.7% instead of a drop of 2.4%) whereas nominal primary expenditure growth was only slightly higher (2.0% instead of 1.6%).

With regard to the budgetary projections for 2012, the 2012 convergence programme and the Commission's spring forecast are broadly in line, projecting the budget deficit to reach 4.0% and 4.1% of GDP, respectively. The widening of the budget deficit from 2011 to 2012 reflects the government's 'kick-start' stimulus package, with a budgetary impact of 0.4% of GDP, and the lump sum reimbursement of voluntary early retirement pension contributions estimated at almost 1% of GDP. The latter is considered to be a one-off. The increase in the projected budget deficit from 2011 to 2012 also reflects the absence of the extraordinary pension yield revenues that affected the government balance in 2011.

The budget deficit has been revised downwards for 2012 by ½ a percentage point but remains broadly unchanged for 2013 compared with the previous programme. The revision stems from higher oil price expectations and lower interest rates which have a positive impact on Denmark's public finances through higher revenues from oil and gas activities in the North Sea as well as higher expected revenues from the pension yield tax. Furthermore, the 2012 budget bill permanently raised revenues from taxes and excise duties. These positive factors more than offset the negative budgetary impact of the deterioration in the growth outlook compared with last year and the government's 'kick-start' stimulus package which was not part of the previous programme. On the other hand, headline budget deficits after 2013 have been revised upwards significantly in this year's programme due to the lower growth outlook and the fact that the positive effects of planned reforms (yet to be adopted) were included in last year's convergence programme as opposed to the 2012 convergence programme.

Thus, the convergence programme expects the headline deficit to decline from -4.0% of GDP in 2012 to -1.8% in 2013 and then to remain broadly unchanged until 2015. The change from 2012 to 2013 is due to developments in the primary balance rather than in interest rate expenditures, and reflects the absence of the one-off measure that affected the government balance in 2012 as well as government consolidation measures.

The consolidation strategy is largely expenditure based with a significant decline in the expenditure-to-GDP ratio of 2 pps from 2012 to 2013. A large part of the fall in expenditures is due to a normalisation in investment after 2012. As a consequence of the 'kick-start', investment amounting to a total of around 1% of GDP has been brought forward to 2012 and 2013 from 2014 to 2020. However, only 0.4% of these investments have a direct effect on the general government budget balance, and in 2012 only. The remaining investments are secured from private institutions or entities and will therefore not affect the general government balance. Thus, from 2013 and onwards, gross fixed capital formation remains stable at 1.9% of GDP.

From 2013 to 2015, the almost unchanged government balance reflects a parallel fall in revenues and expenditures of -1.5 and -1.7 pps of GDP, respectively. The convergence programme projects a decline in social expenditure due to the continued economic recovery and the government's tighter control of budgetary execution. Moreover, compensation to employees is to be reduced by ½ a pp of GDP over the period. Revenues are forecast to decline due to lower revenues from income and wealth taxes in line with the 2009 tax reform, and a further decline in social contributions from phasing out the voluntary early retirement pension scheme from 2012 and onwards.

The convergence programme projections for achieving the correction of the excessive deficit by 2013 are based on the financing measures of the 2009 tax reform, the 2010 consolidation agreement, the 2012 budget bill as well as a normalisation of public investment (see Box 3). Using a bottom-up approach, the programme estimates that these measures account for a total budgetary improvement of 2.5% of GDP. Adjusting for other factors, e.g. lower oil revenues and higher pension expenditure due to demographic effects, the net cumulative contribution is 1.8% of GDP over the period 2011-2013, in line with the EDP recommendation.

When adding the measures bottom-up based on the calculations in the programme, the structural balance improved by 0.8 pps of GDP in 2011 and will decline by 0.3 pps of GDP in 2012 before improving by 1.3 pps of GDP in 2013. The deterioration in 2012 is to be seen in the light of a lower-than-budgeted level of public spending in 2011 which, everything else being equal, implies a higher growth rate in public consumption in 2012. Furhermore, due to the fact that the 'kick-start' moves investments forward to 2012, the contribution to consolidation from the normalisation of public investment will not occur until 2013. This makes the consolidation path considerably more back-loaded than previously planned. Moreover, the high level of public investment in 2012 increases the risk of spillover into 2013 which could jeopardise the achievement of the required fiscal effort in 2013. In the event of such spill-over, other investment projects for 2013 would have to be reduced or additional financing would have to be found, according to the convergence programme.

In contrast to the calculation of the structural measures using a bottom-up approach, the recalculated structural balance[1] shows a cumulated deterioration ('top-down') of ½ a ppt of GDP in 2011-2013. This is based on the one-off measures reported in the convergence programme. However, the definition of one-off measures applied in the convergence programme does not correspond to the definition applied by the Commission. Nevertheless. adjusting the (recalculated) cyclically adjusted balance for one-offs in accordance with the Commission's definition, instead of applying the one-offs specified in the programme, only affects the overall adjustment in 2011-2013 slightly.

[1] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

Box 3. Main measures

The main measures specified in the convergence programme consist of the 2009 tax reform, the 2010 consolidation agreement (which included a reduction in public consumption growth, a shortening of the unemployment benefit period and measures to tighten expenditure control), tax elements from the 2012 budget bill and a normalisation of public investment. Over the period 2011-2013, consolidation measures will yield a direct revenue impact of 2.5% of GDP according to the programme. Net of other factors affecting public finances, the consolidation's overall cumulative effect on the general budget balance is estimated at 1.8% of GDP (bottom-up) corresponding to an improvement in the structural budget balance of 1.5% of GDP ('top-down') as calculated by the national methodology.

Main budgetary measures

Revenue	**Expenditure**
2011	
• Financing elements of the 2009 tax reform (0.1% of GDP) • Financing elements of the 2010 consolidation agreement (0.3% of GDP)	• Moderate public consumption growth (-0.6% of GDP) • Social transfers including savings due to the unemployment benefit reform (-0.2% of GDP)
2012	
• Financing elements of the 2010 consolidation agreement (0.1% of GDP) • Financing elements of the 2012 budget bill (0.2% of GDP)	• Moderate public consumption growth (0.2% of GDP) • Public investment (0.1% of GDP) • Social transfers including savings due to the unemployment benefit reform (0.1% of GDP)
2013	
• Financing elements of the 2009 tax reform (0.4% of GDP) • Financing elements of the 2010 consolidation agreement (0.1% of GDP) • Financing elements of the 2012 budget bill (0.1% of GDP)	• Moderate public consumption growth (-0.2% of GDP) • Public investment (-0.5% of GDP) • Social transfers including savings due to the unemployment benefit reform (-0.2% of GDP)

Note: The degree of detail reflects the type of information made available in the stability or convergence programme and, where available, a multiannual budget. A positive sign implies that revenue/ expenditure increases as a result of this measure.

Hence, the deterioration in the (recalculated) structural balance and the difference compared to the structural effort presented in the programme rather stems from the fact that the Commission's estimate of potential output growth is significantly lower (½ - ¾ of a pp) than the government's estimate implying a much faster closure of the output gap. As a result, the contribution from the economic cycle to the improvement of the budget balance, as estimated by the Commission, may be overstated.

When taking the discretionary measures as specified in the programme into account, expenditure projections seem to ensure that the required adjustment of the excessive deficit will be made in 2013, i.e. a fiscal tightening of 1.5% over the 2011-2013 period. However, although there is little risk of falling short of the 3% reference value in 2013 (in light of the Commission's projection of a budget deficit of 2.0% of GDP in 2013), a considerable effort is needed in 2013 to meet the required structural improvement.

From 2013 onwards, expenditure projections, when assessed against the projected rate of medium-term potential output growth and taking into account discretionary measures, seem to confirm an appropriate adjustment path towards the MTO. Although the Commission's forecast shows that the growth rate of government expenditure exceeds the lower reference rate, the deviation against the applicable reference rate is not significant.

Although Denmark is operating with deficits, its gross public debt is projected to fall from 46.5% of GDP in 2011 to 42.1% in 2015. This is because part of the budget deficits will be financed by reducing the government's account with Danmarks Nationalbank which will affect the net but not the gross government debt. Since the debt-to-GDP ratio remains well below the reference rate, the debt reduction benchmark is not applicable.

Long-term sustainability

For Denmark, the long-term change in age-related expenditure is above the EU average. Under a no-policy change assumption, debt would fall to 42% of GDP by 2030. Recent reform measures in the field of pensions will contribute to improve fiscal sustainability. Ensuring sufficient primary surpluses over the medium-term, as planned in the programme, would improve the sustainability of public finances.

