

APRIL 2016

**DENMARK'S
NATIONAL
REFORM
PROGRAMME
2016**

THE DANISH
GOVERNMENT

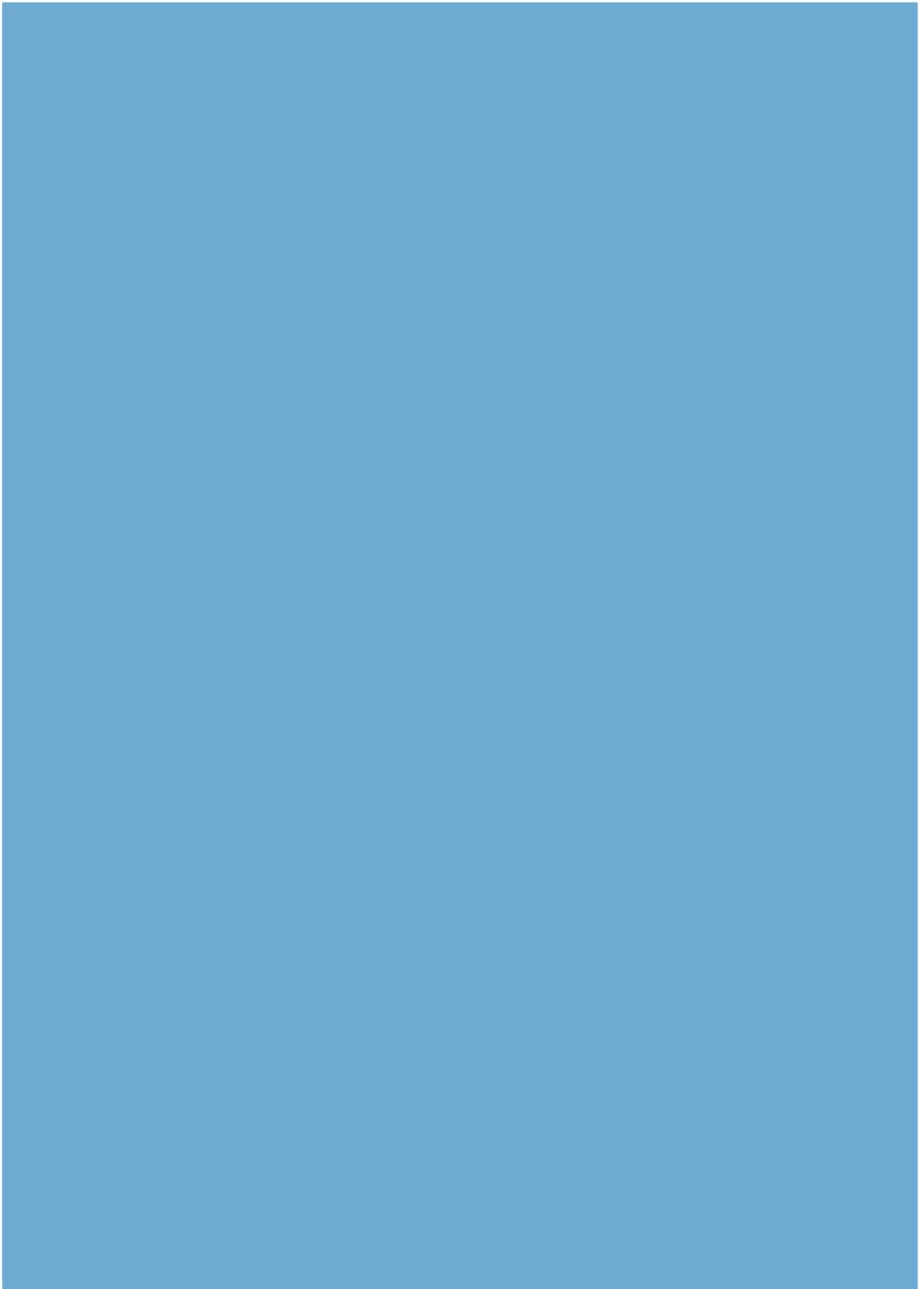
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1. Introduction

The Danish economy is in an ongoing economic upturn even though growth is moderate. This is particularly evident on the labour and housing markets. The conditions for accelerating growth are present, and the focus of economic policy will to a larger extent be on the increase in capacity utilization. Thus, in coming years there will be a need for gradual tightening of fiscal policy from an accommodative starting point, and a close eye should be kept firmly on house-price developments and possible signs of labour shortages. Structural policy is still aimed at strengthening labour supply, increasing productivity, addressing macroeconomic imbalances and ensuring sustainable public finances.

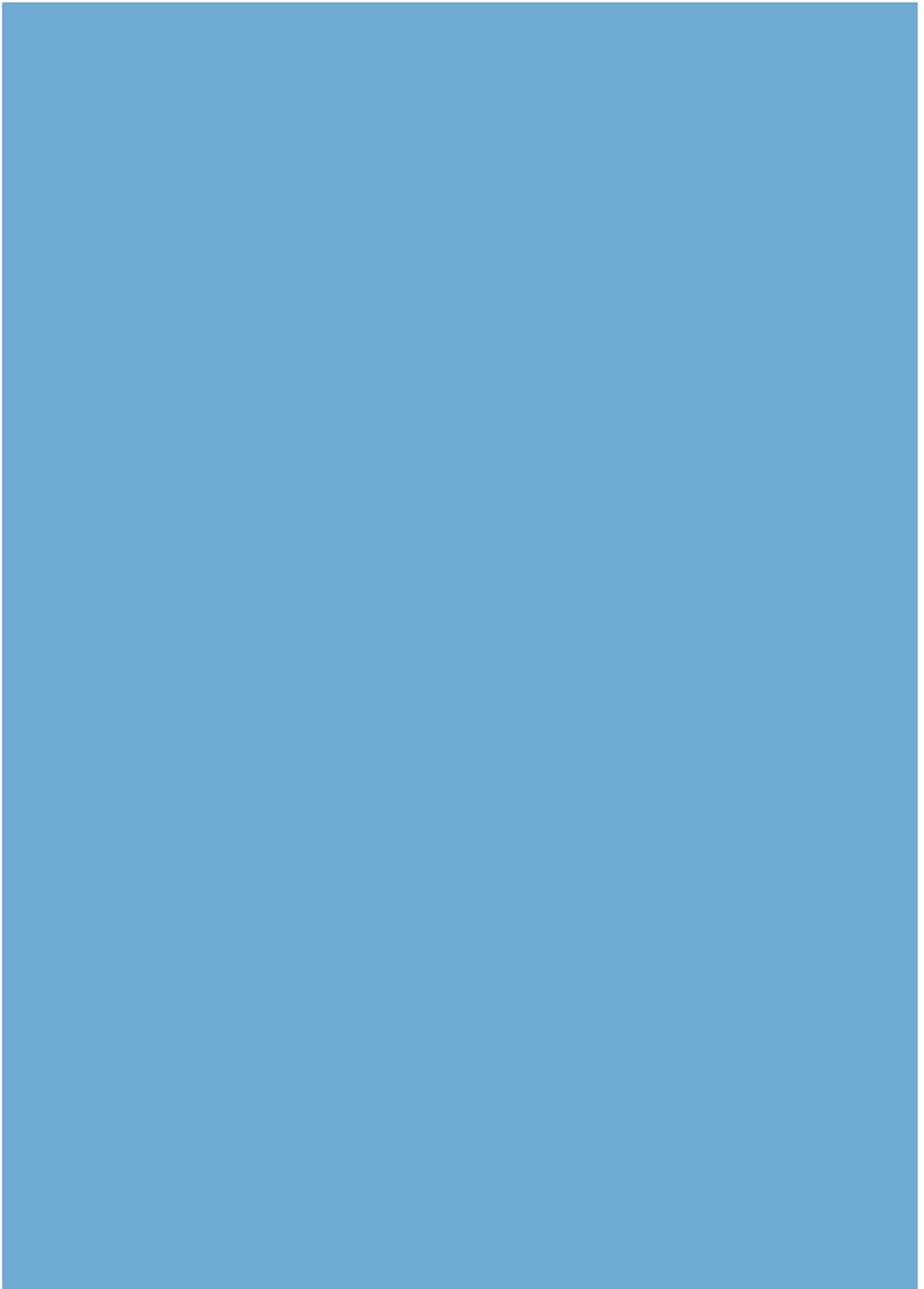
Every spring, in the context of the European Semester, the individual EU countries forward their national reform programmes, which describe the countries' structural reforms. Furthermore, annual stability and convergence programmes are forwarded focusing on medium-term macroeconomic projection and public finances.

Denmark's National Reform Programme 2016 presents the measures that Denmark has taken in order to comply with the country-specific recommendations from EU received in July 2015. It also describes the Danish implementation of EU's growth strategy (Europe 2020). Furthermore, the overall economic framework for the Danish economy is presented being based on *Denmark's Convergence Programme 2016*.

The structure of *Denmark's National Reform Programme 2016* is as follows:

- **Chapter 2** describes the overall economic framework for Denmark, including the economic outlook and fiscal policy.
- **Chapter 3** presents the initiatives that Denmark has undertaken and will undertake in order to comply with the country-specific recommendations received in July 2015.
- **Chapter 4** regards the initiatives that Denmark has undertaken or will undertake to contribute to the fulfilment of the five main goals of the Europe 2020 strategy.
- **Chapter 5** describes the involvement of the Danish Parliament (Folketinget) and non-governmental organizations.

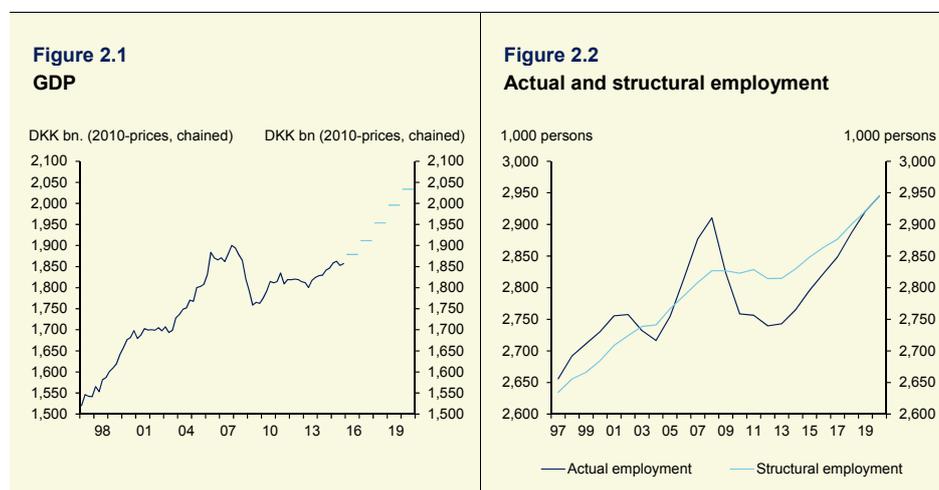
The individual chapters also address a number of the topics and issues raised in the European Commission's country report for Denmark, which was published in February 2016. Among others, the topics include productivity and competitiveness, public finances and fiscal policy, labour market and integration of refugees, property taxes, the housing market and household indebtedness, the current account surplus and barriers to investment.



2. Economic Framework

Outlook for the Danish Economy

The Danish economy has been improving since 2013, and the activity is gradually approaching the level before the downturn in 2008-09, *cf. figure 2.1*. Growth has so far been relatively moderate, and there was a slowdown in the second half of 2015. Nevertheless, the recovery is assessed to continue. This reflects that the fundamental conditions for continued growth in the economy are present. Against this background, growth is expected to pick up in the coming years. By 2019, economic activity is expected to be back to normal.



Note: The light blue horizontal lines in figure 2.1 indicate the expected annual average. Employment in figure 2.2 is calculated including persons on leave.

Source: Statistics Denmark and Denmark's Convergence Programme 2016.

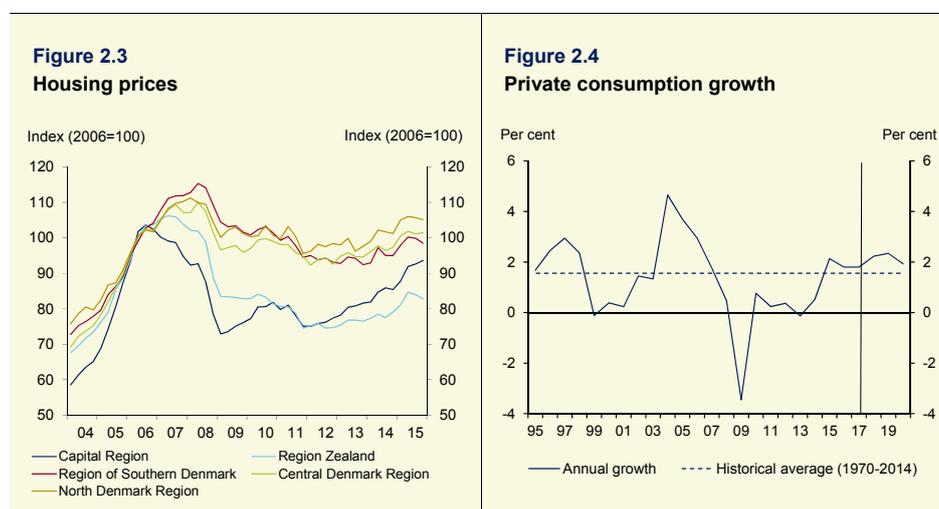
The current improvement in the economy is particularly evident in the labour and housing markets. Since the end of 2012 total employment has increased by 76,000 persons, *cf. figure 2.2*. The reform efforts in recent years have created room for employment to increase further in the years ahead without leading to overall capacity pressures in the labour market, which was the case during the period of overheating in the mid-2000s. The number of unsuccessful recruitments remains at a low level and wage increases are subdued in historical perspective.

The employment growth is also reflected in an increase in advertised vacancies while the number of unemployed per vacancy has been halved since 2010. At the same time, unemployment has fallen to about 115,000 persons (gross unemployment national definition) corresponding to approx. 4.3 per cent of the labour force. The declining unemployment and high job turnover contribute to rather low long-term unemployment.

Housing prices are currently rising in most of the country. Thus, price increases are no longer limited to Copenhagen and other major cities, *cf. figure 2.3*. Housing prices accelerated significantly in the first half of 2015, but have subsequently been more dampened. This development should be seen in light of the fact that mortgage rates rose in April 2015 after being at an extraordinarily low level at the beginning of the year. For 2015 as a whole housing prices were increasing by to approx. 6 per cent on average. Besides the very low interest rate, the increasing housing prices in recent years are also linked to growth in employment and incomes – especially in the metropolitan area. So far, the rising housing prices have not led to significantly higher credit growth, which remains fairly subdued.

The developments in both labour and housing markets contribute to income growth, and private consumption is now rising again, supported by strong consumer confidence. In recent years households have held back on consumption, partly caused by a need for consolidation after the strong rise in consumption in the years characterized by overheating, *cf. figure 2.4*. The current development in private consumption suggests that the adjustment process has more or less come to an end, implying that in coming years private consumption to a larger extent can increase in line with income growth.

Business investments are still evolving sluggishly due to idle capacity. The output gap is expected to narrow gradually in the next few years, increasing the need for new investments. The current low level of investment should therefore mostly be seen as a reflection of the business cycle rather than being a consequence of lack of capital or other restrictive investment barriers. A possible liberalization of the Planning Act regulations concerning the retail industry and coastal areas will enhance growth opportunities in all parts of the country and thus promote investments.



Note.: In figure 2.3 the price indices are not seasonally adjusted.

Source: Statistics Denmark and Denmark's Convergence Programme 2016.

Overall, as domestic demand picks up growth in the Danish economy is expected to be more broadly based in the coming years. This will make the recovery more robust, albeit develop-

ments abroad will continue to be of major importance for a small and open economy such as the Danish. Especially the development in the euro area, which accounts for about one third of Danish exports, is of great importance for the Danish economy. Thus, in recent years GDP growth in Denmark and the euro area has been rather parallel.

In later years the subdued domestic demand has led to a significant increase in the private sector's domestic (financial) savings. The increase in savings contributes to an already high level of gross savings, including considerable pension savings.

The increase in savings has given rise to a currently very large – and partly cyclical – current account surplus of approx. 8 percent of GDP. A number of other factors being of a more structural nature have also contributed to the large current account surpluses. These factors include energy production in the North Sea, sustained terms of trade improvements and increasing wage and wealth income from abroad. The latter is related to the composition of assets and liabilities. A large part of Denmark's foreign assets consist of direct investments, which historically have been characterized by relatively high returns, whilst a large proportion of the Danish liabilities consists of debt with relatively low returns to foreign investors due to the low interest rates.

The current account surplus is expected to decrease in the years ahead as a consequence of rising private consumption and investment (thereby reducing private savings), but the structural conditions continues to contribute to a substantial surplus in 2020, *cf. Denmark's Convergence Programme 2016*.

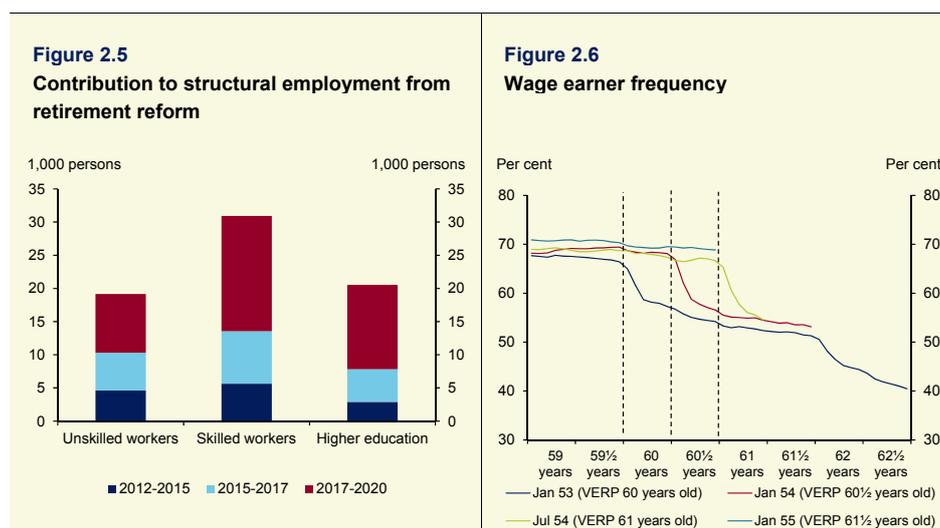
Fiscal policy has been accommodative during the recession. In coming years the prospect of gradually accelerating growth and rising employment affects the fiscal policy required. In order to support a sustainable economic recovery it is key to tighten fiscal policy gradually from the accommodative starting point. The need for a fiscal policy tightening should also be seen in light of the current very accommodative monetary policy and the prospects of continued very low interest rates for a prolonged period.

