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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Denmark

{SWD(2024) 600 final} - {SWD(2024) 604 final}

Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Denmark

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investment, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it helps achieve the economic and social recovery and implement sustainable reforms and investment, in particular to promote the green and digital transitions and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights.

(2) The REPowerEU Regulation[3], adopted on 27 February 2023, aims to phase out the EU's dependency on Russian fossil fuel imports. This would help achieve energy

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1 OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

2 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17), ELI: http://data.europa.eu/eli/reg/2021/241/oj.

3 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1), ELI: http://data.europa.eu/eli/reg/2023/435/oj.

security and diversify the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Denmark added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

(3) On 16 March 2023, the Commission issued a Communication on the 'Long-term competitiveness of the EU: looking beyond 2030'[4], in order to inform policy decisions and create the framework conditions for increasing growth. The Communication frames competitiveness along nine mutually reinforcing drivers. Among these drivers, access to private capital, research and innovation, education and skills, and the single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the EU and its Member States. On 14 February 2024, the Commission followed this Communication with the Annual Single Market and Competitiveness Report[5]. The report details the competitive strengths and challenges of Europe's Single Market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey[6], marking the start of the 2024 cycle of the European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 22 March 2024. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2024 Alert Mechanism Report, in which it did not identify Denmark as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 12 April 2024, as well as the proposal for the 2024 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 11 March 2024.

(5) On 30 April 2024, the EU's new economic governance framework came into force. The framework includes the new Regulation of the European Parliament and of the Council (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure and the amended Directive 2011/85/EU on the budgetary frameworks of Member States[7]. The objectives of the new framework are public debt sustainability and sustainable and inclusive growth through gradual fiscal consolidation as well as reforms and investments. It promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State should submit to the Council and to the Commission a national medium-term fiscal-structural plan. National medium-term fiscal-structural plans contain the fiscal, reform and investment

[4] COM(2023) 168 final.
[5] COM(2024) 77 final.
[6] COM(2023) 901 final.
[7] Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj) and Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

commitments of a Member State, covering a planning horizon of 4 years or 5 years depending on the regular length of the national legislature. The net expenditure[8] path in the national medium-term fiscal-structural plans should comply with the requirements of Regulation (EU) No 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period at the latest, or for it to remain at prudent levels below 60% of GDP, and to bring and/or maintain the government deficit below the 3% of GDP reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) No 2024/1263, the adjustment period may be extended by 3 years at most. For the purpose of supporting the preparation of those plans, on [21 June] 2024, the Commission is set to provide Member States with guidance on the content of the plans and the subsequent annual progress reports that they will need to submit and, in accordance with Article 5 of Regulation (EU) No 2024/1263, will transmit to them technical guidance on the fiscal adjustments (reference trajectories and technical information, where applicable). Member States should submit their medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. Member States should ensure the involvement of their national parliaments, and the consultation of independent fiscal institutions, of social partners and other national stakeholders, as appropriate.

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

(7) On 30 April 2021, Denmark submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 13 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Denmark[9], which was amended on 9 November 2023 following Article 18(2) of Regulation (EU) 2021/241 to update of the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[10]. The release of instalments is conditional on a decision by the

[8] Net expenditure as defined in Article 2 of Council Regulation (EU) 2024/1263 of 29 April 2024 (OJ L 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj). Net expenditure means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by Union funds revenue, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

[9] Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Denmark (10154/2021).

[10] Council Implementing Decision of 9 November 2023 amending the Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Denmark (14473/2023).

Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Denmark has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(8) The Commission published the 2024 country report for Denmark[11] on 19 June 2024. It assessed Denmark's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 and took stock of Denmark's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Denmark's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(9) Based on data validated by Eurostat[12], Denmark's general government surplus decreased from 3.3% of GDP in 2022 to 3.1% in 2023, while the general government debt fell from 29.8% of GDP at the end of 2022 to 29.3% at the end of 2023.

(10) On 12 July 2022, the Council recommended[13] that Denmark take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[14], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Denmark was recommended to stand ready to adjust current spending to the evolving situation. Denmark was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. In 2023, according to the Commission estimates, the fiscal stance[15] was expansionary, by 2.4% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided an expansionary contribution to the fiscal stance of 1.8% of GDP. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) was driven by higher social benefits and permanent increases in public sector wages. The growth of nationally financed primary current expenditure in 2023 was not in line with the

11 SWD(2024) 604 final.

12 Eurostat-Euro Indicators, 22.4.2024.

13 Council Recommendation of 12 July 2022 on the 2022 National Reform Programme of Denmark and delivering a Council opinion on the 2022 Convergence Programme of Denmark OJ C 334, 1.9.2022, p. 27.