Fiscal framework

The Danish fiscal framework is composed of a medium-term budgetary framework (MTBF) that applies to all levels of government, i.e. central, regional and local, and specifies annual growth targets for real public consumption expenditure — but not income transfers, subsidies or investment — in multi-annual plans. The basic rule of budgetary policy is to achieve a structural general government balance or surplus in the medium to longer term, as specified by the MTBF. The MTBF does not build on constitutional or legal acts but is a political commitment for achieving fiscal sustainability over the longer term. Nevertheless, the multi-annual plans receive parliamentary support and serve as an anchor for fiscal policy planning in the annual budget process. Regional (20 % of total expenditure) and local authorities (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 body at the same time.

Although the track record of Denmark’s fiscal framework has been positive, Denmark has a history of substantial expenditure overruns, in particular at regional and local levels. Hence, the 2010 Fiscal Consolidation Agreement and the fiscal bill for 2011 and 2012 introduced sanctions and tighter budgetary control in order to improve expenditure control in the municipalities and regions, mechanisms that have proved effective. These sanctions have now been laid down in an ambitious budget law proposal put forward in March 2012 and agreed on by the government and a majority in parliament. The new budget law implies that Parliament sets expenditure ceilings at central, regional and municipal level for periods of four years starting from 2014. The expenditure ceilings will have to be in accordance with a medium-term budgetary target of a zero structural balance in 2020 and an annual structural government balance of at least -0.5 % of GDP. The ceilings will be underpinned by sanctions and monitored by the Danish Economic Council (DOR) fully in line with the country specific recommendation in the area of fiscal frameworks.

The new spending regime entails an important shift towards a better controlled expenditure policy since planned spending is now based on a scenario where only effects of measures for which there is a majority in parliament are taken into account. In previous medium-term plans, it was normally assumed that the required financing for planned spending initiatives could be found in the future from unspecified measures which often proved difficult to adopt.

Tax system

Denmark is characterised by the highest tax-to-GDP ratio in the EU, significantly higher than the average. On the basis of typical tax performance indicators, the tax system appears to be well designed and tax compliance costs are low. Denmark's performance is close to the EU average in terms of the share of 'growth-friendly' taxes and the implicit tax rate on labour, whereas the marginal tax rate is relatively high for high-income earners. The tax burden on corporate income is similar to the EU average while revenue from indirect taxes is significantly higher. Furthermore, recurrent taxation on housing — considered among the least distortive types of tax — remains above the EU average.[2]

The 'Spring Package 2.0' tax reform was adopted in 2009 and will be implemented in 2010-2019, reducing the high marginal tax rates on personal income to improve work incentives while at the same time reducing mortgage interest deductibility. The 2012 budget act introduces measures on the revenue side, targeted especially at unhealthy products such as dietary fats, confectionery, soft and alcoholic drinks and cigarettes. The government has announced its intention to put forward a proposal for yet another tax reform to increase the supply of labour by lowering the tax burden on labour further in a budgetary neutral manner and without making changes to housing taxation or further changes to interest deductibility during the current electoral cycle.

One issue stands out in the area of taxation, which was also touched on in the 2011 CSR 5 for Denmark. Since 2002, the property value tax has been set in nominal terms, leading to an erosion of revenue. With the highest overall tax burden in the EU, it is essential that the least distortive and most growth-friendly revenue sources are tapped in Denmark to ease the pressure on direct taxation of capital and labour. To that end and to stop further erosion of revenue as well as addressing the procyclical distortions in the housing market (see section 2.4), it will be necessary to link the property value tax to the market value again, at least in the medium term, while taking into account the current need to promote stabilisation of the housing market.

Another issue is how to move towards Denmark's climate and energy targets in a cost efficient way. The coherence of the fiscal and regulatory measures addressing the climate and energy challenge can contribute significantly in this respect. Although Denmark is not a special case within the EU, the pricing of greenhouse gas emissions varies across

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[2] The level of social security contributions is limited in Denmark, with personal income taxes on labour being relatively higher. As this represents different ways of taxing labour, it does not influence the growth-friendliness of the tax structure.

sectors: the tax price of emissions within the transport sector is significantly higher than the ETS carbon price while GHG emissions in agriculture remain largely untaxed. Furthermore, there may be potential for making overall vehicle taxation more efficient while maintaining revenue and the current system's contribution to reducing CO_2 emissions and other transport-related externalities[3].

3.2. Financial sector

Banking

The financial crisis caused some domestic banking problems, primarily linked to the real estate sector. Danish authorities introduced support measures such as a deposit guarantee and capital injections, as the global financial crisis exacerbated problems stemming from the reliance on money-market funding. The Financial Stability Company was established in October 2008 in order to secure financial stability in Denmark, including winding-up of distressed banks. A general government guarantee expired with Bank Rescue Package 1 at the end of September 2010. However, more rescue packages have followed and there is still widespread government involvement in the Danish banking sector, e.g. the individual government guarantees which will expire in 2012 and 2013.

Danish banks are well capitalised, with limited exposure to the vulnerable EU Member States in southern Europe, and should generally be able to manage the transition to a situation without government guarantees. No Danish institution fell below the required 5 % core Tier 1 capital, following the July 2011 EBA stress test, nor had to comply with the higher minimum core Tier 1 capital ratio of 9 % of risk-weighted assets, following the temporary recapitalisation plan decided by the European Council in October 2011.

Housing and private sector indebtedness

Household indebtedness in Denmark is among the highest in the EU and an in-depth study on the issue, under the Macro Economic Imbalances Procedure, has been carried out. To some extent, high household debt is a structural feature of the Danish economy. Large contributions to private pension saving schemes, directly deducted from wages, a generous social safety net and high net assets in general provide citizens with reliable financial buffers. Furthermore, mortgage interest deductibility may have provided incentives for the accumulation of private debt in a high-tax environment such as Denmark.

The debt level increased rapidly in line with house prices during the boom years (2003–2007). The introduction of innovative financial products (instalment-free[4] mortgages since 2004) and tax incentives (property tax freeze since 2002 and interest deductibility) may have contributed to the debt level propelling beyond levels that can be explained by the structural factors mentioned above. This higher exposure of household debt to developments in the real estate market has increased the economic risks, in particular through the potential effect on private consumption (e.g. the need for deleveraging due to the erosion of asset values or a high debt-service burden) and the financial sector, as the share of instalment-free loans with adjustable rates has risen. On this basis, one of the CSRs made to Denmark last year called for preventive action.

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[3] See e.g. Fosgerau, M. & Jensen, T. (2011), A green reform is not always green, Transportation Research. Part C: Emerging Technologies.

[4] Also called 'interest-only' mortgages.

In terms of *financial stability*, the household debt level does not seem to constitute a severe threat to the economy. Arrears and forced sales of one-family houses have remained limited and, according to the Central Bank's 2010 Financial Stability Review, only 3.2% of total household debt is concentrated among financially vulnerable households. Nevertheless, in order to be certain, analyses of micro data on the distribution of assets and liabilities across households, including the type of loans, are required. A study being undertaken by the Ministry of Business and Growth will shed light on the potential vulnerability of households in the event of various shocks to the economy, in line with the recommendation given to Denmark last year in the area of economic and financial stability. The Danish National Bank is carrying out a similar study, with regard to financial stability.

With regard to *economic stability*, the existence and subsequent burst of the housing bubble and the simultaneous rise in debt seem to have had a harmful effect on the economy's ability to get back on track after the crisis, especially as households are deleveraging. Measures to prevent pro-cyclical movements in the housing market in the medium term, preferably by realigning the property value tax with actual market values, are therefore warranted. Such measures should be taken without jeopardising the current need to stabilise the housing market, for instance in line with a recent suggestion by the Danish Economic Council.[5]

Although the municipal land tax has not been subjected to a nominal tax freeze, which would normally be counter-cyclical, a ceiling imposed on the annual increase in land taxation makes this tax pro-cyclical at the current time, as increases in land prices during the boom are being phased in now. Land taxation has recently increased whereas prices have fallen, and the effect is thus not counter-cyclical. The municipal land tax can therefore not be considered a substitute for the needed countercyclical element of the property tax.

In relation to the larger share of adjustable-rate and instalment-free loans in the mortgage market, the mortgage institutes have taken appropriate measures by trying to spread the auctions for refinancing adjustable-rate loans over the year so as to reduce the refinancing risk. Furthermore, the mortgage institutes are currently taking measures to ensure the provision of additional collateral in case of a fall in house prices. These measures will effectively limit the number of adjustable-rate and instalment-free mortgages.