A gradual tightening of fiscal policy is also aligned with progress being made towards the structural budget balance target in 2020. The budget bill for 2016 involves a consolidation of public finances and furthermore implies that a first step has been taken to create a margin against deficit limit set by the Budget Law. In coming years the fiscal room for manoeuvre will be limited. Fiscal space towards 2020 has been adjusted downwards from approx. DKK 15 bn. to DKK 10 bn. This primarily reflects the drop in oil prices which reduces public revenues from North Sea activities. In the absence of new measures, the fiscal room for manoeuvre must cover the overall priorities, including tax cuts and expenditure growth in high priority areas.

Fiscal policy in Denmark is planned within a responsible framework, which includes the Budget Law's structural deficit limit of 0.5 per cent of GDP and also firm public spending control through expenditure ceilings and sanction mechanisms. An overall description of fiscal policy and public finances is to be found in *section 3.1* below. A more detailed account is available in *Denmark's Convergence Programme 2016*, which also includes a description of the institutional fiscal policy framework in Denmark.

Macroeconomic impact of structural reforms

The reform efforts in recent years have strengthened the structures of the Danish economy, primarily by increasing labour supply and structural employment, *cf. figure 2.5* and *table 2.1* below.



Note.: Figure 2.6 shows the share of a cohort who are wage earners during a month. All wage earners during a month are counted as employed regardless of the amount of work.

Source: Statistics Denmark, Law-model database and own calculations.

The agreements on Welfare Reform in 2006 and the Retirement Reform from 2011 have been crucial in order to achieve long-term fiscal sustainability. These agreements include, among other things, an adjustment of the minimum age for both voluntary early retirement pension (VERP) and old age pension, which will be gradually phased-in over a prolonged period. Early retirement and old age retirement ages are increased to respectively 64 and 67 years towards 2023. Furthermore, retirement ages will be regulated in accordance with a so-called life expectancy indexation. The life expectancy indexation is to be decided by the Danish Parliament (Folketinget) every five years. Therefore, in late 2015 (for the first time) the early retirement and old age retirement ages were increased by one year to 65 and 68 years taking effect from 2027 and 2030, respectively.

The increase of the minimum voluntary early retirement pension age has already increased the employment rate significantly for those aged between 60 and 61 years, *cf. figure 2.6*. The annual budget bill agreements and a number of other political agreements also contain measures that affect labour supply.

Table 1
Effect of larger reforms since 2008 on labour supply in 2020 (persons – full-time equivalent)

Reform	Effect in 2020
Spring Package 2.0, 2009	18,000
Consolidation Agreement, 2010	12,000
Retirement Reform, 2011	65,000
Tax Reform, 2012	11,000
Reforms of disability pensions and flexi-job scheme, student grants and cash benefits, 2012	15,000
Total	121,000

Source: Denmark's Convergence Programme 2016.

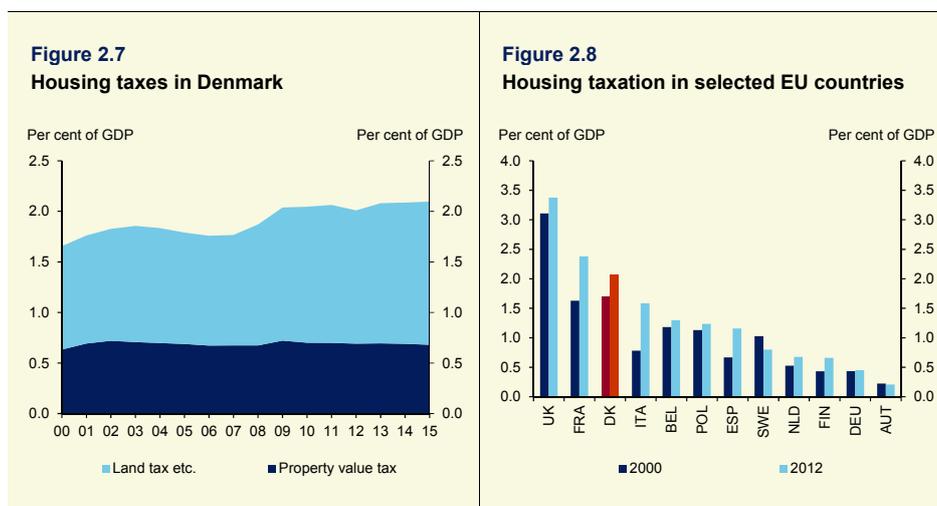
During the recovery of the Danish economy, a number of other measures have been implemented aimed at reducing or eliminating the imbalances that were built up in the years of overheating in the previous decade, but also in order to reduce the risk of new imbalances arising. In particular this involves stricter capital requirements for the financial sector, giving rise to less lenient lending. In addition, a strengthening has taken place due to new macro-prudential instruments aimed at dampening the effect of mechanisms in the financial markets, which amplify cyclical fluctuations.

Furthermore, a number of initiatives to limit unhealthy borrowing have been taken, including the requirement of at least 5 per cent down payment when buying a home (effective from November 2015). Finally, a new guidance from the Danish Financial Supervisory Authority (issued in February 2016) tightens the requirements for credit valuation of especially first-time buyers of homes in areas with large increases in housing prices and high price levels. The various measures should help to reduce the number of people with high debt, and the measures taken are estimated already to have contributed to the current subdued credit developments seen for example in relation the increase in house prices.

The current development in the housing market and in household indebtedness does not in itself give rise to a further tightening of the financial regulation. Housing taxation in Denmark is still subject to the tax freeze – including the nominal freeze on the property value tax – and the cap on increases in the land tax. Moreover, as part of the budget bill for 2016 the land tax for 2016 has been maintained at the 2015 level.

The property value tax freeze contributes to a predictable tax for the individual homeowner, while the cap on increases in the land tax is a mechanism that protects taxpayers against large year-to-year increases in taxation having a marked impact on disposable incomes. The cap on increases in the land tax implies that large increases in the valuations of land only gradually lead to tax increases. However, the government is working on a new and more accurate system for the property valuations which form the basis for housing taxation. The government expects to present the new system in the autumn of 2016.

The housing tax burden (i.e. sum of property value tax and land tax etc. as share of GDP) increased from 2007 to 2009 and has subsequently remained relatively constant, which reflects an increase in revenue from the land tax due to house price developments. In total, the housing taxes currently make up a larger share of GDP than immediately before the financial crisis broke out, cf. figure 2.7. At the same time, the direct housing taxation in Denmark is relatively high in an international perspective, cf. figure 2.8. At the current interest rate level, the property value tax is assessed to be roughly equivalent to the tax value of interest payments. It should in this context be noted that the 2009 tax reform includes a reduction of the deductibility of interest payments for the period 2012-2019.¹



Note: Figure 2.8 shows recurrent housing taxes, which for Denmark includes the property value tax and the land tax etc.

Source: Statistics Denmark, Eurostat *Taxation Trends in the European Union* and own calculations.

Moreover, Denmark has in recent years gradually reduced taxes on labour income. As part of the tax reform from 2012, the earned income tax credit was increased, especially for single parents, and the income threshold for the so-called top tax (i.e. on high incomes) was increased. In addition, the 2009 tax reform, among other things, led to an abolishment of the middle income tax and an increase in the income threshold for the top tax. Overall, there has been a shift in taxation, putting relatively more emphasis on taxes on land and property and less emphasis on taxation of individuals' income and corporate income, since the corporation tax rate is reduced to 22 per cent in 2016 due to *Growth Plan DK*. As part of an upcoming 2025 plan the government will represent a proposal on taxation, which lowers taxes on labour income, cf. JobReform phase 2. The government aims at increasing the economic gain of being employed compared to receiving public transfers.

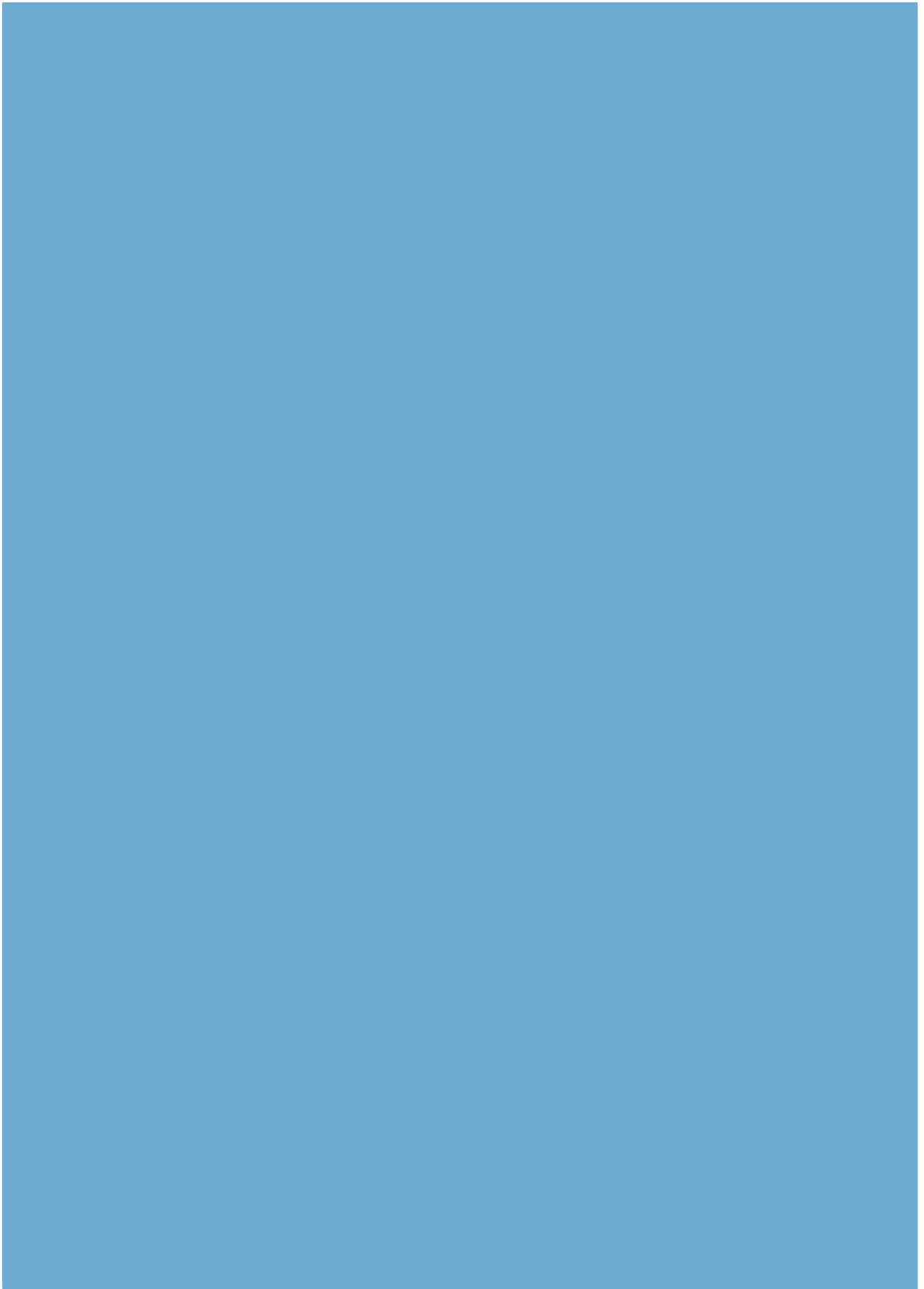
The gross debt of Danish households remains at a high level. However, the debt is offset by large savings primarily in the shape of pension savings and real properties. Thus, the debt in

¹ The reduced tax value concerning interest payment deductibility applies for negative net capital income exceeding DKK 50,000 for unmarried persons and DKK 100,000 for married couples.

itself does not constitute a problem, and generally households are capable to pay off their loans. A number of studies have also shown that the vast majority of households will be able to withstand sizeable interest rate increases. The rapid increase in debt levels during the overheating years in the last decade led to a need for consolidation, which has been reflected in subdued growth in private consumption in recent years.

The total household gross debt as share of GDP has been declining since 2009. The decline is mainly due to a decrease in loans from banks, which also reflects a shift towards mortgage loans with a lower interest rate. Moreover, the fixed-rate loans account for a larger proportion of total mortgage loans, and households repay more mortgage debt. The falling interest rate on mortgage loans reduces households' interest expenditure, while the increase in housing prices increases the wealth of homeowners. Overall, this implies some consolidation of household finances and has left households less vulnerable to interest rate changes.

The government intends to continue the reform policy in the coming years with a focus on long-term growth and private jobs.



3. Country-Specific Recommendations

On 14 July 2015, Denmark received the Council opinion on economic policy as part of the European Semester. The opinion was based on Denmark's Convergence Programme and National Reform Programme for 2015. Denmark received two recommendations, cf. box 3.1.

Box 3.1

Country-specific recommendations for Denmark

The Council recommends that Denmark take action in 2015 and 2016 to:

1. Avoid deviating from the medium-term objective in 2016.
2. Enhance productivity, in particular in service sectors oriented towards the domestic market, including retail and construction. Ease the restrictions on retail establishments and take further measures to remove remaining barriers posed by authorisation and certification schemes in the construction sector.

In late February the European Commission published the annual country report for Denmark. Among other things, the Commission assesses that Denmark has made limited progress concerning the recommendation on productivity. In particular, the initiatives towards easing restrictions in retailing and removing barriers posed by authorisation and certification schemes in the construction sector are judged not to have been sufficient so far. However, the country report notes that both the strategy *Towards a stronger construction sector in Denmark* (from November 2014) and the government's growth initiatives including a proposal on the liberalization of the Planning Act, cf. the plan for *Growth and Development in all parts of Denmark* (from November 2015) will be steps in the right direction, to the extent they are implemented.¹

The country report does not include an actual assessment of the progress concerning Denmark's recommendation on public finances and fiscal policy. Thus, in May the Commission is expected to present assessments on EU countries' fiscal policies – including compliance with the country-specific recommendations on this topic. The Commission's assessments will be based on the EU countries' Stability and Convergence Programmes and the Commission's Spring 2016 Economic Forecast. However, it should be noted that the latest EU assessment of Denmark's public finances based on the Commission's Winter 2016 Economic Forecast

¹ The strategy *Towards a stronger construction sector in Denmark* is available in Danish only as *Vejen til et styrket byggeri i Danmark* at www.efkm.dk. The plan for *Growth and Development in all parts of Denmark* is available in Danish only as *Vækst og udvikling i hele Danmark* at www.evm.dk.

implies that Denmark complies with the preventive rules of the Stability and Growth Pact, although a risk remains for a certain deviation from the medium-term objective (MTO) for public finances in 2016.

3.1 Fiscal policy and public finances

Fiscal policy is planned within the framework given by the Budget Law and the medium-term targets for the Danish economy and EU's Stability and Growth Pact. This involves annual fiscal policy being conducted in accordance with both the Budget Law structural budget deficit limit of 0.5 per cent of GDP and the expenditure ceilings for central government, municipalities and regions which are adopted by the Parliament (Folketinget). The Budget Law structural deficit limit corresponds to Denmark's nationally set medium-term objective for public finances (MTO).²

In the Council's statement based on Denmark's National Reform Programme and Convergence Programme for 2015 it is recommended to *"Avoid deviating from the medium-term objective in 2016."*

Gradual tightening of fiscal policy in coming years

Based on the budget bill for 2016 the structural budget deficit is estimated at 0.4 per cent of GDP, *cf. table 3.1*. When calculating the structural budget balance the actual balance is not only adjusted for cyclical effects and specific one-off measures. Among others, fluctuations in both revenues stemming from North Sea oil and gas production and the pension yield tax are also corrected for. Concerning e.g. 2016 these revenues are expected to be significantly below their estimated structural levels corresponding to just over 1 per cent of GDP in total. The EU Commission does not adjust for these factors in the common method for calculating the structural balance, whereby estimates for Denmark appear less robust than the structural balances calculated by the Danish Ministry of Finance. However, in the EU Commission's assessment of compliance with the MTO-rules these factor are included as part of the overall considerations, *cf. box 3.2 below*.

² Thus Denmark's nationally fixed MTO is more ambitious than the EU-Commissions minimum requirement which implies a MTO for the structural budget balance of at least -1.0 per cent of GDP for Denmark. The more ambitious MTO reduces the risk that the actual budget deficit in a normal recession exceeds the 3 per cent of GDP limit given by the Stability and Growth Pact. Furthermore, Denmark has historically often set a MTO which is more ambitious than the minimum requirement.

Table 3.1
Actual and structural budget balance

	2014	2015	2016	2017	2018	2019	2020
Per cent of GDP							
Actual balance	1.5	-2.1	-2.3	-1.9	-1.8	-1.3	0.0
Structural balance	-0.9	-0.6	-0.4	-0.4	0.3	0.2	0.0

Source: Statistics Denmark and Denmark's Convergence Programme 2016.

From an estimated structural deficit of 0.4 per cent of GDP in 2016, the budget deficits should be gradually phased out. This is aligned with a recovering economy and making progress towards the target of structural budget balance in 2020. The starting point for fiscal policy is accommodative since fiscal room for manoeuvre has been fully utilized to support the Danish economy during the recent recession. At the same time, monetary policy remains very accommodative increasing the need for fiscal tightening, such that overall economic policy supports a sustainable recovery.

In the coming years, the fiscal room for manoeuvre is limited. Given the structural budget balance target in 2020, there is a fiscal space of approx. DKK 10 bn. compared to a scenario with zero real growth in public consumption. New reforms which increase private employment could dampen future labour market pressures and also increase the fiscal space.

Box 3.2
Ministry of Finance and EU Commission estimates for structural balance 2014-2016

The Ministry of Finance's estimates for the structural balance in 2014-2016 has generally been rather stable across the Economic Surveys, which are normally published in May, August (at the presentation of the budget proposal for the coming fiscal year) and December (in connection with the approval of the budget bill for the coming fiscal year), *cf. table a*. The EU Commission's structural balance estimates for Denmark has varied considerably more across their Spring, Autumn and Winter Economic Forecast, *cf. table b*. Among others, the significantly larger variation is due to the fact that the EU Commission's structural balance calculations solely takes into account the cyclical effects on public finances and specific one-off measures, e.g. the temporary revenues from the restructuring of capital pension schemes etc. in 2013-15. The EU Commission's structural balance estimates ensure a uniform methodological approach across countries, but at the same time it also implies that no adjustment is made for special factors, which may apply in the various EU countries. As a consequence, in the Danish case the rather significant fluctuations in revenues from e.g. oil and gas activities in the North Sea and the pension yield tax are not taken into account.