14 Based on the Commission Spring 2024 Forecast, the medium-term potential output growth of Denmark in 2023, which is used to measure the fiscal stance, is estimated at -1.6% in nominal terms (given the negative growth in the GDP deflator in 2023), based on the 10-year average real potential growth rate and the 2023 GDP deflator.

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

Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.2% of GDP in 2023. Nationally financed investment amounted to 3.2% of GDP in 2023, representing an increase of 0.1 percentage points as compared to 2022. Denmark financed additional investment through the Recovery and Resilience Facility and other EU funds. Denmark financed public investment for the green and digital transitions, and for energy security, such as expanding district heating from renewable sources, undertaking energy renovations of public buildings, expanding energy connectivity in the North Sea region, producing hydrogen on the basis of green electricity and providing fast internet connections to households.

(11) The Commission Spring 2024 Forecast projects real GDP to grow by 2.6% in 2024 and 1.4% in 2025, and HICP inflation to stand at 2.0% in 2024 and 1.9% in 2025.

(12) The Commission Spring 2024 Forecast projects a government surplus of 2.4% of GDP in 2024, while the general government debt-to-GDP ratio is set to decrease to 26.5% by the end of 2024. The decrease of the surplus in 2024 mainly reflects higher government consumption, both remuneration and other consumption. Based on the Commission's estimates, the fiscal stance is projected to be expansionary, by 0.3% of GDP, in 2024.

(13) Expenditure amounting to less than 0.1% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, the same as in 2023, according to the Commission Spring 2024 Forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Denmark.

(14) On 14 July 2023, the Council recommended[16] that Denmark maintain a sound fiscal position in 2024. When executing their 2023 budgets and preparing their budgets for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures based on the outturn data for 2023. According to the Commission Spring 2024 Forecast, Denmark's structural balance is projected at 2.4% of GDP in 2024, from 3.6% in 2023, thereby above the country's medium-term budgetary objective (MTO) of a structural balance of -0.5% of GDP. This is in line with what was recommended by the Council.

(15) Moreover, the Council recommended that Denmark take action to wind down the emergency energy support measures in force as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Denmark should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission Spring 2024 Forecast, the net budgetary cost[17]of emergency energy support measures is estimated at 0.5% of GDP in 2023 and projected at 0.1% in 2024 and 0.1% in 2025. The emergency energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council.

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

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

(16) In addition, the Council also recommended that Denmark preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to remain stable at 3.2% of GDP in 2024 from 3.2% of GDP in 2023. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to remain stable at 0.2% of GDP in 2024.

(17) Based on policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission Spring 2024 Forecast projects a government surplus of 1.4% of GDP in 2025. The decrease of the surplus in 2025 mainly reflects higher government consumption, including military expenditure. The general government debt-to-GDP ratio is set to decrease to 25.1% by the end of 2025.

(18) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the plan, including the REPowerEU chapter, is essential to boost Denmark's long-term competitiveness through the green and digital transition, while ensuring social fairness. To deliver on the commitments of the plan by August 2026, it is essential for Denmark to continue the implementation of reforms and investments. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential to ensure broad ownership for the successful implementation of the recovery and resilience plan.

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

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

(21) Denmark has committed to achieving ambitious decarbonisation objectives. The Danish agricultural sector is among the largest sources of the country's greenhouse gas emissions covered by the Effort Sharing Regulation[18]. Moreover, intensive agriculture practices are causing excessive nutrient leaching and run-off from fields, with serious repercussions on soil health and on aquatic and marine ecosystems. Making the agri-food sector more sustainable is therefore key to achieving climate objectives, as well as to restoring degraded biodiversity and ecosystems. In 2023, the Danish agriculture and related industries recorded net exports of around 2% of GDP and agricultural activities are at the centre of employment and competitiveness in less populated regions. Political discussions on introducing a tax on greenhouse gas emissions from the sector are ongoing but, in line with the CAP Strategic Plan of Denmark[19], further efforts are needed to accelerate the transition to sustainable agriculture, while ensuring competitiveness and social fairness. This could be achieved by, among other things, continuing to invest in green technologies, further incentivising rewetting and taking carbon rich soils out of production, reducing livestock numbers, facilitating the transition to organic practices and organic food consumption, and expanding forested and protected areas.

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

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

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

3. Take further efforts for sustainable agriculture by stepping up decarbonisation measures and action to reduce nutrient losses.

Done at Brussels,

For the Council
The President

[18] Regulation (EU) 2023/857 of the European Parliament and of the Council of 19 April 2023 amending Regulation (EU) 2018/842 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement, and Regulation (EU) 2018/1999 (OJ L 111, 26.4.2023, p. 1–14), ELI: http://data.europa.eu/eli/reg/2023/857/oj.

[19] C(2023)7994 final.