Denmark has therefore taken relevant measures in terms of reviewing the functioning of the mortgage system. However, preventive action to strengthen the medium-term stability of the housing market, including reviewing the functioning of the property tax system, has not been taken as yet. In conclusion, Denmark has taken some relevant measures but has only partially implemented CSR 5.

Access to finance

Banks and mortgage banks tightened their credit standards in 2011 for both retail and corporate customers, including SMEs (see also section 3.4). At the end of the year, Denmark's National Bank took measures to supplement banks' access to liquidity and facilitate the transition when the individual government guarantees expire in 2012-13. In March, a majority in Parliament agreed on a financial package targeting specialised

[5] Det Økonomiske Råd: 'Dansk Økonomi, efterår 2011'.

financial institutions, with the aim of enhancing their capabilities vis-à-vis SMEs. In general, Denmark has taken relevant measures to support lending activity, in line with AGS priorities.

3.3. Labour market, education and social policies

The Danish labour market is characterised by a high participation rate while the number of working hours is below the EU average. Employment has shrunk by almost 6 % (over the period 2008-2011) and the current employment rate (for 20- to 64-year olds) is 75.7 % (2011). Unemployment more than doubled from a record low of 3.4 % in 2008 to 7.6 % in 2011. This is still well below the EU average. Long-term unemployment and youth unemployment (among 15- to 24-year olds) have also increased during the crisis, but are still among the lowest in the EU.

Denmark is facing a considerable challenge from demographic ageing, and increasing labour supply is therefore a key priority to ensure future welfare and fiscal sustainability. This challenge, identified in last year's CSRs and highlighted in the AGS 2012 has been acknowledged by the government. The national reform programme sets a target of increasing employment by 60 000 persons in 2020.

The main issue in the area of labour supply and public finances addressed since last year has been the implementation of the reform of the voluntary early retirement pension scheme. The policy response to the CSR in this area has been relevant as the reform has now been adopted by the Danish Parliament. In order to actually realise the full labour supply potential of the reform, it is desirable to complement it with measures to promote senior friendly policies at work places which will ensure that older workers effectively will stay longer at the labour market. Furthermore, together with the reform, the government has introduced a 'senior disability pension scheme' for older disabled workers. The number of workers eligible for this pension is hard to estimate, and is an issue for careful monitoring in order to avoid the new pension scheme becoming a large-scale substitute for the voluntary early retirement pension scheme.

Denmark now needs to look at other policy areas, such as reforms of the disability pension and subsidised employment (flex-job) schemes. The government has presented a relevant proposal for a reform of the disability pension and the subsidised employment scheme which can increase the labour supply by 5 000 persons in 2020 and 12 500 persons in the long run according to government estimates.

By adopting the reform of the voluntary early retirement pension, Denmark's response to the CSR has been relevant, and the right steps have been taken to increase labour supply. These measures are expected to have an overall positive effect towards the Europe 2020 targets, in particular the employment and poverty targets. However, the proposed reforms on disability pensions and the subsidised employment scheme have not yet been implemented. If the reforms are implemented as planned, Denmark's response can then be considered relevant for these areas of the CSR too.

Furthermore, as mentioned, the government has announced its intentions to implement a tax reform with the aim of raising labour supply by at least 7 000 persons in 2020. The upcoming tripartite negotiations in 2012 between the government and the social partners are also anticipated to have an essential role in raising labour supply, although an official agenda of the negotiations is yet unknown. Overall, the government is planning to take relevant and ambitious measures in order to raise labour supply.

Important steps have been taken to combat the rise in youth unemployment, in line with AGS priorities, including measures such as additional job-rotation possibilities for young people and targeted programmes to ensure basic education. Careful monitoring of youth unemployment, including giving consideration to additional measures, remains an issue in Denmark.

Many policy initiatives in the past have resulted in a significant decline in the unemployment rates of third country nationals during the last decade.[6] A return to this positive development track via targeted well-tested policy measures could give a further boost to the overall labour supply and decrease the incidence of people at risk of poverty and social exclusion in general. With regard to the participation of immigrants, Denmark is one of the EU countries where the unemployment gap between nationals and non-EU nationals has widened the most over the last three years.[7] A certain adjustment may have been warranted following the period of overheating and labour shortages in 2006-2007 which also raised job opportunities for marginalised groups. Nevertheless, tackling the widening gap in employment outcomes between people with migrant background and the rest of the working population constitutes a significant labour supply potential. Efforts to this effect are therefore warranted. One particular challenge is the labour market participation of female immigrants from countries outside the EU whose employment rate was only 50.6 % in 2010.

The financial and economic crisis has affected vulnerable groups — especially in socially excluded areas — more than the population in general, posing the additional threat of social exclusion to these groups. Ethnic minorities are among those at increased risk of poverty and social exclusion; this is linked to a deterioration in their position in the labour market. Furthermore, following the rise in unemployment from 2008 to 2010, the number of people in households with low work intensity has increased significantly (2008: 347 000; 2009: 360 000 and 2010: 433 000).

The 2012 budget bill abolished some of the rules stipulating the conditions for receiving benefits and aiming to increase the incentives to work. While it is important and relevant to ensure adequate social security systems at the current time to prevent further social marginalisation in line with the AGS priority of tackling unemployment and the social consequences of the crisis, maintaining strong incentives to work should continue to be emphasised, as work is one of the best ways to prevent social exclusion in the long run. This is also necessary if Denmark is to lift 22 000 people out of poverty for households with low work intensity, in line with its 2020 target.

Denmark is the country that spends the most on education in the world, measured as a percentage of GDP, and in a number of areas the performance of the educational system is outstanding. For instance, this is the case for the headline target on tertiary completion, where Denmark is the second best performer in the EU, and on participation in lifelong learning, where Denmark has the highest participation rate in the EU, more than three times the EU average. On the other hand, the quality of school education in some areas — for instance as measured by the OECD's Pisa survey — are only average.

To address the challenges relating to the low upper secondary completion rate, the government has confirmed the long-standing target, i.e. that 95% of a youth year group

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[6] Research findings have confirmed the positive impact of subsidised and direct employment programmes for increasing employment for non-western migrants: Immigrants Receiving Social Assistance in Denmark, IZA DP No 5632, April 2011, http://ftp.iza.org/dp5632.pdf

[7] Between 2008Q2 and 2011Q2. Source: EU Employment and Social Situation, Quarterly Review December 2011 (p. 44).

will complete upper secondary education in 2020, in its 2012 budget bill. To achieve the target, the government has announced that secondary education will be expanded: It suggests, among other things, that the quality of vocational education will be strengthened e.g. by lowering the number of teachers' non-teaching work activities; an increased number of apprenticeship places (10400 extra places in 2012); a flexible ceiling on the number of pupils in each class and more focus on teachers and their class-leadership role.

The high number of drop-outs from vocational education may be linked to lack of apprenticeship places. To increase the number of apprenticeships, the government has suggested introducing social clauses under public procurement investments and making it financially beneficial for private companies to offer apprenticeships. This approach appears appropriate considering that the in-school alternative training has been criticised by observers for not providing a 'real workplace experience', as intended by the dual Danish apprenticeship system. However, it is essential that the measures introduced do not harm competition among firms.

With regard to compulsory education, the government has proposed enhancing pupils' competences and skills. A reform proposal will advocate that teachers teach subjects corresponding to their competences, clear achievement goals at the end of the second year of compulsory education, and strengthening school leadership and the role of municipalities.

Overall, the plans are relevant and can be expected to be effective. However, until specific reforms are implemented, concerns raised in CSR 3 to Denmark still partially apply. Addressing these challenges should also be seen in the context of future skills needs and possible labour shortages. A rise in overall education levels, the possibility of getting young people through the education system faster and enhancing educational quality — not least by improving the cost-effectiveness of investment in education — could have a positive effect on the labour supply. An increase in apprenticeships available could address the rising challenge of youth unemployment in Denmark. The measures should also be seen in the context of weak productivity growth.

3.4. Structural measures promoting growth and competitiveness

Internal market, liberalisation and competition

While the Danish business environment is characterised by a wide range of competition-friendly regulations (it ranks 5th out of 183 economies on the 'ease of doing business indicator'[8]), labour productivity[9] growth in Denmark has slowed down over recent decades, from an annual average of 2.5% during 1990-1995 to 1.8% in 1995-2000 and 0.5% during 2000-2011. In both manufacturing and services, labour productivity growth between 2000-2010 is among the lowest in the EU (ranking 21st out of 26). The challenge of weak productivity growth is well recognised and the government has appointed a Productivity Commission to address the issue and get a better understanding of the reasons behind the development. Nevertheless, studies point towards competition and education as possible drivers.