Box 3.2 (continued)**Ministry of Finance and EU Commission estimates for structural balance 2014-2016****Table a****Ministry of Finance estimates for structural budget balance**

	Dec. 2012	May 2013	Aug. 2013	Dec. 2013	May 2014	Aug. 2014	Dec. 2014	May 2015	Sep. 2015	Dec. 2015	Largest revision
Per cent of GDP											
2014	-0.2	-0.1	-0.4	-0.5	-0.7	-0.8	-0.5	-0.7	-0.9	-0.9	±0.3
2015	-	-	-	-0.4	-0.4	-0.5	-0.6	-0.6	-0.9	-0.7	±0.3
2016	-	-	-	-	-	-	-0.5	-0.5	-0.4	-0.4	±0.1

Table b**EU Commission estimates for structural budget balance**

	Au- tumn 2012	Winter 2013	Spring 2013	Au- tumn 2013	Winter 2014	Spring 2014	Au- tumn 2014	Winter 2015	Spring 2015	Au- tumn 2015	Winter 2016	Largest revision
Per cent of GDP												
2014	-0.6	-0.5	-0.3	-0.1	-0.3	-0.2	-0.2	1.2	0.4	0.6	0.3	±1.4
2015	-	-	-	-0.3	-0.5	-0.5	-1.2	-1.8	-0.5	-2.3	-1.7	±1.8
2016	-	-	-	-	-	-	-0.7	-1.5	-1.4	-1.0	-1.4	±0.8

Note: The Ministry of Finance method for calculating the structural budget balance was updated in Economic Survey, December 2014, where the effects of ESA2010 was implemented in the forecast. Thus the revised estimates from August 2014 to December 2014 are affected by methodological changes, including revised calculations of output and employment gaps. The column "largest revision" shows for a given year the largest change in the estimated structural balance from one forecast and to the next.

Source: Various forecast according to the EU Commission and Economic Survey and own calculations.

The Ministry of Finance estimates for the structural balance are used when assessing compliance with the provisions given by the national Budget Law and the Fiscal Compact. In this perspective, the volatile revenue items do not give rise to large challenges regarding fiscal policy planning in Denmark.

Box 3.2 (continued)**Ministry of Finance and EU Commission estimates for structural balance 2014-2016**

The Commission regularly monitors compliance with and progress towards the individual countries' MTOs. The monitoring is based on an overall assessment, which includes the development in Commission estimates for the structural balance and compliance with the so-called expenditure rule, respectively. The expenditure rule implies that real growth in public expenditures³ generally should not exceed the potential real GDP growth, leading to a stabilization of the structural balance over time. A larger expenditure growth is allowed, when accompanied by discretionary measures ensuring correspondingly higher revenues. However, if a country has not yet reached its MTO, the real expenditure growth should be lower than the potential real GDP growth in order to ensure a certain adjustment toward the MTO, the size of the adjustment being dependent of, among others, the growth situation and the level of public gross debt in the country considered.

The latest EU assessment of Denmark's public finances covering the period 2014-16 and being based on the Commission's Winter 2016 Economic Forecast implies that Denmark complies with the rules given by the preventive arm of the Stability and Growth Pact. However, the assessment includes a risk of a certain deviation from the MTO in 2016, when taking into account fluctuations in particularly volatile revenue items and the extraordinary tax revenues due to the restructuring of capital pensions etc., which lapses in 2016.

Budget bill for 2016 strengthens public finances

When assessing the Danish economy and public finances in August 2015, new statistical information implied that the room for manoeuvre in expenditure policy had to be reduced by DKK 3 bn (corresponding to approx. 0.15 per cent of GDP) in 2016 in order to ensure compliance with the Budget Law's structural deficit limit of 0.5 per cent of GDP, *cf. figure 3.1*.

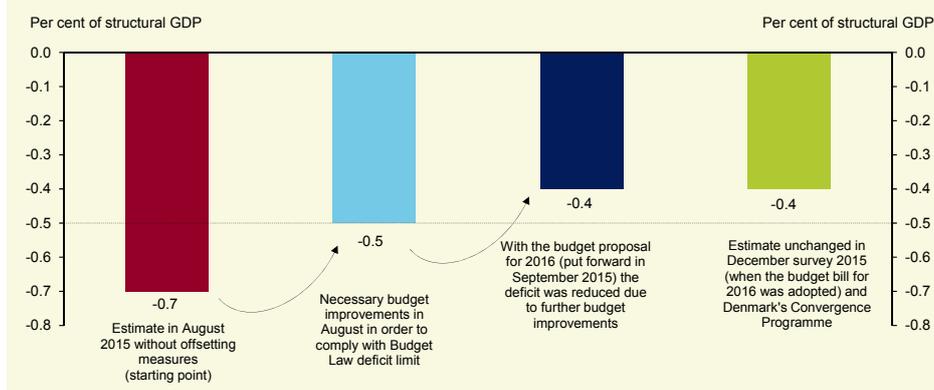
The new information included lower income tax revenues through income taxes and a revised assessment of the underlying structures on the labour market, whereby the estimated structural labour force was adjusted downwards. Overall, the implication was a weakening of the outlook for public finances compared to previous expectations. Thus, without offsetting measures a structural budget deficit of approx. 0.7 per cent of GDP in 2016 was estimated.

The government's budget proposal for 2016 put forward in September 2015 included a further fiscal improvement in order to ensure a margin vis-à-vis the Budget Law deficit limit. Thus, the structural budget deficit was estimated at 0.4 per cent of GDP in 2016, *cf. updated 2020-projection, September 2015* (only available in Danish as *Opdateret 2020-forløb, September 2015* at www.fm.dk).

The agreement on the budget bill for 2016 was fully financed and maintained the strengthening of public finances. On a fully updated basis the structural budget deficit remains currently at 0.4 per cent of GDP in 2016. Thus, the consolidation of public finances as part of the conduct of fiscal policy in 2016 has both contributed to compliance with the Budget Law structural deficit limit and the country-specific recommendation to "avoid deviating from the medium-term objective in 2016".

³ Excl. certain expenditures, which the government does not control directly – e.g. cyclically dependent expenditures related to unemployment.

Figure 3.1
Structural budget balance estimates for 2016



Source: Economic Survey, August and December 2015, Updated 2020-projection, September 2015 and Denmark's Convergence Programme 2016.

Among others the structural deficit in 2016 reflects that the starting point for fiscal policy is accommodative in spite of the consolidation of public finances. For instance, the current level of public investment remains high by historical standards. The accommodative starting point is due to the fact that fiscal policy in later years has been planned in order to support the Danish economy as much as possible in wake of the economic crisis.

The Danish economy has been improving for two years now. The recovery is moderate but the basis for further growth in the coming years is solid. Hence, it is key that fiscal policy is adjusted to a new cyclical situation – i.e. tightened relative to the accommodative starting point. And it is a basic requirement for sound public finances that fiscal easing during a recession is offset by a corresponding tightening as the economy recovers.

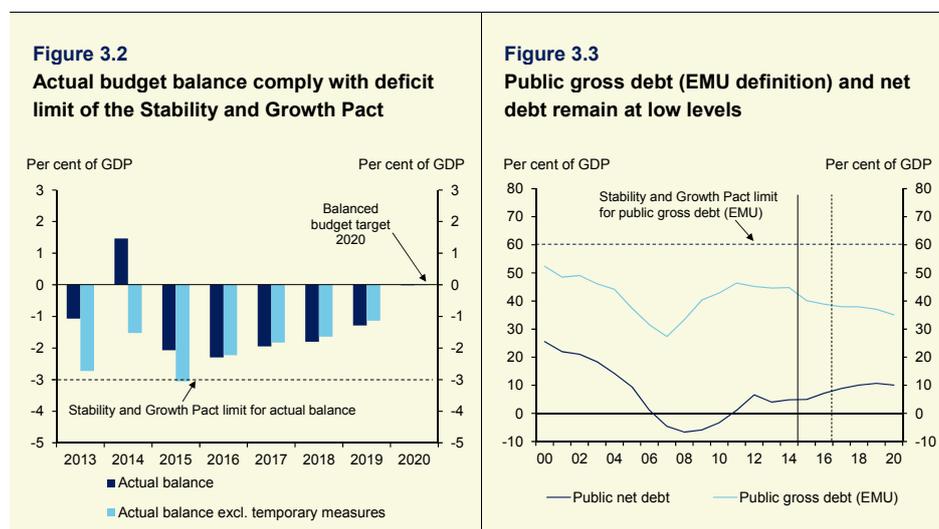
The tightening of fiscal policy should also be seen in light of the fact that monetary policy is expected to remain very accommodative in coming years, thereby supporting domestic demand. All else being equal this increases the call for a gradual tightening of fiscal policy as the output and employment gaps are closing. It is key that economic policy as a whole is aligned with the business cycle in order to reduce the risk of overheating the economy.

Outlook for actual budget deficits in compliance with EU limit

The Danish public finances are very sensitive to the cyclical situation and are furthermore rather often significantly affected by temporary fluctuations in financial markets, oil prices etc. Hence, fiscal policy is primarily planned on the basis of the structural budget balance which is adjusted for such temporary factors.

However, at the same time it is also important that the actual balance comply with the framework due to EU's Stability and Growth Pact. Hence, the Budget Law structural deficit limit is set at 0.5 per cent of GDP – which coincides with Denmark's nationally set MTO – in order to support compliance with the actual budget deficit limit of 3 per cent of GDP. Towards 2020

the actual budget balance is expected to remain within the deficit limit given by the Stability and Growth Pact, *cf. figure 3.2*.



Note: The actual budget balance excl. specific temporary measures corrects for a number of one-off factors, including in particular one-off revenues due to the restructuring of existing capital pensions (in 2013-15) and LD-funds (in 2015) and the extraordinary depreciation and amortization of arrears from tax and duties (primarily in 2013-15).

Source: Statistics Denmark and Denmark's Convergence Programme Denmark 2016.

On a preliminary basis Statistics Denmark has calculated the actual budget deficit to 2.1 per cent of GDP in 2015. However, the actual balance in 2015 is affected by certain special temporary factors. First and foremost, this includes the one-off revenues stemming from the so-called pension package currently estimated at DKK 27 bn. (corresponding to almost 1.4 per cent of GDP). The pension package includes tax revenues linked to the restructuring of capital pensions and LD-funds, *cf. Convergence Programme Denmark 2016*. In the opposite direction weighs an extraordinary depreciation and amortization of public arrears due to changes in the accounting principle concerning debt to the public sector etc., which weakens the actual balance negatively by approx. DKK 6 bn. in 2015 (corresponding to 0.3 per cent of GDP).

Currently, an actual budget deficit of 2.3 per cent of GDP is estimated for 2016, which implies a fair margin against the limit given by the Stability and Growth Pact. The somewhat higher actual deficit in 2016 compared to 2015 primarily reflects that the one-off revenues from restructuring of capital pensions etc. mentioned above reduce the actual deficit considerably in 2015. In 2017, where the Danish economy currently is expected to grow by 1.7 per cent, the actual budget deficit is forecast at 1.9 per cent of GDP.

Given the budget deficits in 2015-2017, public net debt is estimated at a relatively moderate level of approx. 9 per cent of GDP by the end of 2017, *cf. figure 3.3*. Furthermore, public gross debt (EMU definition) is estimated at approx. 38-40 per cent of GDP in 2015-2017

compared to somewhat below 45 per cent of GDP in 2014. Hence, a broad safety margin is maintained against the 60 per cent of GDP limit given by the Stability and Growth Pact. The decline in gross debt (EMU definition) from 2014 to 2015-2017 among others reflects the decision to stop the issuance of central government bonds for the period 30 January to 7 October 2015. In the medium-term projection towards 2020 net debt increases slightly to approx. 10 per cent of GDP, while the gross public debt (EMU definition) decreases to approx. 35 per cent of GDP.

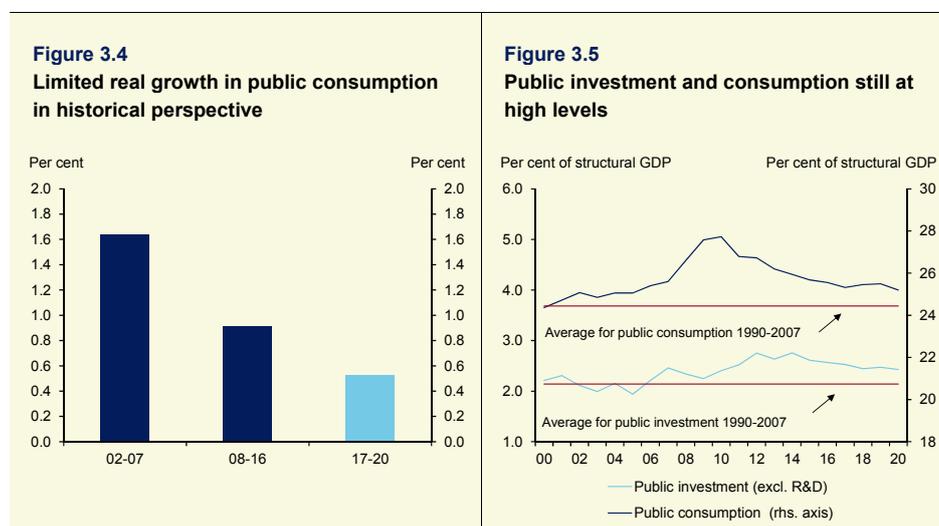
Limited fiscal space towards 2020

Given the structural budget balance target for 2020 the fiscal room for manoeuvre amount to approx. DKK 10 bn. That is a substantial downward revision compared to the former medium-term project from September, where the fiscal space was estimated at approx. DKK 15½ bn. kr. towards 2020. The fiscal space is calculated relative to a scenario with zero real growth in public consumption.

The smaller fiscal room for manoeuvre primarily reflects declining oil prices. All else being equal, this reduces the expected revenues from the oil and gas activities in the North Sea in coming years.

A fiscal space of DKK 10 bn. over the next four years is limited in historical perspective. This is especially true in light of a growing population – including the large influx of refugees, *cf. below*. In the absence of new measures and reforms, the room for manoeuvre must cover the overall priorities for both tax cuts and expenditure growth in high priority areas and furthermore the financing of unforeseen additional spending etc. which may arise.

The concrete implementation of the fiscal room for manoeuvre will reflect political priorities. However, in the medium-term projection fiscal space has technically been included as public consumption – and corresponds to an average real growth rate of 0.5 per cent for the period 2017-20, *cf. figure 3.4*. This is a low growth rate by historical standards. Furthermore, demographic pressure corresponds to a real growth rate of 0.8 per cent per annum during the same period, *cf. also chapter 3 in Denmark's Convergence Programme 2016*.



Note: Real growth in public consumption is excl. depreciation and based on the input method.
Source: Statistics Denmark and Denmark's Convergence Programme 2016.

The limited fiscal space increases the need to prioritize carefully and increase public sector efficiency. However, despite a limited potential *growth* in public consumption in the years to come the *level* remains high, cf. figure 3.5. For 2016 total public consumption is estimated at approx. DKK 530 bn. (corresponding to approx. 26 per cent of GDP). Thus, a key challenge will be to use public funds as good as possible.

In later years public investment has – like public consumption – been historically high. In the coming years it is essential that public investment are adjusted in correspondence with the levels in the medium-term projection. This is key in order to support the improvement of public finances towards structural balance in 2020. The adjustment of public investment is a precondition for the aforementioned fiscal room to other priorities.

Expenditure control based on expenditure ceilings

A responsible economic policy is essential in order to maintain confidence in fiscal policy and to establish a solid base for future growth in the Danish economy. With the Budget Law, which was adopted by a large majority in the Danish Parliament in 2012, the fiscal policy framework in Denmark has been strengthened.

The Budget Law establishes a link between the overall development in public finances – measured by the structural balance – and the expenditure control for central government, municipalities and regions. Thus the Danish Parliament sets binding expenditure ceilings for central government, municipalities and regions for a period which continuously covers 4 years ahead. The expenditure ceilings were introduced in 2014 and currently 2019 is the last year being covered.

The expenditures included in the annual budget bills must respect the overall limits given by the expenditure ceilings set for central government. The same applies to municipal and re-

gional budgets, which must comply with the expenditure ceilings set for municipalities and regions, respectively. This implies less uncertainty about future expenditure developments. The expenditure ceilings are determined on the basis of a medium-term projection which respects the Budget Law structural deficit limit, and which furthermore includes a gradual adjustment towards the balanced budget target in 2020. In addition, the medium-term projection is exclusively based on reforms and funding initiatives that are backed by a majority in the Parliament.

The expenditure ceilings contribute to support that overall fiscal targets can be met. However, there is uncertainty associated with economic projections and structural balance calculations, including not the least revenues estimates. Thus, changes in assumptions etc. may imply that the structural balance can subsequently develop differently than estimated, when expenditure ceilings was set originally.

This has been the case in 2014-2017, where the current structural deficit estimates are higher than expected in *Denmark's Convergence Programme 2013*, which formed the original basis for the expenditure ceilings set for 2014-17. Therefore, when planning fiscal policy for 2016 discretionary budget improvements was decided upon in order to reduce the structural deficit, *cf. above*. As a result, amendments to the expenditure ceilings was put forward and subsequently adopted, which reduce the central government sub-ceiling for operating expenses equivalent to a total consolidation of DKK 5 bn. in both 2016 and 2017.

The expenditure ceilings for 2014 were met with a certain margin, *cf. table 3.2*. Furthermore, the final expenditure control for central government based on accounting figures for 2015 shows, that the two central government sub-ceilings were complied with in 2015. Compliance with the municipal and the two regional sub-ceilings will be assessed based on municipal and regional accounting figures for 2015, which are expected to be finalized in late April 2016. With respect to 2016 the budgeted costs for central government, municipalities and regions, respectively, meet the expenditure ceilings contained in the budget bill for 2016.