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[8] Source: World Bank Doing Business survey 2012.

[9] Calculated as gross domestic product at 2005 market prices per person employed.

While evidence suggests that competition in Denmark is not always as effective as in other countries, this may be partly related to structural features of the Danish economy such as its small market size, a large public sector, the dominance of services and a highly regulated environment. While for some of these issues, further changes to the Danish competition law can only partly address the bottleneck, there is still room for improvement in a number of areas. Accordingly, in 2011 Denmark adopted a Competition Package, mainly targeted at the construction sector, the retail sector, health services and public-sector services. The liberalisation of shop opening hours as from October 2012 can also be expected to have positive effects on the wholesale and retail markets.

Although Denmark has transposed the Services Directive, some restrictions remain for cross-border service providers. Furthermore, competition for taxis and transport services, as well as liberalisation of pharmacies, are being examined before any measures will be implemented. The issue of increasing public procurement in municipalities and regions will be dealt with in negotiations with regional and local governments and is difficult to assess at this point. In addition, in April 2012 a committee set up by the previous government recommended that the competition law be reinforced. A majority of the members of the committee found that the fines for infringements of the competition law should be significantly increased and that prison terms be introduced for cartels.

Even though awareness of the problem and the level of ambition can be regarded as relatively high, it is difficult to assess the expected effectiveness of measures taken in this area. Measures for some sectors have still not been implemented and, whereas the introduction of the Competition Package was one of the country's commitments under the EPP and also relevant in terms of the AGS priority of promoting growth and competitiveness, only limited measures in this area have been taken since the CSR was given to Denmark. While the National Reform Programme mentions that the government will put forward a proposal to increase competition, the National Reform Programme does not make any firm commitment to, for instance, increase the level of deterrence in line with the abovementioned recommendations to strengthen competition law enforcement. Accordingly, the CSR on competition can not be regarded as fully addressed.

Research and innovation

The innovation environment for firms in Denmark is well above the EU average and Denmark achieved its R&D investment target of 3% in 2009. However, in some areas Denmark is lagging behind other innovation leaders, in particular in private funding to innovation, in some aspects of entrepreneurship and in the intensity of local competition. While Denmark has a relatively high rate of entrepreneurship compared to other Member States, the entrepreneurial survival rate as well as the rate of economic growth for entrepreneurs is a challenge.[10] One reason for this seems to be difficulties for new businesses in gaining access to finance. As of 2009, a number of smaller funds have been established via EU structural funds to assist SME innovation and development in particular. This may enhance private financing of innovation and could improve SMEs' competitiveness in relation to the Europe 2020 priorities.

[10] According to the 'Entrepreneurship Index 2009' from the then Danish Agency for Business and Construction.

Market mechanisms and indirect funding of R&D through tax incentives have played a larger role in Denmark than direct government funding of business R&D, which distinguishes Denmark from the other Nordic countries. On the other hand, Denmark has a relative strength in public-private cooperation in the EU. Compared to other innovation leaders, Denmark has a higher share of SMEs in its firm structure and Danish SMEs are relatively R&D-intensive. However, despite the high quality of the national innovation system, output in terms of high-growth firms is below the EU average.

Denmark has recently launched relevant reforms to boost innovation and is currently formulating a new broad innovation strategy. There is a good opportunity for active supply- and demand-side innovation in the areas where Denmark has competitive advantages, such as wind energy, organic chemistry, pharmaceuticals and biotechnologies. Given the low productivity growth in Denmark and the need to keep up the change towards broader innovation activity in firms, including investments in intangibles, Denmark would in particular benefit from combining the strategic focus of its innovation policy with increased effectiveness of public investments in R&D.

Climate, energy transport and environment

Denmark has committed to reduce its greenhouse gas emissions by 20% (compared to 2005 and only for emissions not covered by the EU Emission Trading System) by 2020. According to 2011 projections taking into account existing measures, Denmark is expected to fall short of its national target by 11 percentage points. To reach the target without using flexibility mechanisms, Denmark will therefore have to adopt and effectively implement such additional measures.

At the same time, Denmark faces the challenge of making the policies to move towards its climate and energy targets more efficient and consistent, just at many other Member States (see section 3.1). In particular, measures to promote emission reductions could be targeted on agriculture and transport. While comparatively little is being done in the agricultural sector, a number of initiatives have been taken in the transport sector to promote a modal shift from private to public transport. These could be taken further in order to achieve the targeted emission reductions. Increasing competition in the taxi and public transport markets could help render these sectors more cost-efficient. Furthermore, Denmark has one of the lowest shares of electrified railway lines in the EU of 23.5% (EU-27 average: 52.2%[11]) and more emphasis is needed on replacement of current Danish locomotives, which to a large extent are diesel-driven and adversely affecting the environment. This should also be seen in the light of Denmark being among the Member States with the lowest total investments in transport, amounting to 0.62% of GDP.

As regards energy, a new Energy Agreement 2012 – 2020 was achieved in March 2012 with broad political support. This agreement confirms Denmark's high level of ambition with regard to transforming its energy system and sets out initiatives that will help to meet 2020 targets. Denmark stands out in the area of renewable energies which continue to have high priority. Nevertheless, Denmark needs to develop more renewable energy sources to meet its renewable energy target of a 30% share in total energy consumption by 2020, with a 10% share for transport; 40% for heating and cooling and 50% for

[11] EU Transport in Figures, 2011.

electricity, as set out in the National Action Plan for Renewable Energy.[12] The initiatives included in the Energy Agreement 2012 – 2020 from March 2012 will contribute to meeting these targets.

However, Denmark needs to step up its efforts to use renewable energy in the transport sector in particular to meet its target, as in 2009 only 0.26 % of transport used renewable energy. It could also make progress on developing intelligent demand solutions and investments in electricity grids in order to support more than 50 % renewables in electricity in 2020. Denmark has made some progress on the issue as a report[13] containing a series of specific recommendations to inform the government's forthcoming Smart Grid Strategy was published in October 2011. The Energy Agreement 2012 – 2020 states that a comprehensive strategy for establishing smart grids in Denmark is to be drawn up, which is necessary.

As regards energy efficiency, the public sector is committed to reducing the energy consumption in national administration buildings by 10 % in 2011 from 2006 levels which represent good practice. Energy-saving measures taken in the public sector are disseminated and publicised through websites. Voluntary agreements on energy saving activities have also been reached with local authorities and regions.

Environmental goals have been achieved in several policy areas; however, challenges remain in water quality, biological diversity and waste prevention and treatment. These environmental goals and challenges should also be seen in the light of Denmark's 2020 target for GHG reductions in the ETS sectors. Another significant environmental challenge for Denmark is the sustainability of agriculture which remains a challenge for meeting the biological diversity goals and water quality goals and the GHG emissions reduction target for the non-ETS sectors. The Danish government will present a new nature and agriculture action plan in order to meet the environmental challenges for agriculture.

3.5. Modernisation of public administration

The quality of the Danish public administration is generally rated among the best in the EU.[14] The quality of public administration is generally defined by issues such as government efficiency, the use of eGovernment in the public administration and a modern regulatory system. Among the central efforts to achieve a high quality of the Danish public administration are extenstive regulatory and eGovernment reforms.

Regulatory reform has been a priority in Denmark for a long time and many efficient measures have been implemented, in line with AGS priorities. Efforts to reduce administrative burdens for businesses and internally in the public administration have existed for several years. The target of reducing administrative burdens for business (by 25 % from 2002 to 2010) was met in 2010 and in March 2012 the government launched its strategy for reduction of administrative burdens which, like the Commission's

[12] See the Source: National Action Plan for Renewable Energy in Denmark, June 2010, to be found here: http://ec.europa.eu/energy/renewables/transparency_platform/doc/national_renewable_energy_action_plan_denmark_en.pdf

[13] 'Hovedrapport for Smart Grid Netværkets arbejde', (Ministry for Climate, Energy and Buildings).

14 'European semester 2012 – thematic fiche on the quality of Public Administration'.

approach to burden reduction, is centred on the needs of businesses. The main elements of the new strategy are: (1) Setting up a business forum for simpler rules to point out areas with high perceived burdens and propose simplification measures. Ministries then have to comply or explain why they choose not to follow the proposals. (2) Continued efforts to reduce administrative burdens, ensuring that there will be fewer administrative burdens in 2015 than in 2011. (3) Simplifications of EU regulations have to be transposed and 'gold plating' has to be justified. (4) A kick start of the process by proposing simplification measures targeting administrative and other burdens that are percived as irritating by companies.

Denmark has been one of the leading countries regarding eGovernment for several years (in Europe and worldwide)[15] and in August 2011 a new eGovernment strategy was launched. With its new eGovernment plan the government has launched new targets for digital communication with both businesses and citizens. Digital portals for communication with both citizens and business have existed for a number of years and the new strategy takes the digital communication further by introducing mandatory digital communication between public authorities and businesses and citizens. It will be mandatory for citizens to use digital solutions to communicate in writing with public authorities by 2015. For businesses, all relevant communications will be in digital form by the end of 2012.

Additionally, the eGovernment strategy introduces new targets and initiatives regarding use of IT in provision of welfare services (schools, health and care of children, the elderly and vulnerable groups) in order to free up resources and improve the quality of public service.

[15] Eurostat: 'Community Survey on ICT Use in Households and by Individuals, 2011' and 'The UN e-Government Development Index, 2012'.

4. OVERVIEW

2011 commitments	Summary assessment
Country-specific recommendations (CSRs)	
CSR 1: Implement fiscal consolidation measures in 2011, 2012 and 2013 and ensure an average annual fiscal effort of 0.5 % of GDP over the period 2011-2013 as planned and correct the excessive deficit by 2013 in line with the Council recommendation under the EDP. Thereafter ensure, as planned, an appropriate adjustment path towards the medium-term objective. Accelerate the reduction of the general government deficit if economic conditions turn out better than currently expected. Strengthen expenditure control by adopting binding multiannual spending ceilings for local, regional and central government which are consistent with the overall medium-term general budget targets.	When taking discretionary measures as specified in the programme into account, expenditure projections seem to ensure the required adjustment of the excessive deficit in 2013, i.e. a fiscal tightening over the horizon 2011-2013 of 1½%. The second part of the recommendation, regarding expenditure control, has been fully implemented. An agreement on a national Budget Act with the aim of strengthening management of public expenditure in Denmark has recently been concluded, including the establishment of four-year legally binding expenditure ceilings at national, municipal and regional levels to be adopted by the Danish Parliament. The independent Danish Economic Council will be give the task of assessing the long-term sustainability of public finances, the medium-term development of the budget balance and whether the expenditure ceilings are aligned with fiscal targets. The Budget Act will also enshrine the central provisions in the Fiscal Compact in Danish national law (the balanced budget rule and the correction mechanism).
CSR 2: In order to strengthen employment and the sustainability of public finances, take further steps to increase long-term labour supply, by implementing the recently concluded reform on the voluntary early retirement pension scheme, reforming the disability pension and better targeting subsidised employment schemes (the 'flex-job' system) towards the most vulnerable groups.	Denmark has so far partially implemented this CSR. The reform of the voluntary early retirement scheme has been adopted in line with CSR 2 and a proposal to reform the disability pension and flex-job scheme has been put forward. The proposal heads in the right direction when it comes to implementing the recommendation but no reform has yet been adopted.
CSR 3: Speed up the implementation of reforms to improve the quality of the education system. Reduce drop-out rates, particularly in the vocational education sector, and increase the number of apprenticeship places available.	This CSR is considered to be only partially implemented. Denmark has set out a number of targets and plans for education and intends to put forward a range of initiatives aimed at preventing drop-outs from youth education and increasing the number of apprenticeships available. The 2012 budget bill provides funding for 10 400 additional apprenticeship slots, creates 1 500 extra in-school training places, allocates additional resources to boost the quality of teaching and increases the grants offered to in-school apprentices. Nevertheless, Denmark still faces some challenges in the upper secondary educational system.
CSR 4: Take steps to remove obstacles to competition, in particular in local services and the retail sector, by reviewing legislation on land use and opening up procurement in municipalities and regions.	This CSR can be regarded as only partially addressed, as measures for some sectors have still not been implemented. Significant barriers to entry in the services sector were to some extent addressed by a Competition Package adopted in

	2011. The Competition Package is mainly targeting the construction sector, the retail sector, health services and public-sector services. Competition for taxis and liberalisation of pharmacies is being investigated before any measures will be taken. Liberalisation of shop opening hours will be fully implemented in October 2012. Establishment of hypermarkets was submitted for consideration by the broadly composed Retail Trade Forum. The majority of the Retail Trade Forum members does not recommend to relax the Danish Planning Act to allow for establishment of more hypermarkets. The government will discuss the recommendations in spring 2012. The matter of public procurement is to be dealt with in negotiations with regional and local governments.
CSR 5: While supporting the ongoing stabilisation of the real-estate market following the recent price correction, consider preventive action to strengthen the medium-term stability of the housing market and the financial system including reviewing the functioning of the mortgage and property tax systems.	Overall, the CSR has been partially implemented. Closer oversight of the debt level and different mortgage types is planned. The Ministry of Business and Growth is producing a report on the counselling provided by banks and mortgage institutes to customers as well as analyses of the risks associated with household indebtedness and the socio-economic distribution of mortgage loans. Although risks in terms of financial stability are not clear, measures to prevent future housing bubbles, in particular unfreezing property taxes in nominal terms, are relevant. The government has ruled out any changes to property taxation during its current four-year term.
Euro Plus Pact (national commitments and progress)	
In order to strengthen labour supply, employment and public finances, Denmark has announced the following initiatives: • Agreement on retirement reform which strengthens the structural balance by 1 per cent of GDP. • Faster completion of education. • Targeting of the flex-job scheme. In order to strengthen public expenditure control, Denmark committed to: Strengthen the legislation on sanctions concerning expenditure control in local municipalities.	The commitment on the retirement reform has been fully implemented, as it was adopted by Parliament at the end of 2011. The commitment to get students through the education system faster has not been achieved, as no concrete measures have been taken. The commitment on targeting the flex-job scheme has been partially achieved, as a proposal in this regard has been put forward. The commitment to strengthen the legislation on sanctions has been partially achieved, as a proposal for a national Budget Act with the aim of strengthening management of public expenditure in Denmark, including permanent strengthening of the sanctions legislation, has been put forward and agreed on among the government and a majority in parliament.
In order to strengthen competitiveness and productivity the government committed to: A Competition Package with concrete measures focused primarily on construction and service sectors.	This commitment has been fully achieved, as the Competition Package has been implemented.

Europe 2020 (national targets and progress)	
Employment rate target: 80 %	Employment rate (%) in 2009, 2010 and 2011: 77.5, 75.8, 75.7. Improvements have been made towards the target such as adoption of the voluntary early retirement pension reform and the reform proposals on disability pensions and the flex-job scheme. The impact is yet to be seen. However, the government estimates that these reforms will lift the employment rate to 80% in 2020.
R&D investment target: 3 % of GDP	Gross domestic expenditure on R&D (as % of GDP) in 2009, 2010: 3.06 %, 3.06 %[e] Denmark reached its target for R&D investments in 2009.
Greenhouse gas emissions target: -20 % (compared to 2005 emissions, ETS emissions are not covered by this national target)	Change in non-ETS greenhouse gas emissions between 2005 and 2010: -4% (this estimate corresponds to the current ETS scope) Several measures to give priority to the rail system and other public transport have been adopted. The tax exemption for electric cars was extended up to and including 2015.
Renewable energy: 30 %	The share of renewable energy in gross final energy consumption was 19.9 % in 2009 (EUROSTAT) and 21.8 % in 2010 (National RES Progress Report). Denmark has already achieved its 2011/2012 interim target. However, progress towards the target of 10 % renewable energy in the transport sector by 2020 is insufficient. Denmark used less than 1 % renewable energy in the transport sector in 2010, among the lowest in the EU.
Energy efficiency- reduction in primary energy consumption by 2020 (in Mtoe) 0.83 Mtoe	NA. The method of assessment of national progress in energy efficiency is currently under discussion between the institutions in the context of the proposed Energy Efficiency Directive
Early school leaving target: 10 %	Early leavers from education and training (percentage of the population aged 18-24 with at most lower secondary education and not in further education or training) in 2009, 2010: 10.6 %, 10.7 %. Denmark is performing better than the EU average as regards early school–leaving, with a rate of 10.7 % compared to the EU average of 14.1 % in 2010, although the rate has decreased only moderately over the last decade (from 11.7 % in 2000). Denmark has set a national target of 10 % early school leavers in 2020, which seems broadly in line with the developments between 2000 and 2010. It is notable that while Denmark's performance on the early school leaver indicator is good, performance on upper secondary completion is relatively poor. The reason is that a relatively

	large share of 18– to 24-year olds take part in educational activities (i.e. do not come under the definition of early school leavers) without obtaining an upper secondary education before they turn 24.
Tertiary education target: 40 %[16]	Tertiary educational attainment in 2009, 2010: 48.1 %, 47.0 %. As regards higher education attainment, Denmark has progressed significantly, from 33.1 % in 2000 to the current rate of 47 % (2010), which is well above the EU average of 33.6 %.
Target on the reduction of population at risk of poverty or social exclusion in number of persons: -22 000 people in households with low work intensity	People at risk of poverty or social exclusion in 2009, 2010: 360 000, 433 000 No progress has been made towards achieving this target so far.