Table 3.2
Expenditures and expenditure ceilings, 2014-16 – ceilings stated in brackets

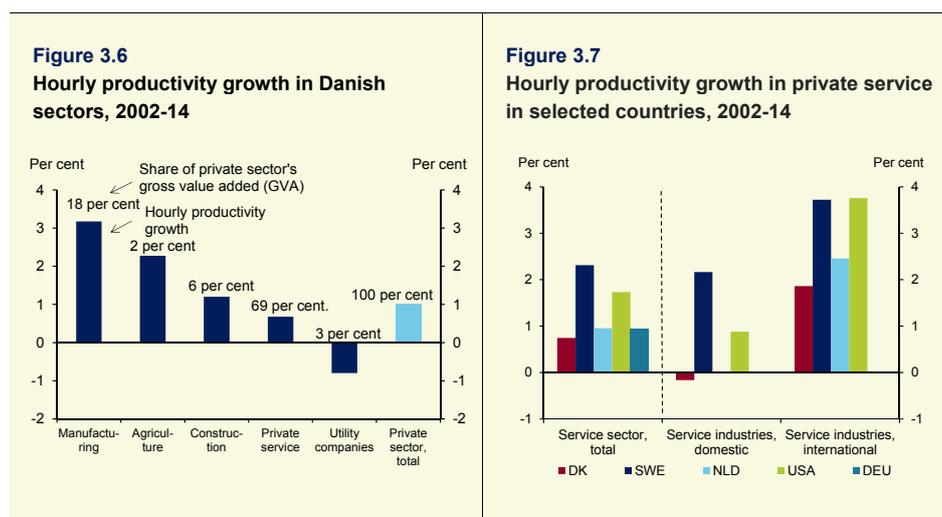
DKK bn. (current prices)	2014	2015	2016
Central government sub-ceiling: operating expenses	178.8 (185.3)	179.3 (188.4)	182.2 (182.2)
Central government sub-ceiling: income transfers	247.8 (252.3)	250.9 (257.7)	254.3 (257.4)
Municipal expenditure ceiling	227.8 (230.2)	233.1 (233.2)	237.2 (237.4)
Regional sub-ceiling: health care	102.3 (102.6)	104.7 (104.7)	107.4 (107.4)
Regional sub-ceiling: development tasks	2.9 (2.9)	3.0 (3.0)	3.0 (3.0)

3.2 Enhance productivity and ease restrictions

Over a very long period, productivity developments have been the main driver of growth and prosperity in Denmark. Thus, the growth potential is being challenged by the weak productivity gains in Denmark in recent years, both seen in historical and international perspective.

Good framework conditions for businesses play a key role for productivity, and therefore also the general level of wealth. Improvements of the framework conditions include simpler and more effective regulation, competitive business taxation, reductions of burdens, and enhanced competition. In this regard, it is essential that regulation and legislation support easy establishment of new companies and easy access to the Danish market for foreign companies, without encountering unnecessary barriers.

For a number of years, the industrial and the agricultural sectors have had relatively high productivity growth across sectors. On the other hand, productivity in the construction sector and, especially, private services – representing almost 70 percent of the private sectors gross value added (GVA) – has grown at a significantly slower rate, cf. figure 3.6.



Note.: In figure 3.6 the private service sector is defined as trade, transport, information and communications, finance and insurance, real estate etc., residential, business and administrative services and help services. There is uncertainty associated with the data for the construction sector because of inadequate deflators. Extraction of raw materials is omitted. The shares of private sector gross value added (GVA) is for 2014.

Source: Danish Ministry of Finance (2016): *Economic Analysis: Productivity and competition*, January 2016 only available in Danish as *Økonomisk Analyse: Produktivitet og konkurrence* at www.fm.dk.

In contrast to the industrial sector, productivity growth in the service sector has generally been weak. Thus, productivity growth in the Danish private service sector has been significantly lower than in e.g. USA and Sweden, and in line with the development in countries like e.g. the Netherlands and Germany, cf. figure 3.7. Within the private service sector, hourly

productivity growth has been particularly low in domestic-oriented industries – including hotels and restaurants, knowledge services and retail – which are more protected from outside competition. The industries in the service sector, that are exposed to international competition, are performing better, although productivity growth in these sectors has still been low compared to Sweden, the Netherlands and the United States.

The Council's recommendation for Denmark regarding increased productivity, etc. should be seen in this perspective.

For the period 2015-2016, the Council recommended Denmark to "*Enhance productivity, in particular in the services sectors oriented towards the domestic market, including retail and construction. Ease the restrictions on retail establishments and take further measures to remove remaining barriers posed by authorisation and certification schemes in the construction sector.*"

The government platform *Together for the future* from June 2015 (available in English at www.stm.dk) outlined a series of initiatives to strengthen growth, productivity and development throughout Denmark. A tax and burden stop has been introduced, and burdens on businesses will be reduced by up to DKK 3 bn. DKK towards 2020. The government has also established an Implementation Committee which will work towards decreasing "gold plating" of EU-regulation which can hamper Danish companies' ability to compete. Furthermore, the government has introduced two annual dates concerning implementation of business oriented rules. This implies that new regulations affecting businesses should generally enter into force on either 1 January or 1 July only.

In addition on 23 November 2015, the Government presented its plan for *Growth and Development in all parts of Denmark* (only available in Danish as *Vækst og udvikling i hele Danmark* at www.evm.dk). The proposal contains a number of initiatives aimed at increasing productivity, including specifically a proposal on liberalization of the Danish Planning Act, which regulates retail stores' size and location.

Domestic-oriented services: Retail etc.

Productivity growth in the Danish retail sector has been low since the middle of the 1990's, when measured against comparable countries. For instance, the annual productivity growth in Denmark has been almost 1.9 percentage points below the Swedish productivity growth for the period 2000-2012. This indicates that there is a large potential with regards to improving productivity in the Danish retail sector.

The relatively high retail prices in Denmark can partly be explained by the relatively low productivity in the retail sector. Danish consumers pay approx. 2-4 percent more for retail goods, compared to the average price level in a range of other European countries (Belgium, Finland, France, Germany, Italy, and the Netherlands). The numbers mentioned above are adjusted for factors such as VAT, taxes, wealth, and promotional pricing which can affect the overall price level, cf. *Statement on Retail Planning 2015* by The Ministry of Business and Growth (only available in Danish as *Redegørelse om detailhandelsplanlægning 2015* at www.evm.dk).

Shops Closing Act

During the past few years there has been an increasing focus on the challenges faced by the retail sector. Thus, the rules regulating shops' opening hours have been liberalized several times, most recently in 2015. The changes have made it easier for shops to acquire exemptions for closing days in case of special events. The effects of this liberalization are expected to materialize over several years.

Planning Act

The Productivity Commission has among other things pointed out that the existing Planning Act limits the size and location of stores, which hinders the development of efficient store sizes and locations. In order to strengthen productivity in the retail sector, The Productivity Commission called for a liberalization of the Planning Act, allowing for larger shops and freer options for location of shops.

With the initiatives put forward by the government in the plan for *Growth and Development in all parts of Denmark* it is proposed that regulation concerning the retail sector should to a certain extent be liberalized in order to increase productivity.

The government has proposed that the size limits for stores selling durable goods, which are regulated by the Planning Act, should be removed in order to allow municipal councils to determine and regulate store sizes within the individual municipalities. Physical proximity plays a special role for grocery stores, and since very large stores can result in the closure of smaller shops in the surrounding area, municipalities will not be given the authority to plan the establishment of very large grocery stores, but only somewhat larger grocery stores. Furthermore, the government has proposed that municipalities should have better opportunities with regards to designating areas outside of the city center. Such areas have been established under previous regulation in order to relieve the city centers, and are often located near large bypasses. Due to the current rules, there cannot be established more of these areas and the ones already existing cannot be expanded.

The proposed liberalization of the Planning Act aims to strengthen municipal councils' ability to take local issues into consideration when planning the local retail sector and to promote a more efficient store structure. The liberalization is expected to contribute to higher productivity, better service, lower prices, and a wider selection of goods.

In mid-January 2016 the government started negotiations with parties of the Parliament regarding the liberalization of the planning act, including the regulation that pertains to the retail sector.

Municipal planning and growth forums

With the plan for *Growth and development in all parts of Denmark* the government has proposed to make way for a more flexible framework for local planning, as well as making certain simplifications to the benefit of both municipalities and local companies. For instance, the government will ensure that in the future, the state will only stop municipal planning when it is conflicting with significant national interests. In addition, it is suggested that public hearing deadlines should be reduced, while certain disclosure requirements should be simplified.

There are currently examples of urban renewal and placement of new residential areas that hamper production and development of companies in existing business areas. Therefore, the government wishes to clarify when it is possible to open up new land for urban growth. The government also aims at revising the rules for corporate environmental impact in order to ensure that corporate development is not unduly restricted.

With regards to areas outside of major cities that are extraordinarily affected by economic decline, an initiative will be launched including up to three targeted business efforts for each area. The purpose of the efforts will be to support the framework for self-sustaining local business development in the individual targeted areas. The efforts mentioned above extend past the usual regional and local business initiatives and will be based on the inclusion of all relevant stakeholders in order to create a targeted commercial effort that can strengthen local growth and job creation. The government is cooperating with the regional growth forums with regards to the selection of areas with commercial potential and strong local involvement. The specific initiatives will be tailored to each area's challenges and strengths, and can e.g. relate to business development, education, employment, etc. The initiatives will be incorporated in future agreements with the relevant growth forums.

E-commerce and digitization

Currently, it is already possible to establish e-commerce companies outside of the regular retail structure. However, in some cases it has been unclear which rules apply to this type of business. E-commerce companies will often have a showroom and limited direct physical sales to customers. However, there can be doubt as to when the direct sales to customers are of such a magnitude that the company should be categorized as a *shop* as defined by the Planning Act, and if appropriate be treated according to the rules for shops. Thus, the government plans to produce a guide that clarifies the rules and limitations for e-commerce companies with showrooms.

As part of the political agreement on *Plan for growth through digitization in Denmark* from 26 February 2015 (only available in Danish as *Vækstplan for digitalisering i Danmark* at www.evm.dk), it was decided to set up two partnerships – one for digitalization of retail, wholesale and e-commerce, and one for digitization of the transport sector. The partnerships work to enhance digitization, growth and productivity by promoting understanding for – and utilization of – digital solutions among small and medium-sized Danish companies.

In the retail sector, the partnership for retail, wholesale and e-commerce has carried out activities to promote the ability of retail and wholesale companies to exploit digital opportunities. This has been achieved through a series of workshops where participating companies have gained knowledge and tools enabling them to improve earnings. Among other things, focus has been on integration of sales in physical and online stores, better use of data and export via e-commerce.

Similarly, in 2015 the partnership for the transport sector worked towards highlighting the rewards that can result from digitization. The partnership also worked on inspiring and guiding transport businesses with regards to the selection of IT-systems, optimization of route planning, administration and online sales or marketing.

Building on the experiences and knowledge gained, a new theme has been launched under the national pool of EU Social funds, which is to be used for nationwide efforts to strengthen e-commerce and digitization in small and medium-sized companies.

Digitization is generally expected to contribute to improved productivity in the retail sector as well as the transport sector.

The construction sector

With the plan for *Growth and Development in all parts of Denmark*, the government has launched a number of initiatives in order to ensure growth in the construction sector. Among others, there are initiatives which focus on ensuring simpler regulation of fire safety and on creating a more efficient building permit procedure in order to simplify the building process and increase growth in the construction industry.

As a follow-up on the overall plan (presented in November 2015) the government proposed (on 13 January 2016) a change of the Danish Building Act. The draft law contains a number of initiatives to simplify the existing rules. When issuing building permits to *complicated buildings*, e.g. multi-storey buildings, the municipal authorities assess a number of technical conditions based on the Danish Building Regulation. This contributes to a prolonged and often complicated process for the issuance of building permits. The draft law implies that the municipal authorities no longer have to assess the technical conditions when issuing building permits to *complicated buildings*. Instead, certified companies can perform the assessment and prepare documentation, ensuring that all technical rules in the Danish Building Regulation are followed.

The draft law also contains a number of rules on fire safety when operating buildings. So far these requirements have been regulated by two separate legislations, which have made the building permit procedure unnecessarily complex. Furthermore, the draft law intends to eliminate the requirements for building damage insurance when rental properties are constructed.

Since 1 January 2016 a new Procurement Law has been in force in Denmark. The law implements the new Procurement Directive, making it easier, cheaper and more flexible for the public sector to invite tenders and for the businesses to make offers.

The government has also introduced a number of other related initiatives, which will further simplify the rules and thereby increase the competition and productivity in the construction industry.

Among other thing, an analysis of the regulation of fire safety is done in order to clarify the possibilities of implementing a more risk-based approach to fire safety requirements in the construction industry.

In 2015 a mapping of all the standards referred to in the Danish Building Regulation was conducted. As a result, continuous work with the purpose of achieving maximum harmonization with our neighbouring countries has been launched. As a part of this, it will be investigated whether unnecessary Danish standards and requirements can be removed or re-

placed by European standards. However, this will take into account that the Danish building regulations should ensure that buildings are constructed to be safe, healthy and not use more energy than necessary.

In the buildings permit procedure municipal authorities have to assess whether a building comply with the Building Act and the Danish Building Regulation and also assess whether the building complies with 22 other acts. A simplification of the total set of regulations will be conducted, which pertains to construction of buildings. This initiative is expected to be concluded mid-2016.

The Act of Public Construction is also being evaluated in order to assess whether some rules can benefit from simplification or abolishment. The evaluation will be completed by the end of 2016.

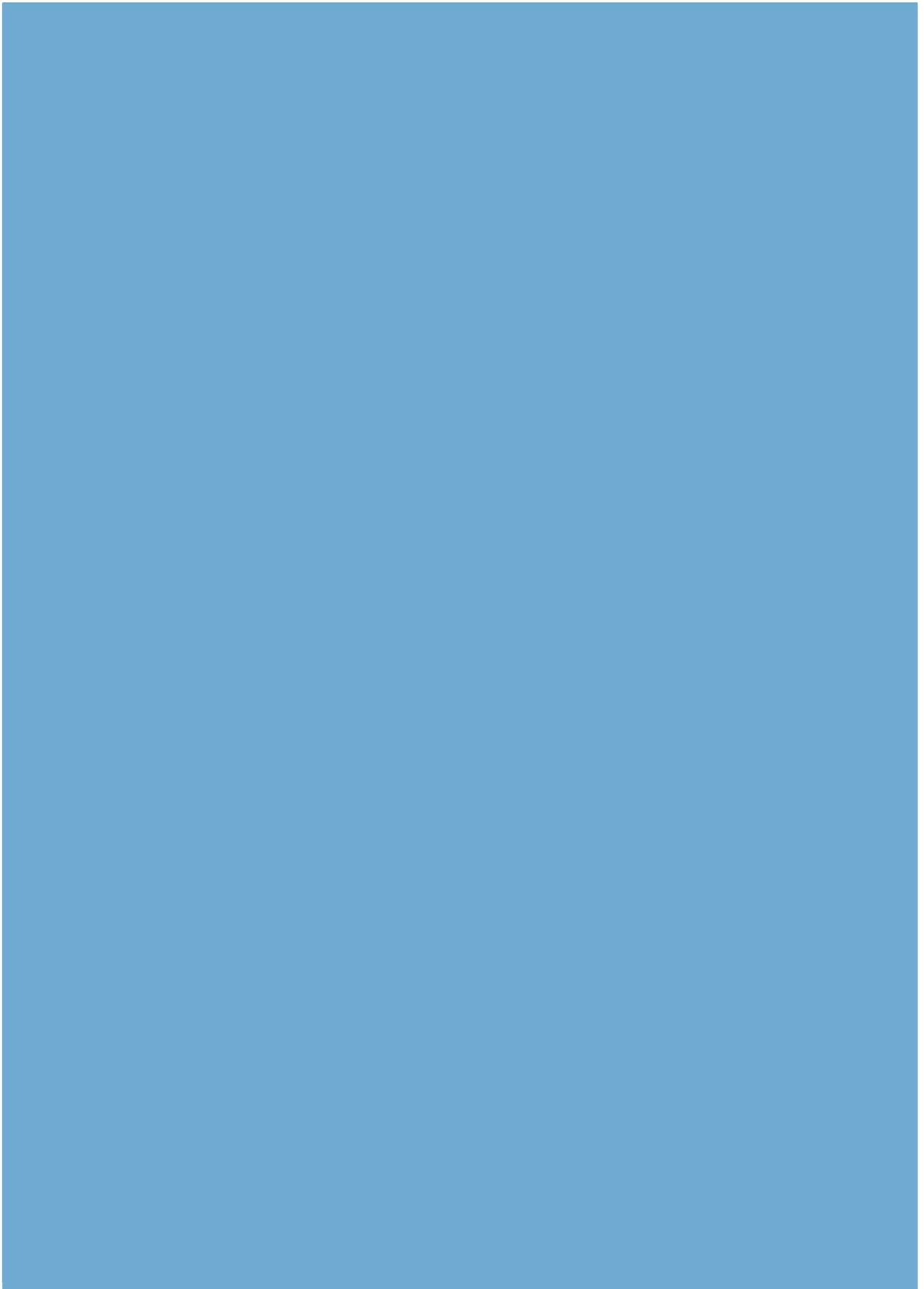
In addition, an examination has been initiated to assess the possibilities of modernizing the Danish approval scheme regarding construction products which come into contact with drinking water. The purpose of modernizing the approval scheme is to ease the administrative process of companies and to coordinate the scheme with similar ones in other European countries. The assessment will be available in 2016.

A revision of the voluntary standard agreements ("agreed documents") in the construction industry was initiated in 2015. The "agreed documents" are used when planning and executing construction work as they regulate the client's contractual relationship with the contractor and the counsellor. The goal of the revision is to ensure that the updated "agreed documents" allow for a cheaper, more transparent and more efficient mediation progress and also reduces the transaction costs of constructing buildings. The review of the "agreed documents" will be available in 2018 and should contribute to strengthen productivity and competitiveness of the construction industry.

Furthermore, as a follow-up on the *Growth Package 2014* work is being carried out in order to increase the possibilities of growth within the market of electrical plants and electrical installations by ensuring that the Danish regulation is based on international standards. When rules are based on international standards, the foreign companies are more likely to enter the Danish market because they are already familiar with similar rules from their own country. To further support this initiative the legislation will be translated into English. The Electrical Safety Act has been translated and is available at the website of the Danish Safety Technology Authority; www.sik.dk. Translation of the associated five electrical safety regulations is still work in progress. This change of regulation also provides Danish companies with better conditions for competing in an international market for electrical plants and electrical installations.