[16] The Danish national targets are calculated according to a different method than the EU targets. Therefore, it is not possible to compare the Danish reporting under the 2020 targets with the reporting under the Danish national targets.

ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Core indicators								
GDP growth rate	2,8	1,5	1,7	-5,8	1,3	1,0	1,1	1,4
Output gap [1]	0,5	0,5	2,3	-5,0	-4,0	-3,1	-2,3	-1,4
HICP (annual % change)	1,9	2,1	2,2	1,1	2,2	2,7	2,6	1,5
Domestic demand (annual % change) [2]	2,9	1,9	2,5	-6,7	1,3	-0,1	1,9	1,5
Unemployment rate (% of labour force) [3]	5,7	4,9	4,0	6,0	7,5	7,6	7,7	7,6
Gross fixed capital formation (% of GDP)	19,4	19,6	21,0	18,6	17,2	17,2	17,5	17,8
Gross national saving (% of GDP)	21,0	23,1	25,2	20,9	22,7	24,0	23,0	23,0
General government (% of GDP)								
Net lending (+) or net borrowing (-)	**-0,9**	**1,3**	**4,6**	**-2,7**	**-2,5**	**-1,8**	**-4,1**	**-2,0**
Gross debt	**65,4**	**48,8**	**32,7**	**40,6**	**42,9**	**46,5**	**40,9**	**42,1**
Net financial assets	**-32,5**	**-18,9**	**-0,6**	**4,5**	**1,7**	**n.a**	**n.a**	**n.a**
Total revenue	56,5	55,5	56,2	55,2	55,1	56,0	54,5	54,7
Total expenditure	57,3	54,3	51,6	57,8	57,6	57,8	58,6	56,6
of which: Interest	5,0	3,0	1,6	1,8	1,7	1,8	1,5	1,5
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**3,6**	**2,8**	**2,4**	**7,0**	**8,8**	**9,8**	**9,4**	**8,4**
Net financial assets non-financial corporations	**-60,3**	**-61,6**	**-84,9**	**-89,3**	**-94,6**	**n.a**	**n.a**	**n.a**
Net financial assets financial corporations	**-2,9**	**-6,1**	**-12,4**	**0,3**	**1,2**	**n.a**	**n.a**	**n.a**
Gross capital formation	13,5	13,5	14,0	10,2	10,0	10,5	10,5	11,2
Gross operating surplus	20,1	20,6	20,5	18,0	21,0	20,8	21,6	21,9
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**-1,8**	**-1,1**	**-4,0**	**-1,0**	**-0,5**	**-1,2**	**-0,3**	**-1,6**
Net financial assets	**73,3**	**73,2**	**95,6**	**88,8**	**102,1**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	49,5	49,6	49,2	52,8	50,0	49,6	48,9	48,5
Net property income	1,6	1,2	1,5	0,0	1,7	1,3	0,7	0,7
Current transfers received	22,0	21,3	20,7	22,8	23,1	23,7	24,0	24,0
Gross saving	3,2	4,1	2,3	4,3	4,2	3,6	3,7	3,3
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**0,9**	**2,7**	**2,9**	**3,3**	**5,6**	**6,7**	**4,9**	**4,7**
Net financial assets	**22,9**	**13,9**	**3,0**	**-2,9**	**-8,6**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	4,0	5,9	3,4	3,8	5,3	5,3	4,6	4,5
Net primary income from the rest of the world	-1,1	-1,0	1,5	1,6	2,3	3,2	2,4	2,2
Net capital transactions	0,1	0,0	0,1	0,0	0,0	0,2	-0,3	-0,2
Tradable sector	40,8	40,2	38,6	34,7	36,6	36,6	n.a	n.a
Non-tradable sector	44,8	45,5	46,2	51,3	49,5	49,3	n.a	n.a
of which: Building and construction sector	4,3	4,5	4,8	4,6	4,0	4,1	n.a	n.a
Real effective exchange rate (index, 2000=100)	106,3	107,2	119,1	130,6	125,1	123,4	120,0	119,0
Terms of trade in goods and services (index, 2000=100)	98,7	101,4	105,5	106,6	110,0	107,7	107,7	107,8
Market performance of exports (index, 2000=100)	100,0	100,4	95,2	97,9	91,2	93,1	94,3	94,8

Notes:

[1] The output gap constitutes the gap between actual and potential gross domestic product at 2000 market prices.

[2] The indicator for 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' spring 2012 forecast

Table II. Comparison of macroeconomic developments and forecasts

	2011		2012		2013		2014	2015
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	1,0	1,0	1,1	1,2	1,4	1,5	1,8	2,2
Private consumption (% change)	-0,5	-0,5	1,4	0,8	1,6	2,0	2,3	2,4
Gross fixed capital formation (% change)	0,4	0,4	4,6	3,9	3,2	2,0	4,9	4,9
Exports of goods and services (% change)	6,8	6,8	3,2	1,9	4,9	3,3	5,0	5,7
Imports of goods and services (% change)	5,2	5,2	5,0	2,5	5,4	3,4	6,2	6,2
Contributions to real GDP growth:								
- Final domestic demand	-0,5	-0,5	1,8	1,4	1,4	1,4	2,2	2,3
- Change in inventories	0,4	0,4	0,0	0,0	0,0	0,0	0,0	0,0
- Net exports	1,1	1,1	-0,7	-0,2	0,0	0,1	-0,4	0,0
Output gap[1]	-3,1	-3,3	-2,3	-2,6	-1,4	-1,9	-1,2	-0,2
Employment (% change)	-0,5	-0,4	0,1	-0,1	0,3	0,1	0,7	0,7
Unemployment rate (%)	7,6	7,7	7,7	7,6	7,6	7,4	7,0	6,6
Labour productivity (% change)	1,5	1,4	1,0	1,3	1,1	1,4	1,1	1,6
HICP inflation (%)	2,7	2,7	2,6	2,6	1,5	1,5	2,0	2,0
GDP deflator (% change)	0,8	0,8	2,0	1,9	1,5	1,5	2,0	2,0
Comp. of employees (per head, % change)	1,7	1,6	1,7	2,1	1,6	2,1	2,2	2,5
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	6,7	6,5	4,9	5,3	4,7	5,0	3,9	3,7

Note:

[1]In percent of potential GDP, with potential GDP growth according to the programme as recalculated by the Commission.

Source :