Finally, in 2015 the government and Local Government Denmark (in Danish: KL) agreed on reducing the time local authorities spend on processing applications in a number of selected areas, including time spent on reviewing building permits, by an average of one-third. The agreement implies a maximum period of 40 days when the municipal authorities are reviewing an application for building a *simple building*, and 50-60 days when reviewing buildings of a more complicated character.

The processing time has also been shortened in many other areas. Among these is the processing time in areas pertaining to electrical, plumbing and sewer installations which have been reduced by 21 per cent corresponding to a change from 24 days to 19 days. (The target for 2016 was a 15 per cent reduction from 24 days to 20 days). The decrease in the processing time is connected to the introduction in April 2014 of partial authorizations in the area of electricity and plumbing, which increased competition by facilitating easier access to the market. A number of companies with partial authorizations are already active on the Danish market.



4. National Targets in the Europe 2020 Strategy

The Europe 2020 strategy was launched in March 2010 as the EU's strategy for creating growth which is: intelligent (through more effective investments in education, research and innovation), sustainable (through a transition to a low carbon economy) and inclusive (with emphasis on job creation and poverty reduction).

The strategy has five key objectives covering employment, research and development, education, social inclusion, climate and energy. Each EU country has established its own national targets in each of these areas to support the strategy. The Danish EU 2020 targets are shown in *table 4.1*.

Denmark has in recent years implemented a number of reforms and additional measures that contribute to achieving the overall targets of the Europe 2020 strategy. The actions taken strengthen the structure of the Danish economy, and in several areas, the Danish EU 2020 targets have already been reached or are on the way to being met. This chapter gives details about achieving the targets on the various areas.

It is the intention of the Danish government to continue the reform policy in the coming years with a focus on long-term growth and private jobs.

Table 4.1
Overview of the Danish EU 2020 goals

Danish national 2020-targets	
Employment	Structural employment rate of 80 per cent among the 20-64 year olds.
Research and development	Investments in R&D amounting to 3 per cent of GDP.
Climate and energy	Renewable energy must account for at least 30 per cent of the final energy consumption. 10 per cent of energy consumption in transport (used on road and rail) in 2020 must stem from of renewable energy. Emissions in non-ETS sectors should gradually be reduced by up to 20 per cent by 2020 compared to 2005.
Education	Reduce school dropout to less than 10 per cent for 18-24 year olds and increase the share of 30-34 year olds who have completed tertiary education to at least 40 per cent.
Social inclusion	Reduce the number of persons in households with low work intensity by 22,000 towards 2020.

4.1 National Target for Employment

The labour market is definitely picking up with increasing employment and decreasing unemployment. From late 2012 to the 4th quarter of 2015, an additional 82,000 persons have been employed in the private sector, and over the coming years production growth is estimated to be strong enough to trigger a further increase in employment.

Towards 2020 employment is estimated to increase by 180,000 persons as from 2014. Almost half of the increase is attributable to the forecast cyclical normalization up to 2020, whereas somewhat over half reflects earlier and more recent reforms and the underlying demographic developments. It is estimated that employment can increase without creating bottle-necks and labour market pressure in general. However, this does not preclude that there may be periodical shortages of labour in specific lines of business or certain parts of the country.

The structures on the Danish labour market are generally sound. Among others, this is reflected in an increasing structural employment and that structural unemployment has continued its downward trend despite adverse cyclical developments in recent years. This has contributed to the fact that both total unemployment and long-term unemployment are at low levels in historical perspective. At the same time flexibility on the Danish labour market is high, which is reflected by e.g., the high number of job changes. This leaves a possibility for long-term progress in wealth and employment, *cf. Economic Survey, December 2015*.

The Danish employment target is a structural employment rate of 80 per cent in 2020 for the 20-64-year olds. The employment rate was 75.9 per cent in 2014 among the 20-64 year olds, which is more than 6 percentage points above the EU average. This is especially due to a significantly higher employment rate for women, *cf. figure 4.1*. The estimated development in employment from 2014 to 2020 corresponds to a 2.2 percentage point increase in the employment rate among the 20-64 year olds. The increase can be attributed to the cyclical normalization and the impact of structural reforms that raise structural employment. Thus, the central forecast for the employment rate is calculated at approx. 78 per cent in 2020, *cf. figure 4.2*.

The estimate has been adjusted downward compared to earlier assessments where the estimated employment rate for 2020 was very close to 80 per cent. The downward revision primarily reflects an expected additional migration of nearly 100,000 persons towards 2020 due to the increasing influx of refugees, *cf. Denmark's Convergence Programme 2016*. As for the newly arrived refugees and family reunifications the experience in recent years has been that approx. 30 per cent are employed after three years in Denmark. This mechanically pulls down the overall employment rate even though the outlook for employment growth has not been revised downward.

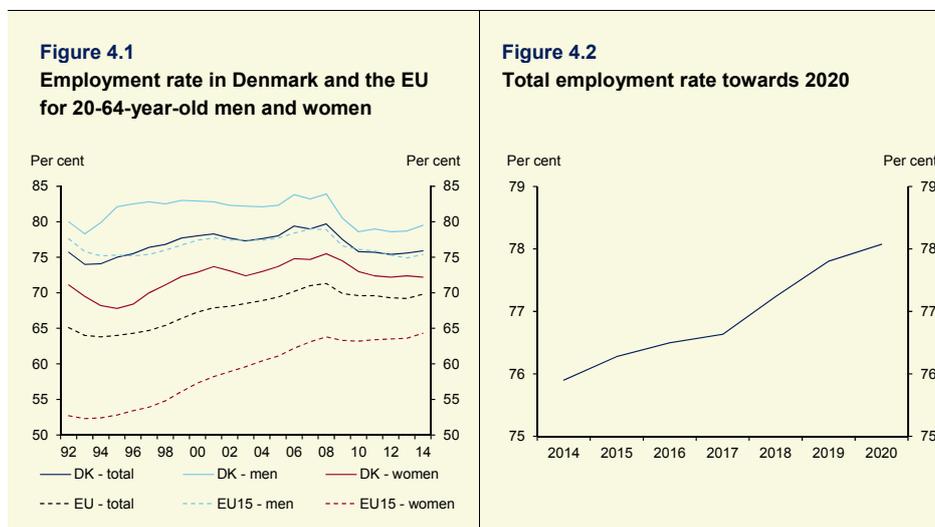
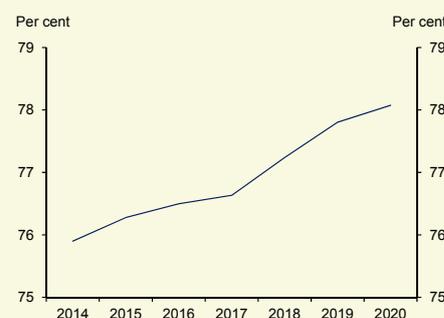


Figure 4.2
Total employment rate towards 2020



Note: In figure 4.1 the employment rates are based on the EU Labour Force Survey, corresponding to the Danish Labour Survey.

Source: Eurostat, Statistics Denmark and own calculations.

The government's ambition is that more people should be employed especially in the private sector and that fewer people should receive public benefits. Thus, among other things, reform efforts have been initiated in order to increase the gain from being employed compared to receiving public transfers. Furthermore, the government will introduce measures to strengthen labour market mobility among the unemployed. In addition, it is a focal point for the government, that one out of two newly arrived refugees should be employed after three years.

The agreement on social assistance (cash benefit – “kontanthjælp”)

On 18 November 2015 an agreement was reached concerning social assistance (cash benefit) as part of the first phase of the JobReform. The main purpose of the agreement is “making-work-pay” among social assistance recipients but also to increase their labour market availability in order to obtain that more recipients find a job. Legislation enshrining the agreement was adopted by the Parliament on 17 March 2016.

There are two important elements in the agreement in order to reach the purpose:

- **A ceiling on social assistance:** Recipients of social assistance must have a larger economic gain by taking a job at a monthly pay in the lower end of the wage scale, when taking into consideration the total amount (after tax) received as cash benefits, housing allowance, special allowance, part-payment with respect to day care institution fees, child and youth allowances and child benefits after tax. Thus, a ceiling has been introduced for the total amount payable to a person who receives public transfers in order to ensure a significant economic gain when going from social assistance to employment. However, the amount of social assistance (cash benefits) *per se* and the benefits directly related to children are not being reduced. Thus, it is only housing allowance and the special allowance which may be reduced as a consequence of the ceiling.

- **Tighter availability rules:** A 225-hour rule is introduced which means that cash benefit recipients must prove that they are available for the labour market by working at least 225 hours within a year. This corresponds to approx. 6 weeks of full-time work and should provide an incentive for everyone to maintain a connection to the labour market. Failure to comply this requirement will result in a reduction of benefits.

It is estimated that the agreement on social assistance will strengthen employment structural-ly by about 700 persons (full-time equivalent). The revenue from phase one of the JobReform will contribute to the financing of the second phase of the reform, cf. below.

Integration allowance

As from 1 September 2015 the government introduced a new integration allowance for foreigners and Danes, who have not resided in Denmark (or Greenland and the Faroe Islands) in seven of the past eight years. The allowance will replace educational or social assistance and should, among other things, ensure a larger incentive to work and to become integrated into Danish society. Allotment and measurement principles will be similar to the principles that apply to educational and social assistance in general.

The integration allowance may be granted for up to seven years. The integration allowance is on par with educational assistance (which is based on the rates of the student grant system) and does not include the possibility of receiving the activity based extra allowance. Persons covered by the integration allowance, showing willingness to become integrated into the Danish society by learning Danish may on application obtain a supplement to the integration allowance.

On 19 November 2015 it was agreed that the integration allowance will be extended to include all persons who have not resided in Denmark for at least seven out of the past eight years. The legislation was adopted by the Parliament in March 2016 and takes effect from 1 July 2016.

When presenting the legislation on integration allowance the initiatives were estimated to imply an increase in structural employment of approx. 400 persons (full-time equivalent) when fully phased in.

The reimbursement reform

The reform of central government reimbursements of municipal expenditure entered into force on 1 January 2016. The reform involve the establishment of a coherent and simpler reimbursement system in which the central government reimbursement rate (in per cent) is the same across benefits and depends on the length of time during which the beneficiary has received public transfers. Thus, the new reimbursement scheme is coming to terms with the previous complex scheme where central government reimbursements of municipal expenditure was determined by both the type of benefit the citizens received and to what extent the individual citizens participated in a certain activation arrangement.

The intention of the reimbursement reform is to increase the financial incentive of the municipalities to prevent that unemployed persons end up on long-term public benefits. This will

support that socially vulnerable groups are increasingly experiencing an effort which bring them closer to the labour market.

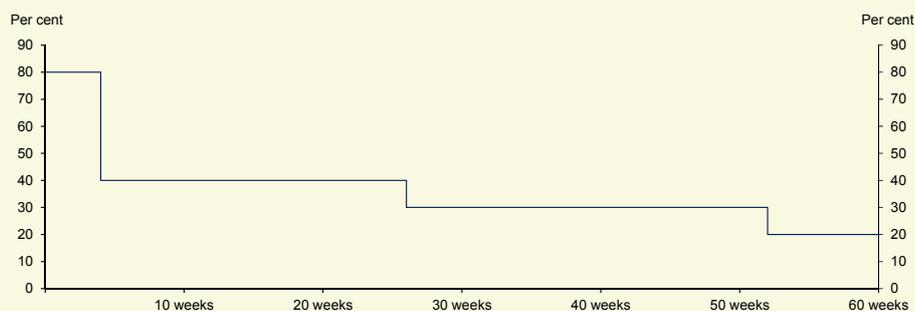
In total, the reimbursement reform comprises of 14 different benefits (including unemployment benefit, cash benefit and disability pension) but does not include those benefits where the municipalities cannot or only to a limited extent can affect the number of recipients (e.g. voluntary early retirement pension and old age pension).

In order to counteract unintended effects on burden division of the reimbursement reform, the municipal subsidy and equalization system will be adjusted in both the short and medium term.

Box 4.1 Reimbursement steps

In accordance with the new reimbursement scheme the municipal reimbursement with respect to an individual beneficiary will follow the so-called reimbursement staircase, *cf. figure a*. The "seniority" of the individual beneficiary decides the amount of reimbursement the municipality receives from the central government. The reimbursement rate concerning benefits payable by the municipalities is 80 per cent for the first four weeks (week 0-4) and decreases successively to 40 per cent (week 5-26), 30 per cent (week 27-52) and ends at 20 per cent (52+ weeks). Correspondingly, the municipalities' co-financing of benefits payable by other authorities will increase from 20 per cent to 80 per cent during the first 52 weeks. After 1 January 2016, the individual beneficiaries are placed in the reimbursement staircase in accordance with seniority accumulated since 1 July 2014. The reimbursement "counter" is reset after 1 year with accumulated self-support within a reference period of 3 years.

Figure a
Reimbursement staircase



The reimbursement and co-financing accounts of the municipalities are supported by an IT information system where the individual municipality is able follow the implications of the reimbursement reform on the financial situation of the municipality with respect to the employment area. Furthermore, the municipalities are continuously able to identify the position of the individual citizens on the reimbursement staircase and receive information on the length of the period of self-support the individual is lacking in order to start afresh on the

staircase (i.e. when the reimbursement “counter” is reset after 52 weeks of self-support). The reform of the reimbursement scheme is estimated to increase structural employment by approx. 3,000 persons in 2020.

The unemployment benefit reform

On 22 October 2015 an agreement was reached on a more secure unemployment benefit scheme. The agreement is based on the recommendations of the Unemployment Benefit Commission (in Danish: Dagpengekommisionen) and is expected to be adopted by the Parliament in the spring of 2016. The main purpose of the agreement is to strengthen the incentive to take on all types of employment during the unemployment benefit period. In addition, a special target is to simplify the rules on the unemployment benefit system and to automatize administration via further digitization.

The agreement contains the following main elements (among others):

- **Employment account with flexible qualification periods:** Through the employment account the possibility of flexible accumulation of rights to unemployment benefits is introduced. This implies that employment during the unemployment benefit period may extend entitlement to UI benefits once the two-year period has been exhausted. Extension of the period is calculated at the ratio 1:2; i.e. one day’s work may be converted into two days’ extension of the UI period. However, the extension period cannot exceed one year.
- **Use of unemployment benefit entitlement:** In future, the use of unemployment benefits is to be calculated on an hourly instead of a weekly basis. The “consumption” of benefits is calculated and settled on a monthly basis which allows for a system based on register data. This supports a more digitized administration of the unemployment benefit system.
- **Waiting period in case of high unemployment rate.** A waiting day is introduced every four months for persons with a high unemployment rate corresponding to three waiting days per year for full-time unemployed. The waiting day may be avoided if, during a period of four months, the person has had employment corresponding to more than 20 days of full employment. This should promote the incentive to take on all types of employment.
- **Graduates:** In the future, graduates will receive 82 per cent of the maximum UI benefit in the case of breadwinners and 71.5 per cent for non-breadwinners instead of the present 82 per cent irrespective of status.
- **Measures concerning persons with extensive use of the unemployment benefit scheme:** Persons who have received UI benefits corresponding to a total of four years within the last eight years will have their entitlement period reduced by one month.

In total, it is estimated that the agreement reduces structural employment by approx. 800 persons (full-time equivalent). This has to be seen in context with the fact that the Unemployment Benefit Reform from 2010 increased employment by approx. 15,000 persons. The 2010-reform involved a reduction of the unemployment benefit period from four to two years, and an extension of the period of reacquisition of UI benefit rights to 52 weeks of work. Both elements are maintained in the new agreement on the unemployment benefit system.

Tripartite discussions

In February 2016 the government began tripartite discussions with social partners on a number of essential challenges to the Danish society.

The tripartite discussions are carried out as a process divided into phases focusing on a number of specific themes, each of which are finalized by an agreement prior to starting a new round of negotiations on another topic.

The first theme dealt with the historically large influx of refugees to Denmark, and the related rather large number of expected family reunifications. This represents a major challenge for the Danish society.

In March 2016 the government and the social partners reached an agreement which implies a significant strengthening of efforts to ensure better integration in the labour market of refugees and persons reunified. The agreement implies among other things that:

- The vocational competences of refugees are clarified already in the asylum and transitional phase in order to make better use of the competences.
- Refugees are deemed capable to work at arrival.
- In future, the public sector integration programme is to focus on job-related measures.
- Education and training in the Danish language should be more labour-market oriented.
- The job centres will strengthen their services to companies.

The agreement provides new and better possibilities for companies to employ refugees without qualifications and having low productivity which does not correspond to the minimum wages set by collective bargaining. This involves e.g. that:

- A basic integration training module is introduced, such that refugees may work and become better qualified for the Danish labour market.
- A cash bonus scheme is introduced for private companies that employ refugees in ordinary non-subsidized employment.

The next phase of the tripartite discussions will deal with sufficient and qualified labour in all parts of Denmark and apprenticeships for young people. These negotiations will be initiated in mid-April 2016.

Tax reform (JobReform phase 2)

As part of a forthcoming 2025 plan, the government will – in the autumn of 2016 – invite to negotiations with the aim of reducing tax on labour incomes. The government wants to reduce taxes for the lowest labour incomes in order to increase the gain of low-wage work. In addition, the government has the ambition to reduce the marginal tax and thereby increase the incentive to work more hours, and furthermore making it easier for Danish companies to recruit and maintain highly paid employees.

4.2 National Target for Research and Development

Research and innovation have a major impact on societal development. Research contributes by adding new knowledge, creating the basis for developing new solutions, products, services and other types of innovation which are crucial for supporting future productivity growth. At the same time, research-based programmes of education assist in ensuring that students have access to the most up-to-date knowledge, which they can then make use of when subsequently entering the labour market. Thus, research paves the way for innovation and progress in private companies through this channel too.

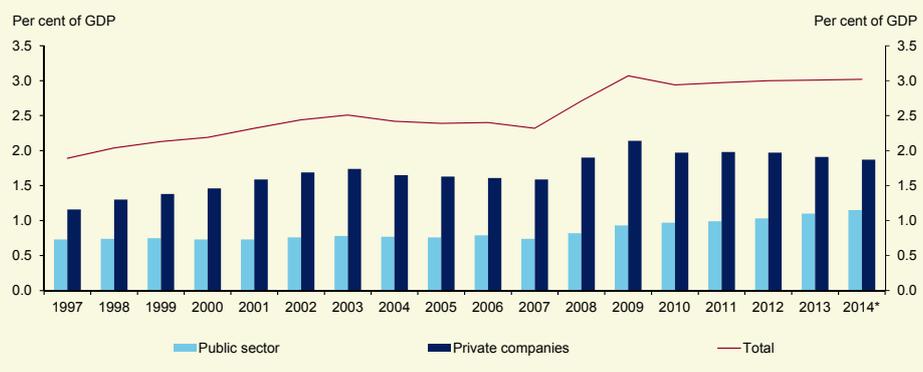
The government's target is for public investment in research and development (R&D) to constitute at least 1 per cent of GDP. Moreover, Denmark has adopted the EU target that total public and private investment in R&D should amount to 3 per cent of GDP.

The government will carry out an analysis of the existing research efforts in order to acquire knowledge about the impacts of investments in research. Within the current financial framework, the research funds must be prioritised so that they support Danish strengths and the needs of the private sector.

The government's ambition is to achieve a closer cooperation between higher education institutions and the private companies. As follow-up on the plan for *Growth and Development in all parts of Denmark*, the government has clarified the expectations regarding the interaction of higher education institutions with regional and local companies. This will be reflected in the so-called development contracts of the higher education institutions, which should include a new target on increased regional knowledge collaboration. Furthermore, universities must organize their research activities in order to increase self-financing. This can be done, for example, through increased commercialisation or by attracting funds from private companies or foundations.

In terms of investments in R&D, Denmark is one of the highest ranked countries. Publicly financed research amounted to DKK 22.4 bn. in 2014 (corresponding to 1.15 per cent of GDP), while R&D investments in the private sector amounted to DKK 36.3 bn. in 2014 (corresponding to 1.87 per cent of GDP), cf. *figure 4.3*. Total public and private investment in R&D has increased from 2 per cent of GDP in 1997 to somewhat above 3 per cent of GDP in 2014. Thus, Denmark has reached the target set out in the EU's growth strategy, *Europe 2020*.

Figure 4.3
Private and public investment in research and development



Note: Data for 2014 are preliminary.

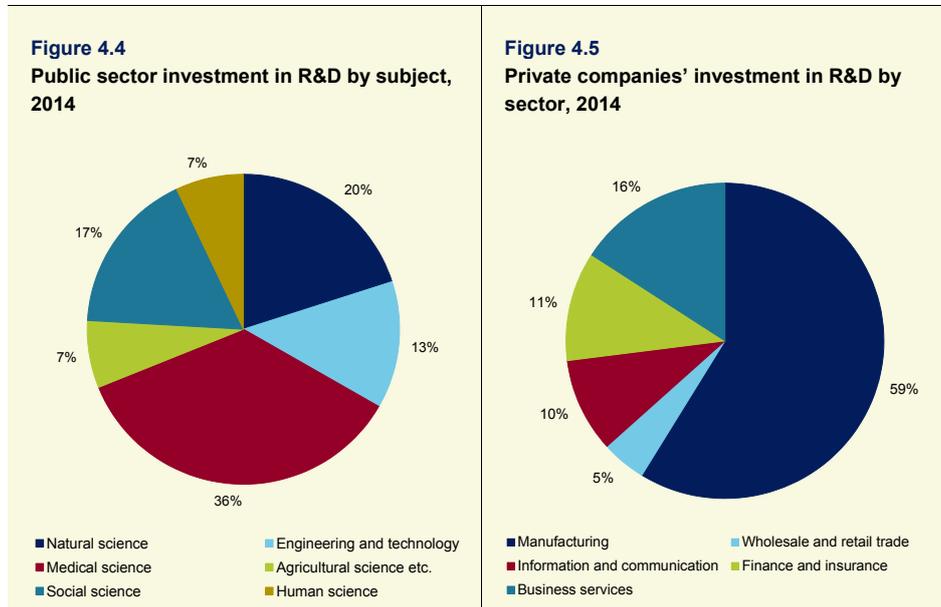
Source: Statistics Denmark.

More than one third of public investment in R&D is used for research in the health sciences, while the natural sciences account for almost one fifth, *cf. figure 4.4*.

In recent years, private companies' investment in R&D have stagnated, and measured as a share of the total economy (given by GDP) there has been a tendency for decreasing private investment in R&D. Nonetheless, the companies maintain a relatively high level of investment in a historical perspective.

In addition, Danish companies increased their purchase of R&D from foreign companies and knowledge institutions significantly from DKK 9.1 bn. in 2009 to DKK 11.9 bn. in 2014. This reflects that the companies are seeking the knowledge needed, irrespective of where it is to be found.

Around 75 per cent of investments in R&D are made by large companies with over 250 employees, while the small and medium-sized companies account for the remaining investments. Approximately 60 per cent of private companies' investment in R&D was made by the manufacturing sector, *cf. figure 4.5*, which moreover has intensified its R&D efforts significantly since 2008. The pharmaceutical industry alone accounts for 23 per cent of all investments made by private companies. Financial and insurance services' companies are responsible for approx. 11 per cent of private investment in R&D and have similarly intensified their R&D efforts since 2008. Business services and the information and communication sector, which together constitute somewhat above one quarter of companies' investment, have seen a decrease in their R&D investments in recent years.



Note: In figure 4.5 transport, hotels, restaurants and other sectors are not included since they constitute a very small percentage of the total investment in R&D. Investments made by the manufacturing sector account for 59 per cent of the total investment in R&D made by companies, of which investments from the pharmaceutical industry account for 40 per cent, the manufacture of motors and motor parts 17 per cent, the chemical industries 10 per cent and the rest 33 per cent.

Source: Statistics Denmark.

In terms of international comparisons Danish research is performing well. During the period 2010-2014, Danish researchers published over 13,000 scientific publications per million inhabitants. Hence, Denmark is ranked third among the OECD countries when comparing the number of scientific publications relative to the population, cf. *Research Barometer 2015* (only available in Danish as *Forskningsbarometer 2015* at www.ufm.dk). At the same time, Danish researches are among the most frequently quoted scientists. Internationally, Denmark is ranked number four based on quotations per publication. In terms of Danish researchers' share of the 10 per cent most quoted scientific publications, Denmark is ranked third, surpassed only by Switzerland and the Netherlands.

Denmark is also doing relatively well in the area of innovation. Innovation can be defined as knowledge and ideas that are transformed into products and processes creating business and community-based value. According to the Innovation Union Scoreboard 2015, which compares the EU countries' innovation capabilities, Denmark is ranked number two in the EU, surpassed only by Sweden.

There are various sources of innovation. Almost one third of innovative companies state that they have conducted or purchased research and development while the remaining two thirds of innovative companies are based on other sources than research and development. These sources could for instance be employee or user-driven innovation or new application of exist-

ing technology, cf. *Report on Growth and Competitiveness, February 2016* (only available in Danish as *Redegørelse om Vækst og Konkurrenceevne 2016* at www.evm.dk).

Government initiatives

The government has launched a number of ambitious initiatives to promote research, development and innovation. Major new government initiatives within the fields of research, development and innovation that have been implemented or that are in the process of being implemented are presented in *box 4.1*.

Box 4.1

Government initiatives to promote research, development and innovation

- **Innovation Fund Denmark:** As one aspect of the plan for *Growth and Development in all parts of Denmark*, the government wishes to strengthen Innovation Fund Denmark's regional roots, including that from 2016 and for a three year period thereafter it will be possible for the Innovation Fund to have staff members located in physical proximity to regional knowledge environments.
- **Rural District Growth Pilot scheme:** As one aspect of the plan for *Growth and Development in all parts of Denmark*, the government wants to allocate DKK 10 million annually to establish a Rural District Growth Pilot scheme in the period 2016-2019. The scheme is to be established within the framework of Innovation Fund Denmark. The scheme is to provide small and medium-sized enterprises in rural districts in Denmark with the opportunity to receive support for up to two years to employ a highly-educated staff member to carry out an innovation project.
- **Automatisation and new technology in the manufacturing industry:** With the plan for *Growth and Development in all parts of Denmark*, the government wishes to establish a business partnership for advanced production that will trigger initiatives promoting automatisation and new technology in small and medium-sized manufacturing companies throughout the country.
- **Tax credit for research and development activities:** In 2014 the upper limit for how much expenses on research and development can lead to tax credit relief was increased. The limit was raised from DKK 5 million to DKK 25 million, corresponding to a pay out of DKK 5.5 million when the reduction to the corporate tax rate to 22 per cent is fully implemented in 2016.
- **Stronger knowledge collaboration in development contracts with higher education institutions:** In 2016 the government specified the expectations to the interaction between higher education institutions and small and medium-sized companies throughout the country. This will be reflected in the development contracts of the higher education institutions with a new target regarding increased regional knowledge collaboration.
- **Development contracts with Approved Technological Service Institutes (GTS Institutes):** The eight GTS institutes in Denmark play a leading role in transferring knowledge and innovation to Danish small and medium-sized enterprises. Thus, the Minister for Higher Education and Science will enter into development contracts in 2016 with the GTS institutes with a view to strengthening the knowledge-bridge and ensuring that enterprises throughout the country have easier access to knowledge.
- **Securing more funds from Horizon 2020:** EUopSTART, KIC-Start and Horizon 2020-NET allocate grants for the preparatory work of Danish businesses and knowledge institutions in order for them to work on forming networks and drawing up successful applications to a number of selected European research programmes under Horizon 2020, including *Knowledge and Innovation Communities* (KIC). In 2015 support was provided to two applicants to KIC consortiums, 13 networks and 338 applicants to EU programmes as well as four participants in KIC consortiums.

Box 4.1 (continued)**Government initiatives to promote research, development and innovation**

- **Evaluation of the impact of Danish participation in EU's 6th and 7th Framework Programmes:** The evaluation examines the scientific impact of EU projects and the long-term significance that EU projects have had for the participating enterprises. The evaluation demonstrates, among other things, that scientific publications written on the basis of FP6 and FP7 research have had a major impact.
- **Cooperation agreement with the Massachusetts Institute of Technology (MIT):** In 2015 the Ministry of Higher Education and Science entered into a cooperation agreement with MIT which means that each year up to 10 PhD students and postdocs from Danish research institutions can spend 6 and 12 months, respectively, at one of the leading universities in the world.
- **Evaluation of Danish Innovation Centres:** The evaluation undertaken in 2015 demonstrates a high level of stakeholder satisfaction with the centres in China, the USA, Germany, Korea, Brazil and India. The centres generate significant value for Danish institutions, researchers and enterprises. A number of recommendations from the evaluation are currently being implemented.
- **The joint European research facility European Spallation Source (ESS):** In August 2015, ESS was created as a European research infrastructure (a so-called ERIC). It is the first time that one of Europe's major research facilities has been placed in one of the Nordic countries. In order to improve the Danish role as co-host, in 2015 a national ESS strategy was drawn up which is to establish the benchmarks for future Danish efforts in this area.
- **New Danish roadmap for research infrastructures:** The *Danish Roadmap for Research Infrastructures 2015* (available in English at www.ufm.dk) presents the Ministry for Higher Education and Research's vision and strategic objectives for research infrastructures for the next five years and includes a catalogue of 22 concrete proposals for national research infrastructures which are estimated to have the greatest national significance for Denmark's competitiveness within research and innovation over the next five years.
- **New law on regulating Danish activities in space and a strategy for space:** The government has taken initiative to establish a new law to regulate activities in outer space and to launch the work of formulating a strategy for space. The space strategy sets out the short, medium and long-term frameworks for Danish activities in space and contribute to ensuring that the private sector, the research community and various authorities reap the expected potentials in this area. Among other things, the strategy should set relevant goals for activities in space with their point of departure in the government's overall targets for growth and employment etc.
- **Integrity in research:** The government is closely monitoring the implementation of the Danish codex for research integrity. On the Budget Bill, DKK 9.8 million has been allocated over two years for activities in order to promote integrity further, for example through research on incentives that could strengthen integrity in research.
- **Regional investment in innovation:** Under the Danish Regional Fund Programme for 2014-2020, the government has agreed with the EU Commission that 50 per cent EU co-financing can be provided for regional projects that can strengthen innovation in small and medium-sized enterprises. In the regional fund programme *Innovative and sustainable growth in enterprises*, a total of almost DKK 640 million in EU co-financing has been allocated for the seven year period. The national co-financing is expected to come from local and regional authorities, public bodies, e.g. educational institutions, private companies etc.

4.3 National Targets for Climate and Energy

Denmark is subject to the following binding national targets laid down by the EU for the climate and energy area:

- A number of annual obligations in the period 2013-20 for non-ETS greenhouse gas emissions. The target increases towards 2020, when Danish emissions must be reduced by 20 per cent compared to the 2005-level.
- The share of renewable energy in final energy consumption must increase to 30 per cent in 2020, an increase from approx. 16 per cent in 2005.
- A total of 10 percent of energy consumption by the transport sector (roads and railways) must be from renewables in 2020.

The government energy and climate policy

The government wants Denmark to continue as a leading country in the green transition, although the transition has to be appropriate relative to general developments in Denmark and its surroundings.

The government wants an energy and climate policy based on green realism. This implies that there has to be cohesion between the energy-policy targets and the available resources. The green transition has to be affordable for companies and consumers.

This requires that the overall advantages and disadvantages of specific instruments and measures are being thoroughly analysed. This applies for macroeconomic effects, as well as impacts on climate, public finances and conditions for private companies.

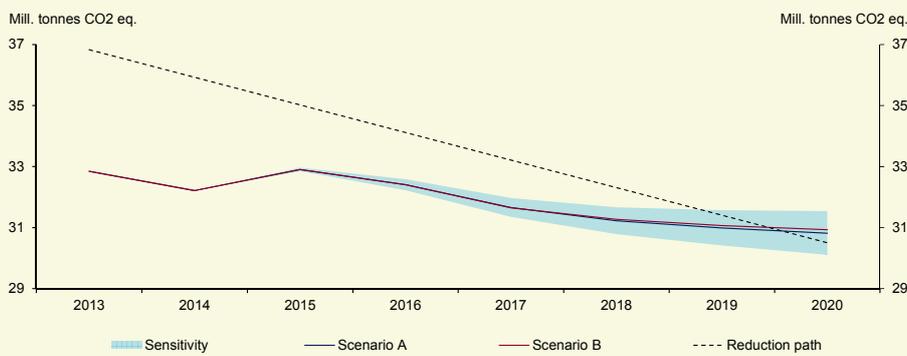
Status for climate and energy policy targets

The latest baseline projection from the Danish Energy Agency (in Danish: Energistyrelsen) was published in December 2015. The projection includes a status report on progress towards the Danish national 2020 targets set by the EU for the climate and energy area.

As part of the EU Climate and Energy Package from 2008, Denmark is obliged to reduce emissions from the non-ETS sectors by 20 per cent in 2020 compared to the 2005-level, and to achieve sub-targets moving towards 2020. The sub-targets increase gradually up to the end-target in 2020. However, due to natural fluctuations in emissions it is possible to carry forward over-compliance from one year and set this off against under-compliance in another year.

Currently, significant over-compliance throughout the period 2013-2019 is expected, whilst a slight shortfall is expected for the single year 2020, *cf. figure 4.6*. As previous years' over-compliance may be carried forward and used when assessing target performance in 2020, Denmark is overall expected to comply with the reduction obligations. The accumulated over-compliance is expected to be approx. 12.5 mill. tonnes CO₂ equivalents in total during the whole commitment period.

Figure 4.6
Non-ETS emissions 2013-2020 and the EU target (mill. tonnes CO₂ eq.)



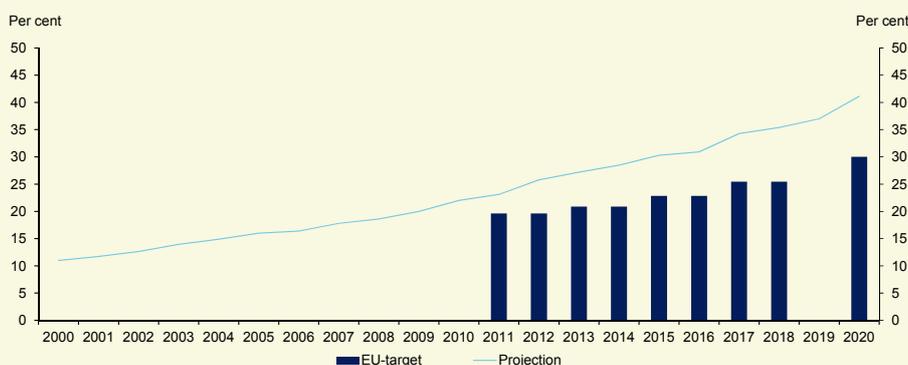
Note: Scenarios A and B refer to two scenarios applied as bases for calculation in the most recent baseline projection, and “sensitivity” illustrates the interval of emissions if the sensitivities in the baseline projection are included. The two scenarios for the carbon price are combined with assumptions on developments in the energy sector abroad, which are very important for calculations of electricity prices and cross-border exchange of electricity, and the scenarios have been combined with further deployment of more wind power in Denmark. Scenario A: The carbon price remains at the current level of about DKK 55 per tonne. This is combined with a less green transition abroad and a lower estimate for further wind power deployment in Denmark. Scenario B: The carbon price follows the development according to IEA’s World Energy Outlook 2015 and increases to approx. DKK 100 per tonne in 2020 and approx. DKK 170 per tonne in 2025. This is combined with substantial green transition abroad and an upper estimate for wind power deployment in Denmark.

Source: Danish Energy Agency (2015) *Denmark’s Energy and Climate Outlook 2015*, December 2015 (only available in Danish as *Danmarks Energi- og Klimafremskrivning 2015* at www.ens.dk).

As part of the EU Climate and Energy Package from 2008, Denmark has committed to increase the share of gross final energy consumption stemming from renewable sources to 30 per cent in 2020, an increase from approx. 16 per cent in 2005. According to the latest projection, over-compliance is expected, with renewables as a share of final energy consumption amounting to more than 40 per cent in 2020, *cf. figure 4.7*.

The latest projection also shows that total gross energy consumption in 2020 is expected to be 739 PJ, implying that gross energy consumption is reduced by 14 per cent relative to 2006. Thus, Denmark will meet the target for energy efficiency in the Energy Agreement from 2008 according to which gross energy consumption is to be reduced by 4 per cent by 2020 relative to 2006.

Figure 4.7
Renewables as share of extended final energy consumption



Note.: Renewables as share of extended final energy consumption is above the EU goal set for the entire period. The carbon price is estimated by the Danish Ministry of Finance and increases to approx. DKK 65 per tonne in 2020 and approx. DKK 85 per tonne in 2025. The oil price is also estimated by the Danish Ministry of Finance, being more or less at the same level as oil prices in the IEA, World Energy Outlook 2015. This is combined with less green transition abroad and a lower estimate for wind power deployment in Denmark.