Commission spring 2012 forecasts (COM); Convergence programme (CP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2011	2012		2013		2014	2015	Change: 2011-2015
	COM	COM	CP	COM	CP	CP	CP	CP
Revenue	**56,0**	**54,5**	**53,4**	**54,7**	**53,6**	**52,6**	**52,1**	**-3,9**
of which:								
- Taxes on production and imports	16,9	17,0	17,2	17,2	17,4	17,3	17,3	0,4
- Current taxes on income, wealth, etc.	29,9	29,0	29,3	29,4	29,6	29,0	28,6	-1,4
- Social contributions	2,0	1,9	1,0	1,7	0,9	0,8	0,8	-1,2
- Other (residual)	7,2	6,6	6,0	6,4	5,8	5,6	5,4	-1,8
Expenditure	**57,8**	**58,6**	**57,4**	**56,6**	**55,4**	**54,5**	**53,7**	**-4,1**
of which:								
- Primary expenditure	56,1	57,1	55,9	55,2	53,9	53,0	52,1	-4,0
of which:								
Compensation of employees	18,5	18,3	18,4	18,1	18,2	18,0	17,7	-0,9
Intermediate consumption	9,9	10,0	10,0	9,7	9,9	9,8	9,7	-0,2
Social payments	18,7	19,2	19,3	19,1	19,2	19,0	18,7	0,0
Subsidies	2,6	2,7	2,7	2,6	2,6	2,4	2,3	-0,3
Gross fixed capital formation	2,1	2,4	2,4	1,9	1,9	1,9	1,9	-0,3
Other (residual)	4,2	4,6	3,1	3,7	2,0	2,0	1,8	-2,4
- Interest expenditure	1,8	1,5	1,5	1,5	1,5	1,6	1,7	-0,1
General government balance (GGB)	**-1,8**	**-4,1**	**-4,0**	**-2,0**	**-1,8**	**-1,9**	**-1,7**	**0,2**
Primary balance	**-0,1**	**-2,6**	**-2,4**	**-0,5**	**-0,3**	**-0,3**	**0,0**	**0,1**
One-off and other temporary measures	0,0	-0,9	-1,4	0,0	-0,3	-0,4	-0,5	-0,5
GGB excl. one-offs	**-1,8**	**-3,2**	**-2,6**	**-2,0**	**-1,5**	**-1,5**	**-1,2**	**0,7**
Output gap[2]	-3,1	-2,3	-2,6	-1,4	-1,9	-1,2	-0,2	2,9
Cyclically-adjusted balance[2]	0,2	-2,6	-2,3	-1,0	-0,6	-1,1	-1,5	-1,7
Structural balance[3]	**0,2**	**-1,7**	**-0,9**	**-1,0**	**-0,3**	**-0,7**	**-1,0**	**-1,2**
Change in structural balance		*-1,8*	*-1,1*	*0,6*	*0,6*	*-0,4*	*-0,3*	
Structural primary balance[3]	1,9	-0,1	0,6	0,4	1,2	0,8	0,6	-1,3
Change in structural primary balance		*-2,1*	*-1,3*	*0,6*	*0,6*	*-0,4*	*-0,2*	
Expenditure benchmark								
Public expenditure growth[4] (real)		1,52	2,00	-2,03	-2,44	0,37	0,53	-
Reference rate[5,6]		0,86	0,86	0,86	0,86	*0,86*	*0,86*	-
Lower reference rate[5,7]		-0,02	-0,02	-0,02	-0,02	*-0,02*	*-0,02*	-
Deviation in % GDP against applicable reference rate		0,36	0,62	-1,13	-1,33	*0,21*	*0,29*	-
Two-year average deviation in % GDP against applicable reference rate		n.a.	n.a.	-0,38	-0,36	*-0,56*	*0,25*	-

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 information in the programme.

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

[4]Modified expenditure aggregate used for the expenditure benchmark, growth rates net of non-discretionary changes in unemployment benefit and of discretionary measures.

[5]The reference rates applicable to 2014 onwards will be available from mid-2012. For illustrative purposes, the current reference rates have also been applied to the years 2014 onwards.

[6]The (standard) reference rate applies starting in the year following which the country has reached its MTO.

[7]The lower reference rate applies as long as the country is adjusting towards its MTO, including the year in which it reaches the MTO.

Source :

Convergence programme (CP); Commission services' spring 2012 forecasts (COM); Commission services' calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2006-10	2011	2012		2013		2014	2015
			COM	CP	COM	CP	CP	CP
Gross debt ratio[1]	**35,3**	**46,5**	**40,9**	**40,5**	**42,1**	**41,4**	**41,2**	**42,1**
Change in the ratio	1,0	3,6	-5,6	-6,0	1,1	0,9	-0,2	0,9
Contributions[2] *:*								
1. Primary balance	**-3,2**	**0,1**	**2,6**	**2,4**	**0,5**	**0,3**	**0,3**	**0,0**
2. 'Snowball' effect	**0,7**	**1,0**	**0,1**	**0,2**	**0,3**	**0,4**	**0,0**	**0,0**
Of which:								
Interest expenditure	1,6	1,8	1,5	1,5	1,5	1,5	1,6	1,7
Growth effect	0,0	-0,4	-0,5	-0,5	-0,6	-0,6	-0,7	-0,9
Inflation effect	-0,9	-0,3	-0,9	-0,8	-0,6	-0,6	-0,8	-0,8
3. Stock-flow adjustment	**3,5**	**2,5**	**-8,2**	**-8,6**	**0,3**	**0,3**	**-0,6**	**0,9**
Of which:								
Cash/accruals diff.								
Accum. financial assets								
Privatisation								
Val. & residual effects								

Notes:

[1]End of period.

[2]The snowball 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, the accumulation of financial assets, and valuation and other residual effects.

Source :

Convergence programme (CP); Commission services' spring 2012 forecasts (COM); Commission services' calculations.

Table V. Long-term sustainability indicators

	DK		EU27	
	No-policy change scenario	Convergence programme scenario	No-policy change scenario	SCP scenario
S2	3,3	3,4	2,9	0,7
of which:				
Initial budgetary position (IBP)	0,5	0,7	0,7	-1,6
Long-term change in the primary balance (LTC)	2,9	2,6	2,3	2,4
of which:				
pensions	-0,2	-0,3	1,1	1,2
health care and long-term care	3,2	3,1	1,5	1,5
other	-0,2	-0,2	-0,3	-0,3
S1 (required adjustment)*	-0,6	-1,2	2,2	-0,1
Debt, % of GDP (2011)	46,5		82,8	
Age-related expenditure, % of GDP (2011)	30,7		25,8	

Source : Commission, 2012 stability and convergence programmes.
Note: The 'no policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the spring 2012 forecast until 2013. The 'stability programme' 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.

Table VI. Taxation

	2001	2005	2007	2008	2009	2010
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	48,5	50,8	48,9	47,8	47,7	47,6
Decomposition by economic function (% of GDP)[1]						
Consumption	15,7	16,2	16,1	15,4	15,1	15,0
of which:						
- VAT	9,6	10,1	10,4	10,1	10,1	9,9
- excise duties on tobacco and alcohol	0,9	0,7	0,6	0,6	0,6	0,6
- energy	2,7	2,3	2,1	2,1	2,2	2,3
- other (residual)	2,5	3,1	3,0	2,6	2,2	2,2
Labour employed	22,1	20,0	20,3	20,6	20,7	19,5
Labour non-employed	4,8	4,8	4,7	4,8	6,3	5,1
Capital and business income	3,4	7,3	5,2	4,2	2,9	5,3
Stocks of capital/wealth	2,6	2,8	2,7	2,9	2,9	2,8
p.m. Environmental taxes[2]	4,7	4,9	4,6	4,2	3,9	4,0
VAT efficiency[3]						
Acctual VAT revenues as % of theoretical revenues at standard rate	60,8	62,7	65,0	62,4	59,2	58,3

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 (2012), 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 efficency 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 (2011), Tax reforms in EU Member States, European Economy 5/2011, for a more detailed explanation.

Source: Commission services

Table VII. Financial market indicators

	2007	2008	2009	2010	2011
Total assets of the banking sector (% of GDP)	426,8	463,8	493,1	479,7	474,8
Share of assets of the five largest banks (% of total assets)	64,2	66,0	64,0	64,4	…
Foreign ownership of banking system (% of total assets)	19,5	17,6	19,9	…	…
Financial soundness indicators:					
- non-performing loans (% of total loans) [1]	0,6	1,2	3,3	4,1	3,5
- capital adequacy ratio (%) [1), 2]	10,6	12,4	16,1	16,0	17,0
- return on equity (%) [1), 3]	16,1	7,0	-3,2	0,0	-0,2
Bank loans to the private sector (y-o-y % change)	13,5	11,1	-1,9	1,3	-1,4
Lending for house purchase (y-o-y % change)	9,9	5,7	5,2	2,6	1,8
Loan to deposit ratio	300,2	307,8	304,3	305,4	306,3
CB liquidity as % of liabilities	3,6	5,5	1,9	0,6	0,0
Banks' exposure to countries beneficiary of official financial assistance (% of GDP)[4]	7,1	8,7	6,5	5,7	4,5
Private debt (% of GDP)	204,3	218,4	226,3	218,3	…
Gross external debt (% of GDP) [5]					
- Public	10,9	14,6	15,5	15,9	21,4
- Private	38,1	44,0	45,5	46,4	38,9
Long term interest rates spread versus Bund (basis points)*	7,0	30,2	36,5	18,4	12,2
Credit default swap spreads for sovereign securities (5-year)*	…	116,3	58,1	29,0	64,0

Notes:

1) Latest avaiable September 2011.

2) The capital adequacy ratio is defined as total capital devided by risk weigthed assets.

3) Net income to equity ratio. Tier 1 capital.

4) Covered countries are IE, EL, PT, RO, LV and HU.

5) Latest data 2011Q3.

* Measured in basis points.

Source :

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

Table VIII. Labour market and social indicators

Labour market indicators	2006	2007	2008	2009	2010	2011
Employment rate (% of population aged 20-64)	79,4	79,0	79,7	77,5	75,8	75,7
Employment growth (% change from previous year)	1,9	-0,1	1,8	-2,9	-2,3	-0,1
Employment rate of women (% of female population aged 20-64)	74,8	74,7	75,5	74,5	73,0	72,4
Employment rate of men (% of male population aged 20-64)	83,8	83,2	83,9	80,5	78,6	79,0
Employment rate of older workers (% of population aged 55-64)	60,7	58,9	58,4	58,2	58,4	59,5
Part-time employment (% of total employment)	23,9	24,0	24,8	26,3	26,8	26,5
Part-time employment of women (% of women employment)	35,6	35,8	36,3	37,9	38,9	38,2
Part-time employment of men (% of men employment)	13,6	13,6	14,6	15,7	15,5	15,8
Fixed term employment (% of employees with a fixed term contract)	8,9	9,1	8,5	8,7	8,4	8,8
Unemployment rate[1] (% of labour force)	3,9	3,8	3,4	6,0	7,5	7,6
Long-term unemployment[2] (% of labour force)	0,8	0,6	0,5	0,6	1,5	1,8
Youth unemployment rate (% of youth labour force aged 15-24)	7,7	7,5	8,0	11,8	14,0	14,2
Youth NEET[3] rate (% of population aged 15-24)	3,6	4,3	4,1	5,2	5,9	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	9,1	12,5	11,3	10,6	10,7	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	40,8	36,2	36,4	37,6	37,6	:
Labour productivity per person employed (annual % change)	1,3	-1,1	-2,4	-2,7	3,6	1,7
Hours worked per person employed (annual % change)	0,4	-1,0	0,0	-0,7	0,0	-2,3
Labour productivity per hour worked (annual % change; constant prices)	0,9	-0,2	-2,5	-2,0	3,6	4,1
Compensation per employee (annual % change; constant prices)	1,4	1,3	-0,7	1,8	-1,3	0,8
Nominal unit labour cost growth (annual % change)	2,2	4,8	6,1	5,7	-1,0	0,3
Real unit labour cost growth (annual % change)	0,1	2,4	1,8	4,6	-4,7	-0,5

Notes:

[1] According to ILO definition, age group 15-74)
[2] Share of persons in the labour force who have been unemployed for at least 12 months.
[3] NEET are persons that are neither in employment nor in any education or training.

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

Table VIII. Labour market and social indicators (continued)

Expenditure on social protection benefits (% of GDP)	2005	2006	2007	2008	2009
Sickness/Health care	6,09	6,14	6,44	6,72	7,57
Invalidity	4,24	4,24	4,20	4,38	4,91
Old age and survivors	11,03	10,77	10,67	11,07	12,08
Family/Children	3,80	3,74	3,67	3,80	4,20
Unemployment	2,52	2,05	1,58	1,40	2,15
Housing and Social exclusion n.e.c.	0,71	0,66	0,69	0,71	0,75
Total	30,2	29,2	28,8	29,6	33,4
of which: Means tested benefits	0,90	0,85	0,89	0,92	1,00
Social inclusion indicators	**2006**	**2007**	**2008**	**2009**	**2010**
Risk-of-poverty or exclusion[1] (% of total population)	16,7	16,8	16,3	17,6	18,3
Risk-of-poverty or exclusion of children (% of people aged 0-17)	14,5	14,2	12,7	14,0	15,1
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	18,3	18,3	18,6	20,6	18,4
At-risk-of-poverty rate[2] (% of total population)	11,7	11,7	11,8	13,1	13,3
Value of relative poverty threshold (single household per year) - in PPS	9688	10121	10561	10750	10713
Severe material deprivation[3] (% of total population)	3,1	3,3	2,0	2,3	2,7
Share of people living in low work intensity households[4] (% of people aged 0-59 not student)	9,3	9,9	8,3	8,5	10,3
In-work at-risk-of poverty rate (% of persons employed)	4,5	4,2	5,1	5,9	6,6

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 households with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate: 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 work less than 20% of their total work-time potential during the previous 12 months.

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

Table IX: Product market performance and policy indicators

Performance indicators	2002-2006	2007	2008	2009	2010	2011
Labour productivity[1] total economy (annual growth in %)	1,5	-1,2	-2,9	-2,3	3,9	1,6
Labour productivity[1] in manufacturing (annual growth in %)	3,2	0,8	2,4	-2,7	10,3	n.a.
Labour productivity[1] in electricity, gas, water (annual growth in %)	-1,6	-3,4	1,9	-10,0	n.a.	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	0,1	-6,5	-7,0	-3,8	-2,7	n.a.
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	4,3	n.a.	n.a.	n.a.	n.a.	n.a.
Policy indicators	**2002-2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Enforcing contracts[3] (days)	n.a.	380	380	380	410	410
Time to start a business[3] (days)	n.a.	6	6	6	6	6
R&D expenditure (% of GDP)	2,5	2,6	2,9	3,1	3,1	n.a.
Tertiary educational attainment (% of 30-34 years old population)	40,0	42,5	45,4	48,1	47,0	n.a.
Total public expenditure on education (% of GDP)	8,3	7,8	7,8	n.a.	n.a.	n.a.
	2005	**2006**	**2008**	**2009**	**2010**	**2011**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	1,1	n.a.	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	2,9	n.a.	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	1,2	1,2	1.2*	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]Patent data refer to applications designated to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

[3] The methodologies, including the assumptions, of this indicator is presented in detail at the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the Product market regulation indicators are presented in detail at 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 ETCR.

*figure for 2007.

Source :

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

Table X. Indicators on green growth

Denmark		2001-2005	2006	2007	2008	2009	2010
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0,11	0,11	0,11	0,10	0,11	0,10
Carbon intensity	kg / €	0,39	0,37	0,34	0,33	0,34	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0,76	0,84	0,81	0,77	0,67	n.a.
Waste intensity	kg / €	n.a.	0,08	0,08	0,08	n.a.	n.a.
Energy balance of trade	% GDP	1,0%	2,1%	1,9%	1,7%	1,1%	1,1%
Energy weight in HICP	%	11	11	11	11	10	11
Difference between change energy price and inflation	%	1,08	3,3	-1,6	4,1	-3,8	5,1
Environmental taxes over labour taxes	ratio	21,3%	25,1%	23,5%	22,4%	17,7%	n.a.
Environmental taxes over total taxes	ratio	11,2%	12,4%	12,0%	11,9%	10,0%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0,09	0,08	0,07	0,07	0,07	n.a.
Share of energy-intensive industries in the economy	% GDP	10,5	7,4	6,9	7,2	6,5	n.a.
Electricity prices for medium-sized industrial users	€ / kWh	0,06	0,07	0,06	0,08	0,07	0,08
Public R&D for energy	% GDP	n.a.	0,02%	0,03%	0,03%	0,04%	n.a.
Public R&D for the environment	% GDP	n.a.	0,02%	0,02%	0,02%	0,03%	n.a.
Recycling rate of municipal waste	ratio	94,5%	95,0%	95,0%	95,9%	96,1%	n.a.
Share of GHG emissions covered by ETS	%	n.a.	47,8%	43,9%	41,7%	41,7%	n.a.
Transport energy intensity	kgoe / €	0,37	0,38	0,37	0,37	0,43	n.a.
Transport carbon intensity	kg / €	0,94	0,97	0,95	0,94	1,10	n.a.
Change in the ratio of passenger transport and GDP	%	-1,3%	-1,6%	0,4%	1,3%	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	-40,1%	-35,9%	-24,7%	-21,7%	-18,8%	n.a.
Diversification of oil import sources	HHI	n.a.	1,00	0,94	0,99	0,76	n.a.
Diversification of energy mix	HHI	0,30	0,29	0,28	0,28	0,27	n.a.
Share of renewable energy in energy mix	%	12,0%	13,7%	15,6%	16,0%	16,7%	n.a.

Country-specific notes:
The year 2011 is not included in the table due to lack of data.
General explanation of the table items:
Source: Eurostat unless indicated otherwise; ECFIN explanations given 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 EUR)
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP
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 (in kgoe) divided by gross value added of industry (in EUR)
Transport carbon intensity: greenhouse gas emissions in transport divided by gross value added of the transport sector
Passenger transport growth : measured in %-change in passenger kilometres
Energy import dependency: net energy imports divided by gross inland energy consumption incl. of 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 of renewable energy in energy mix: percentage-share in gross inland energy consumption, expressed in tonne oil equivalents