Source: Danish Energy Agency (2015), *Denmark's Energy and Climate Outlook 2015*, December 2015 (only available in Danish as *Danmarks Energi- og Klimafremskrivning 2015* at www.ens.dk).

The EU Climate and Energy Package also includes a separate target for the share of renewables in the transport sector by which Denmark is obliged to reach a renewable share in land-based transport of at least 10 per cent by 2020. This target only applies in 2020, and hence, there are no sub-targets towards 2020. The Danish Energy Agency has prepared an analysis (in Danish: VE-analysen¹) describing different examples of how the EU target of 10 per cent renewable energy in the transport sector can be met. In general it can be concluded that, with the most recent changes² in the EU regulations for target compliance, it has become easier to meet this target. Thus, it is no longer necessary to increase the so-called biofuel blending requirement³ to 10 per cent, as otherwise stated in the Energy Agreement from 2012.

Renewable electricity for trains is currently contributing significantly to meeting this target. However, it is still likely that the contribution from electric cars will be limited, even though the contribution has been doubled given the new rules for calculation. The analysis also shows that using biogas in e.g. busses or other heavy vehicles could contribute to compliance. In any case, biofuels are still expected to be a crucial factor in order to ensure compliance.

¹ http://www.ens.dk/sites/ens.dk/files/energistyrelsen/Nyheder/2015/analyse_af_alternative_muligheder_til_opfyldelse_af_2020_maalet_for_ve_til_transport.pdf

² The Renewables Directive was amended in September 2015. The amendment was triggered by a revision clause in the Directive.

³ The renewable energy to be used for meeting the 10 per cent requirement may stem from several sources (e.g. RE electricity, RE hydrogen, and RE biofuels). All analyses indicate that biofuels will be the dominant RE fuel. Since 2010, Denmark has had the requirement that 5.75 per cent biofuels must be mixed into all transport fuel. There is an expectation that this percentage will be increased up to 2020, cf. the RE analysis (in Danish: VE-analysen).

By no later than mid-2017, the government will decide how the EU requirement for renewables in transport is to be complied with.

New targets for 2030

In October 2014, EU heads of state and government agreed that total CO₂ emissions are to be reduced by at least 40 per cent in 2030 compared to 1990. In 2015, the EU Commission presented a proposal for revising the EU ETS Directive in order to ensure that the sectors subject to the EU emissions trading system overall supply a greenhouse gas reduction of 43 per cent relative to the 2005 level. In mid-2016, the EU Commission is expected to present a proposal for burden sharing among the EU countries regarding the remaining part of the reduction efforts in the non-ETS sectors, which overall are to reduce emissions by 30 per cent in 2030 relative to 2005.⁴

In October 2014, EU heads of state and government set a further target for 2030 stating that 27 per cent of energy consumption in 2030 has to come from renewables. This target is binding for the EU as a whole, but it will not be allocated to individual countries. In addition, an indicative target was set for improving energy efficiency at the EU level by 27 per cent compared to a business-as-usual projection.

In recent years, a number of agreements have been reached to support the Danish climate and energy policy targets. The most important are the Energy Agreement 2012 and the Climate Act.

Energy Agreement 2012

With the Energy Agreement 2012, a broad majority of parties in the Danish Parliament adopted a large number of initiatives to support and expand the Danish position in the climate and energy area, and to support EU targets, cf. *Denmark's National Reform Programme 2013*. The agreement entails extensive investments in renewable energy and energy efficiency. At latest by the end of 2018, the parties backing the agreement will discuss further initiatives for the period after 2020.

A status report shows that developments have been in line with expectations when the agreement was reached in 2012. This includes that the percentage of renewable energy has increased, carbon emissions and energy consumption have been reduced, and there is less use of fossil fuels. Specific measures arising from the Energy Agreement 2012 include deployment of offshore wind turbines at Horns Rev 3, for which tendering was concluded in 2015 with a guaranteed premium of DKK 0.77 per kWh.

The Climate Act

The Climate Act was adopted by the Danish Parliament in June 2014. The Act provides Denmark with an overall strategic framework for climate policy. By the Climate Act, a new

⁴ The baseline year for the EU Climate and Energy Package is 2005. The initiative has been divided into ETS and non-ETS sectors. The European Council has agreed that emissions entitlements in the ETS and non-ETS sectors are to be reduced by 43 per cent and 30 per cent respectively in 2030 relative to 2005 in order to realise the EU's 40 per cent reductions target. For a number of reasons, this does not necessarily correspond precisely to a reduction of 40 per cent relative to 1990. The various reasons include e.g. a change in the methods of calculation, transfer of sectors from non-ETS to ETS, etc.

and independent climate council has been set up. The members of the Climate Council are independent experts and specialist who are to advise the government on how the transition to a low-emissions society in 2050 can be realised cost-effectively while and taking growth, competitiveness and sound public finances into account.

In November 2015, the Climate Council issued its first report *Converting with care – Status and challenges for Danish climate policy* (the full report is only available in Danish as *Omstilling med omtanke – status og udfordringer for dansk klimapolitik* at www.klimaraadet.dk, while an English version of the main conclusions is available at www.klimaraadet.dk/en/).

The Energy Commission

In March 2016, the government set up an energy commission with the task to prepare proposals for energy-policy targets and instruments and measures as well for the period 2020-2030. The Energy Commission will complete its work with a report in early 2017.

4.4 National Targets for Education

The Danish government has acceded to the EU headline targets for education set out in the Europe 2020 strategy. This implies reducing drop-out rates to 10 per cent for 18-24-year-olds as well as increasing the proportion of 30-34-year-olds having completed a higher or equivalent education programme to at least 40 per cent in 2020.

In 2014, drop-out rates for 18-24-year-olds were 7.7 per cent, while 44.1 per cent of 30-34-year-olds had completed a higher education programme. Thus, the EU headline targets for education are met.

At the same time, the latest figures from the so-called Profile Model (in Danish: Profilmodellen), which provides a projection of a youth cohort's predicted level of education 25 years after 9th grade, show that 93 per cent of the 2014 youth cohort were predicted to complete at least upper secondary education, 62 per cent higher education and 28 per cent a long-cycle higher education programme.

It is important for the government that young people choose the right education and that upper secondary education programmes and the preparatory education programmes offered are of high quality, since the provision of good education programmes to all young people serves as the main route to good opportunities in life. The government has therefore set up an expert committee to identify better paths to upper secondary education. By the end of 2016, this committee is to make recommendations on how the path of young people through the education system can be enhanced, including recommendations on whether and, if so, how the target of at least 95 per cent of a youth cohort having an upper secondary education in 2015 should be maintained in the future.

The higher education programmes must provide students with knowledge and skills that they can use in future jobs and bring along through life in general. This requires the provision of education programmes that are high in quality and relevant for subsequent employment. The government will therefore, for example, reform the taximeter system for higher education

programmes in a way that underpins improved programme quality and facilitates smoother transition to employment.

At the same time, the government reached a broad political agreement on 20 November 2015 to adjust the Study Progress Reform.⁵ Among other things, the agreement increases the flexibility of universities to design and organize study programmes according to challenges and needs within the requirements set out to reduce excess time in relation to the prescribed duration of study.

Public primary and lower secondary education

The reform of public primary and lower secondary education (in Danish: folkeskole) took effect from the start of the school year in August 2014. The reform has three principal objectives: 1) the public school system must challenge all pupils to reach their full potential; 2) the public school system must lower the significance of social background on academic results; and 3) confidence in the school and student well-being must be enhanced. The annual progress report on the public school system's development for the 2014/2015 school year shows that developments are on the right track. The results show a general improvement in the academic level of pupils.

In recent years, the municipalities have focused on increasing the proportion of pupils in standard education. An examination of the inclusion efforts in public primary and lower secondary education has been launched. An expert committee has been set up to map the challenges in the field of inclusion and to make specific, practice-oriented recommendations on how the inclusion efforts can be enhanced. An initiative has also been launched to promote greater interplay between school and leisure time in order to support the efforts of schools, municipalities and clubs to foster better synergies and tap the considerable potential that exists for the interplay between school and leisure time.

By the end of 2020 as part of the reform of public primary and lower secondary education, pupils in the school system are to be taught by teachers who either have relevant subject-specific teaching competences acquired through the B.Ed programme for primary and lower secondary schools or have acquired similar relevant subject-specific qualifications from relevant professional development. It has been agreed that this goal is to be gradually realized through competence coverage of at least 85 per cent by 2016 and at least 90 per cent by 2018 – calculated at municipal level. The government and Local Government Denmark (KL) will then discuss the remaining boost to 95 per cent with due regard taken for the opportunities that the planning-related considerations allow.

In the 2014/2015 school year, in 81.6 per cent of the subject-divided teaching pupils were taught by teachers with a relevant teaching qualification in the particular subject. Prior to the 2014/15 school year, DKK 1 bn. was earmarked to support further education and continuing professional development of teachers and social educators in primary and lower secondary

⁵ The Study Progress Reform comprises a number of measures designed to reduce the amount of time students exceed the prescribed time for completing a higher education programme and thereby contribute to generating growth and prosperity in Denmark. In general, universities are required to reduce the average time of study by 4.3 months by 2020.

school. In 2014, municipalities spent DKK 38.1 million of the disbursed funds of DKK 64.1 million, and in 2015 there was an increase in the number of teachers acquiring subject-specific qualifications through continuing professional development.

An extensive evaluation research programme has been launched which aims to deliver inspiration and follow up on the reform of public primary and local secondary education. For this purpose, a large number of research projects have been set up, which together will shed light on the implementation and effects of the reform elements from the perspectives of pupils, teachers, social educators, school principals, parents and municipalities. In general, the central government and Local Government DK (KL) are supportive of the reforming of public primary and lower secondary education being implemented by municipalities and schools.

Vocational education and training programmes

Denmark's reform of vocational education and training (VET), which was adopted in June 2014, came into force as planned on 1 August 2015. Among other things, the reform introduces new basic courses, clear admission requirements, better and more teaching, new opportunities for higher-level courses and a path to higher education. As part of the reform, four overarching politically determined quality goals have been set:

1. More students must choose a VET programme after 9th or 10th grade.
2. More students must complete a VET programme.
3. The VET programmes must challenge all students to reach their full potential.
4. Confidence and well-being at VET colleges must be strengthened.

The implementation is proceeding as planned in relation to introducing a new basic course structure and providing support for the reform at VET colleges. Preliminary statistics provided by the VET colleges' interest organisation indicate that far fewer students are dropping out after the first three months, although an official comprehensive set of figures has yet to be compiled. In addition, both teachers and principals have received targeted competence development training, and a team of learning consultants has been established in order to contribute to school improvement at all VET colleges.

As part of the follow-up on the quality goals and associated performance targets of the reform, indicators have been developed to enable close monitoring of the reform process at national level and at the individual VET colleges. Each college is required to submit an annual quality action plan containing results and follow-up on the reform objectives. This plan will be used to prepare a comprehensive annual progress report for the Danish Parliament, which is due to be submitted for the first time in 2016.

General upper secondary education

In April 2016, the government presented a proposal on general upper secondary education. The government's proposal aims to raise academic standards and modernize general educational items in general upper secondary education programmes, with the objective of motivating far more students to embark on higher education and doing so immediately after finishing upper secondary school. The academic knowledge and skills of students are to be enhanced through the introduction of admission requirements. The specialized study programmes must

be simplified, and the higher preparatory examination (in Danish: HF) programme must be targeted towards the academy profession (AP) or professional bachelor programmes.

Altogether, the government initiatives in the field of primary and secondary education are expected to underpin the positive trend in which young people with a migrant background achieve better educational results, including a larger share of young people with a migrant background who achieve at least an upper secondary education.

Better adult education and continuing training for unskilled and skilled labour

For the period 2014-2020, DKK 1 bn. has been earmarked to provide more and better adult and continuing education for unskilled and skilled workers. The goal is to enable more unskilled and skilled workers to upgrade their skills and qualifications, to lift more skilled workers to higher educational level, and to enhance the quality and programmes offered, partly by means of allowing a more flexible framework for training. The goal is that the efforts contribute to boosting the training activity by up to 180,000 more course participants particularly within adult vocational training (in Danish: AMU) programmes and academy profession (AP) programmes, including 20,000 students at higher educational level. The implementation of the enhanced adult and continuing education efforts has been launched. In addition, the government has indicated with its plan for *Growth and development in all parts of Denmark* that it wishes to discuss with the social partners how the AMU programmes can be made more focused and flexible.

Adjustment of student intake

In 2015, unemployment-based adjustment of student intake was introduced in terms of higher education programmes. The objective is to transfer student admission from education programmes with systematic and particularly high unemployment rates among graduates to programmes which have better employment prospects. When fully phased-in the scope of the adjustment comprises approx. 3,500 study places, corresponding to 6 per cent of the intake in 2013. The unemployment trends for higher education programmes are continuously monitored, among other things aimed at identifying programmes with systematic and significantly high unemployment rates among graduates. Concerning the 2016 student intake, approx. 60 additional study places will be subject to adjustment.

At the same time, a digital overview is provided which enables future students to gain easy access to comparable information on education programmes regarding, for example, the likelihood of unemployment, employment opportunities, the number of lessons, as well as student and graduate assessments of the quality of the education programmes and their relevance to future employment.

Follow-up on the Committee on artistic education programmes

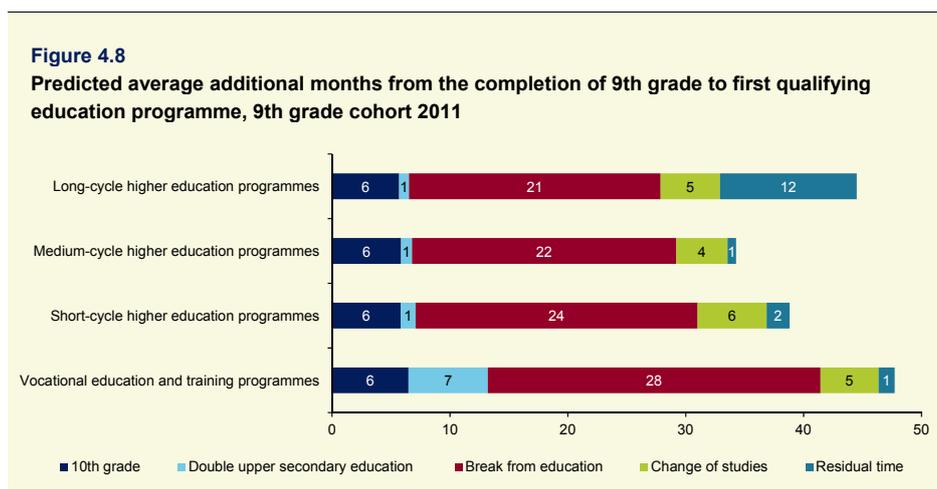
On the basis of the recommendations of the Committee on future-proofing artistic higher education programmes as well as the historical and current high level of graduate unemployment, the government has decided to implement a further adjustment of student intake for architecture and design programmes from 2016. In addition, the follow-up on the Committee's recommendations regarding development of the programmes' quality and relevance will

be implemented in 2016, among others, as part of the development contracts of the institutions.

Reform of the student grant and loan system and the framework for study programme completion

The reform of the student grant and loan system (in Danish: SU) and the framework for study programme completion (April 2013) included a SU reform and an agreement on the framework for active study programme completion (the so-called Study Progress Reform; in Danish: fremdriftsreformen). The reform is estimated to strengthen public finances by a total of DKK 2.2 bn. in 2020.

A key element of the Study Progress Reform is to ensure that students complete their studies faster. This should be seen in light of Danish graduates being among the oldest in an international context. On average, study breaks and extensions of studies are predicted to result in Danish students spending almost four additional years between finishing lower secondary school and completing a long-cycle higher education programme, *cf. figure 4.8*.



Source: Ministry of Education based on Statistics Denmark register data.

A number of initiatives have been implemented aiming to support earlier commencement and faster completion of education programmes. Students may, for example, receive SU for 12 months in excess of the prescribed duration of the education programmes provided they start a higher education programme within two years of completing their upper secondary education. Moreover, an improved framework has been introduced for credits obtained from studying at another institution or from another study programme, increased use of winter admission as well as a maximum of five upper secondary school programmes with SU. Having effect from 1 July 2016, students may likewise only be delayed by six months in their education – in contrast to 12 months previously – before the SU payouts are stopped. In addition, a number of study progress support elements have been implemented, which will also have effect after the adjustment of the Study Progress Reform comes into force on 1 July 2016.

Growth throughout Denmark

The government's plan for *Growth and development in all parts of Denmark* was launched in November 2015. In terms of education, the strategy aims, among other things, to support access to high-quality education programmes throughout the country as well as a good match between programmes and the competence needs of companies. Funds are earmarked for locating VET basic courses in more sparsely populated areas, for establishing distance learning-based pilot projects in public primary and lower secondary school, and for providing better opportunity for support during internships in peripheral areas and in neighbouring countries. In addition, the basic grant for all upper secondary education institutions has been raised by DKK 1 million in connection with a major restructuring of the taximeter system. This is designed to strengthen the smaller institutions in less populated areas and ensure strong educational provision throughout the country. As part of the plan, it is to be identified what opportunities exist for completing higher education programmes regionally and locally, for example through satellite-based programmes or e-learning programmes.

The interplay between higher educational institutions and regional companies will also be strengthened in 2016, partly through deregulation of the technical and mercantile academy profession (AP) and professional bachelor programmes, and partly through the new target on stronger regional knowledge-based collaboration in the educational institutions' development contracts.

4.5 National Target for Social Inclusion

More people must be included in the labour market, while fewer should receive public income transfers. Thus, the government has strengthened the incentives to be an active part of the labour market. It is also a key priority for the government that effective social services are provided, when people are in need of support to regain footing in life.

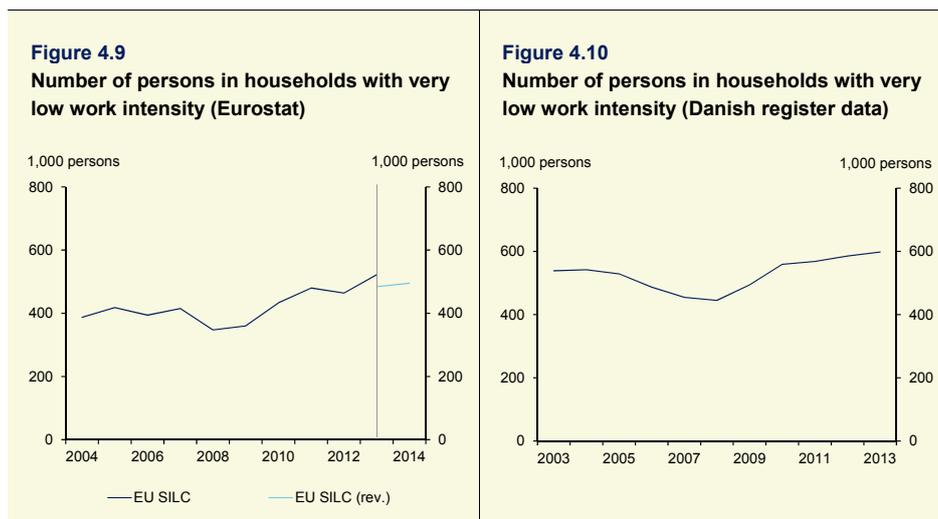
The Danish contribution to the common EU target on social inclusion is a reduction of the number of people living in households with very low work intensity (Low Work Intensity, LWI⁶) by 22,000 towards 2020.

According to Eurostat 495,000 persons in Denmark were living in households with very low work intensity in 2014. This is an increase by 11,000 persons compared to 2013 where the number was 484,000.⁷

⁶ LWI measures the number of people living in households with yearly mean work intensity below 20 per cent among people aged 18-50 years apart from students under the age of 25 years.

⁷ The Eurostat data is based on the EU SILC 2014. In EU SILC the data for 2014 refers to information for the year 2013 as the respondents in the questionnaire answer for their labour market participation in the previous year. Statistic Denmark is currently conducting a revision of the Danish data underlying the EU SILC indicators. The revision consist of two major changes: 1) The household definition as well of the weights used calibrating the SILC sample to national level is changed, and 2) a maximum amount regarding negative income is introduced. The changes are made partly to reduce the sampling error of specific sub groups of the population, e.g. age groups and people in and out of work, and for the population as a whole, partly to increase comparability among EU countries. For the moment the revision is carried out for 2013 and 2014. When fully implemented the revision will cover data starting from 2008.

The ongoing revision of the Danish data implies a data break between 2012 and 2013. However, an approximate calculation conducted on the basis of Danish register data makes it possible to analyze the development in the number of persons in LWI households over a longer time span, cf. figure 4.9 and 4.10.



Anm.: LWI households are defined as households where the yearly mean work intensity for persons aged 18-59 years of age (not including students below 25 years) in the household is less than 20 per cent. In the Eurostat data there is a data break between 2012 and 2013. Eurostat data for 2014 relate to 2013 figures.

Source: Eurostat (EU SILC) and own calculations based on register data on 3.3 per cent of the population (Law model).

There is a difference in *levels* between the Eurostat data and the approximate calculations based on Danish register data. Thus the number of persons in LWI households on the basis of register data is estimated at approx. 600,000 in 2013, while the number is 495,000 persons according to Eurostat (as data in 2014 is referring to the work intensity of 2013). The difference should be viewed in the light of the fact that employment in the Eurostat data is self-reported while being based on the recorded employment in the Danish register data. Nevertheless, the two calculations illustrate identical developments.

The increasing number of persons in LWI households from 2008 to 2013 is mainly due to the reduction in employment following the economic downturn in 2008-2009 and the subsequent period of weak economic growth.

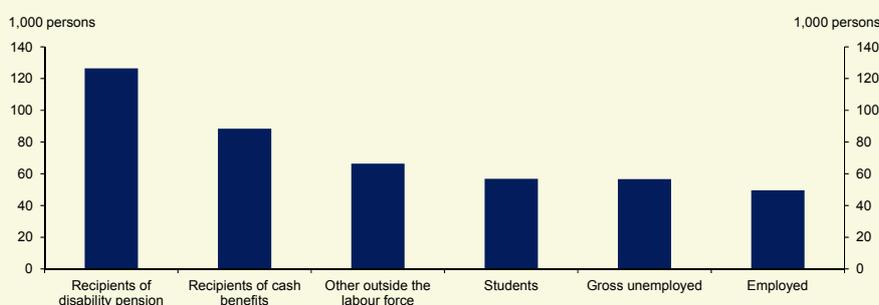
Nevertheless, in later years the number of persons living in a LWI household has increased in spite of the simultaneous rise in employment. This reflects that the rise in employment has been lower than the increase in the number of students and other persons outside the labour force.

Currently the number of persons in LWI households can only be calculated up until 2013/2014. However, the latest development indicates that the positive trend in the labour

market continues: The employment has increased by 38,000 persons from January 2014 to November 2015 while unemployment has been reduced by 37,500 persons in the same period.

Regarding the composition of the persons aged 18-59 years (excluding students under the age of 25) living in households with very low work intensity, people with disability pensions represent the largest group. Cash benefit recipients make up the second largest group, cf. figure 4.11.

Figure 4.11
Number of persons in households with very low work intensity according to socioeconomic status, 2013



Note: 18-59 year-olds (excl. students under 25 years). Socio-economic status is measured by main source of income in the year. Activity-ready social assistance recipients, i.e. benefit recipients who are not immediately available for work.

Source: Own calculations on basis of register data on 3.3 per cent of the population (Law model).

Students and other persons temporary or permanently not being part of the labour force, e.g. sickness benefits recipients, also account for a large share. The same apply to cash benefit recipients participating in activation schemes i.e. recipients who are not directly available for the labour market.

The reforms in recent years have created the preconditions for more people being active in the labour market in the future. The bulk of reforms include the reforms of the disability pension and flexi-job schemes, cash benefits, sickness benefits, and the employment reform (from 2014), the reform of the UI benefit system, the introduction of integration allowance and the agreement on social assistance aimed at making-work-pay (JobReform phase 1). The reforms will contribute to reduce the number of people living in households with very low work intensity in the years to come.

The basic target of the reforms of the disability pension and flexi-job schemes, among others, is that as many people as possible obtain employment and become self-supported. The reforms are targeted at people with social, employment and health-related challenges with respect to labour market participation. Also, the reforms improve the opportunities for being part of an inclusive labour market, for disabled people.

Social considerations are taken in the reforms. Among others, the cash benefit reform give consideration to single parents, and the economic incentives to start education are only targeted at persons who are rated to be ready for education. Furthermore, in JobReform phase 1 specific social consideration is taken, e.g. persons who are not able to work, will still be able to obtain full cash benefits even though they do not meet the criteria of 225 hours of work within a year.

Furthermore, it has been a core focus to strengthen and secure business-oriented measures for vulnerable groups as stated in the Carsten Koch recommendations. One initiative, Specially Adapted Business Training Scheme, is designed to increase the use of business-oriented measures for the socially vulnerable groups. For the period 2016-19, a total of DKK 78 million has been earmarked for this initiative as part of the so-called *satspulje* (no comprehensive English translation is available; *satspuljen* is a pool of funds related to the annual adjustment of income transfer rates).

Initiatives to support social inclusion

Strengthening social inclusion, so that more people become a part of the labour market community, requires that marginalized people are receiving more effective social action.

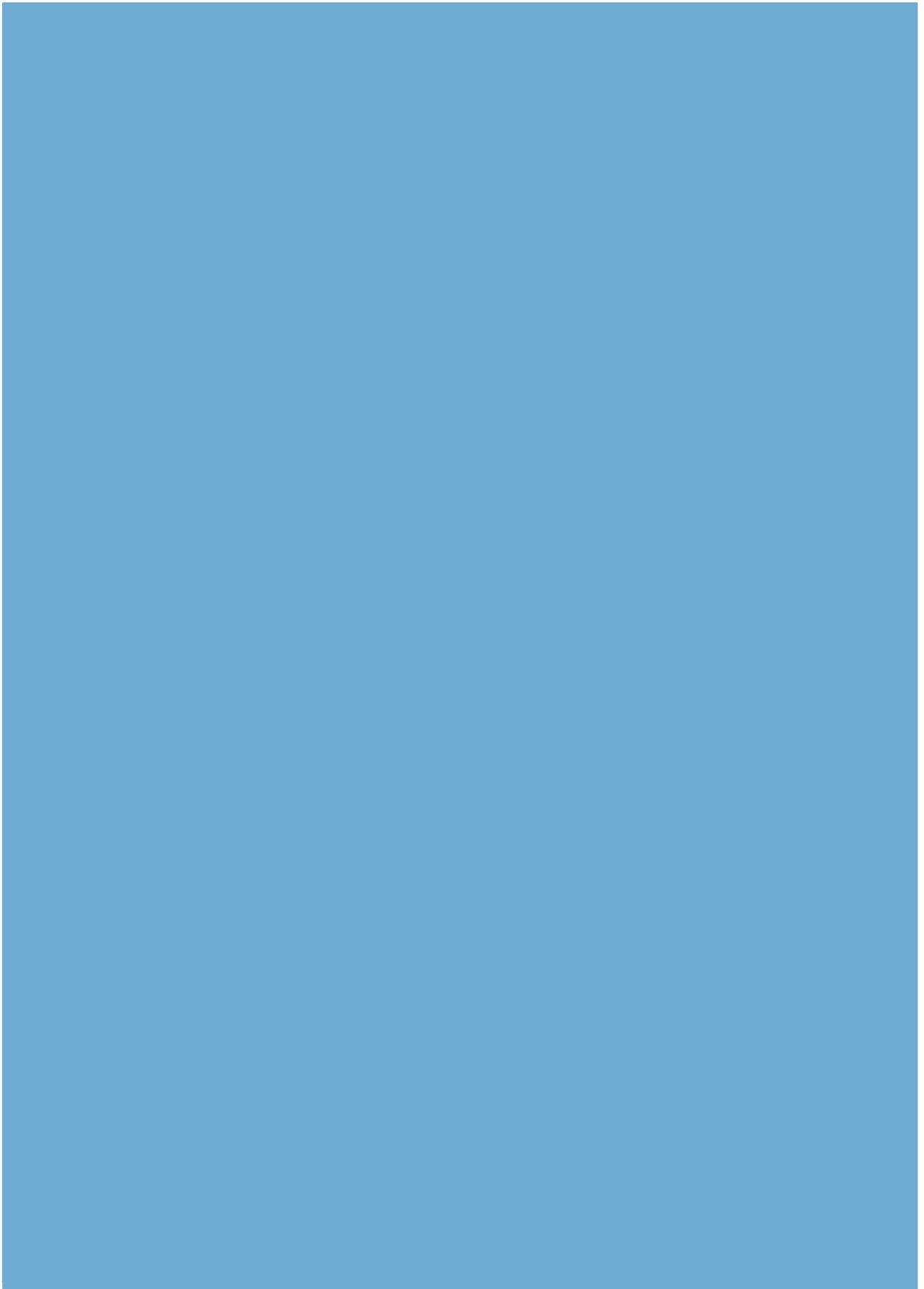
It is important for the government that social policy is focused on solutions and measures fostering progression for the individual recipient. More facts and knowledge on what works is needed. Therefore, the collection and systematizing of data must be strengthened. A larger part of action taken towards marginalized children and adults must be organized in order to enable the relevant agents in the area to experience mutual learning and disseminate the use of effective methods of social action.

As part of the social policy agenda the government will every year put forward a report on social policy that, among other things, will take stock of the actions and the results in the area of social affairs. The report will aim at describing who the marginalized people are, how they are being helped most effectively, and by that underpinning an evidence-based social policy.

At the same time, the government is supporting several initiatives raising the level of knowledge and evidence in the area.

Box 4.3**Initiatives to support social inclusion**

- **Earlier, preventing and more effective action.** The agreement on the so-called *satspulje* for 2016 set aside DKK 96 million for the next 4 years to support the municipalities in an integrated reorganization of the policy area of children to an earlier, preventing and more effective action. The scope of the initiative covers the total efforts of the municipalities – from administrative procedure to support provided – so that action is taken before problems of the child and the family increases.
- **Better support for young people and adults with ADHD.** The budget bill for 2015 sets aside DKK 12.7 million targeted young people and adults with ADHD. The aim of the initiative is to increase the capability to master their own lives, increase their robustness and ability to handle difficult situations. Hereby the basis for social inclusion is improved, and the chances to participate in education and join the labour market on equal terms with others are increased.
- **Work rehabilitation clubs for people with acquired brain injury.** As part of the *satspulje* for 2010 funds were allocated to developing and testing a model for work rehabilitation clubs for people with acquired brain injury. The project was completed in 2015. An evaluation concludes that a majority of the members clarifies their competences and achieve a more active life after joining the clubs.
- **Anonymous treatment for drug abuse.** On 1 July 2015 the law on anonymous, out-patient treatment for drug abuse etc. entered into force, according to which the municipalities are obliged to provide anonymous, out-patient treatment for drug abuse. The target group for the law is drug abusers, who are not socially marginalized, beside their drug abuse, and who have a relative strong connection to the labour market or the education system. The aim is to prevent this group of citizens developing social problems besides their drug abuse.
- **Dissemination of models for treatment to young people with addictions.** The *satspulje* set aside DKK 54.3 million to expand a number of effective methods of treatment from municipalities and in institutions. The aim is that young people reduce or stop the addictions, that more attend education, fewer commit crime and that more have better relations to family and friends and better mental health.
- **Dissemination of the strategy against homelessness.** The last three annual agreements on the *satspulje* set aside funds for the area of homelessness, including the dissemination of the Housing First approach. The latest *satspulje* sets aside DKK 31.6 million to disseminate and implement the strategy against homelessness and to gain knowledge about how homelessness can be prevented. In 2015 establishment of temporary transition homes for the most marginalized young people in homelessness was initiated, as municipal experience with this type of support for the young has been very good.
- **Better support for women in crisis centers.** On 1 July 2015 an amendment of the Act on Social Services came into force. The counselling must support the women in crisis centers to live a life free of violence. Counselling is provided concerning housing, economy, work, education, day care facilities, the health care system etc. and should support other municipal actions taken related to the transition to an independent life for female victims of violence.
- **Benchmarking analysis of the policy area of social affairs.** As part of the latest agreement on the *satspulje* a benchmarking analysis of the social policy area has been initiated in order to develop an evidence based platform for the development of benchmarks in the policy area of social affairs.
- **Social policy report.** Within the first half of 2016 the Ministry for Social Affairs and the Interior will publish a social policy report which, amongst other things, will take stock of the actions and the results within the policy area of social affairs. The annual report will aim at describing who the marginalized citizens are, and how they are being helped most effectively.
- **Examination of social targets.** An examination of the former government's Social 2020 targets has been initiated in order to decide on new long-term social targets. The aim of the examination is to make a thorough evaluation of the goals by assessing if they are still relevant and to a sufficient extent support present and future actions in the area of social affairs in the municipalities.



5. Institutional Issues and Stakeholder Involvement

Denmark has a well-established procedure for the Parliament's (Folketingets) involvement in the Danish and European growth and employment agenda. It takes place as a priority part of the Danish EU-decision procedure, when the Europe 2020 strategy and the European Semester are on the EU agenda, in various Council formations and the European Council.

The government and the Parliament have agreed on a greater involvement of the European Affairs Committee and the Finance Committee in discussions on the European Semester and the National Reform Programme. This implies that the government (in addition to current discussions of the European growth and employment agenda) will brief the European Affairs Committee and the Finance Committee of the Danish Parliament. Overall three annual joint briefings are held during the European Semester.

The procedure is as follows: In autumn, following the publication of the Commission's Annual Growth Survey, the government will in joint consultation inform the European Affairs Committee and the Finance Committee of the content of the Annual Growth Survey. During spring, the government will in joint consultation inform the two parliamentary committees of how the government expects to reflect the Broad Economic Policy Guidelines from the European Council in March in *Denmark's National Reform Programme and Convergence Programme*.

In addition, the government will – after the presentation of the Commission's country-specific recommendations – in a joint consultation inform the Parliamentary Committees on the Commission's draft country-specific recommendations.

The three consultations are referred to as the *National Semester*. In the light of the closer coordination of the economic policy in the EU, this is a good example of a strengthened role for national Parliaments in the EU.

The Contact Committee for the Europe 2020 Strategy is the pivotal point with regard to national anchoring of the Europe 2020 strategy and the European Semester in Denmark. The committee was established in 2001 in connection with the adoption of the Lisbon strategy and consists of approximately 30 regional and local authorities and a wide range of organizations with an interest in the European growth and employment agenda. Regional and local authorities are of key importance with respect to the national implementation of growth and employment policy.

The Contact Committee does not replace the various special EU committees within the framework of the Danish EU decision-making procedure, but acts as a parallel consultation forum in the growth and employment area. The committee is an important forum for dialogue between decision-makers and interest organizations on the European growth and employ-

ment agenda and is of key importance in terms of achieving a consensus on Danish priorities in the growth and employment area.

The members of the Contact Committee meet typically three times a year at respectively official and ministerial level. In the first half of the year, the Contact Committee is kept informed of the development of the European Semester, the current European growth and employment agenda as well as the preparation of the National Reform Programme. In the second half of the year, thematic meetings are held with a focus on elements of the growth and employment agenda, e.g. a meeting was held in October 2015 chaired by the Minister of Foreign Affairs with focus on the capital market union, the internal market, the Commission's investment plan for Europe and the Danish referendum on 3 December 2015 on transforming the Justice and Home Affairs opt-out to an opt-in arrangement.

A draft of *Denmark's National Reform Programme 2016* was sent for consultation to the Contact Committee and discussed at a committee meeting on 8 March 2016. The committee members subsequently had the opportunity to submit comments in writing. To the extent possible, the comments submitted by the Committee are reflected and incorporated in the National Reform Programme.

Box 5.1

The government's orientation of the Parliament on the European Semester and the NRP ("the National Semester")

11 December 2015: Joint consultation of the European Affairs Committee and the Finance Committee on the Commission's Annual Growth Survey and the Commission's early warning report under the macroeconomic imbalance procedure.

17 March 2016: Joint consultation of the European Affairs Committee and the Finance Committee on the Danish National Reform Programme and Convergence Programme.

June 2016: Joint consultation of the European Affairs Committee and the Finance Committee on the draft Country-Specific Recommendations.

DENMARK'S NATIONAL REFORM PROGRAMME 2016

2015/16:10

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1218 Copenhagen K
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ISBN Electronic publication

978-87-93214-91-0

Cover design

Kontrapunkt

The publication can be
downloaded at fm.dk



