THE DANISH GOVERNMENT

Denmark's National Reform Programme 2019

Ministry for Economic Affairs and the Interior

MARCH 2019

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Content

This programme is based on information available up to 12 March 2019.

Chapter 1

Introduction

The Danish economy is currently in a cyclical upswing. GDP growth and employment growth has been solid in recent years. The improved conditions on the labour market have led to a considerable increase in incomes, which again has led to an upswing driven by private consumption and investments. The effects from already implemented reforms, including the pension reform, will enable sustainable employment growth in the coming years.

Every spring, in the context of the European Semester, the EU member states submit their national reform programmes, which describe the countries' structural reforms. Furthermore, annual stability and convergence programmes are submitted focusing on medium-term macroeconomic projections and public finances.

Denmark's National Reform Programme 2019 presents measures that Denmark has taken in order to comply with the country-specific recommendation from EU received in July 2018. It also describes the Danish implementation of EU's growth strategy (Europe 2020). Furthermore, the overall economic framework for the Danish economy is presented based on Economic Survey, December 2019.

The structure of Denmark's National Reform Programme 2019 is as follows:

- Chapter 2 describes the overall economic framework for Denmark, including the economic outlook and gives an overview of the level of investments in the Danish economy.

- Chapter 3 presents the initiatives that Denmark has undertaken and will undertake in order to comply with the country-specific recommendation received in July 2018.

- 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 published 27 February 2019. When available, the chapters include evaluation of the impact of reform measures from recent years.

Chapter 2

Economic framework

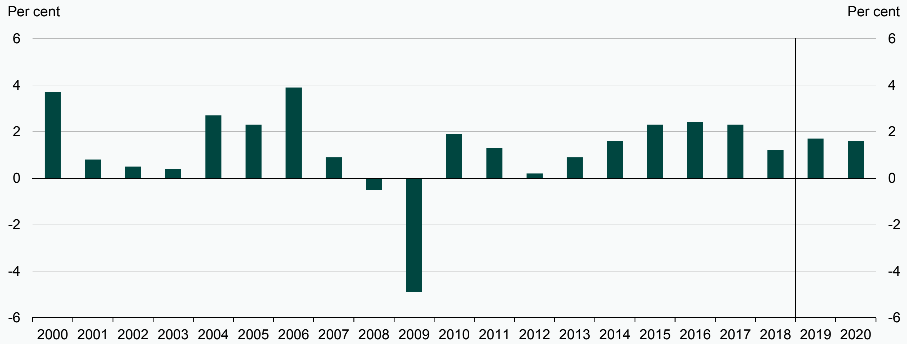
2.1 Outlook for the Danish economy

The Danish economy has entered a boom phase. Growth has been solid in the last couple of years and GDP has, on average, been growing by 2 per cent a year in the period 2015-2018, *cf. figure 2.1*. Over the same period, employment has grown by 181,000 persons.

The growth in employment has led to a substantial increase in income. Higher income has made the foundation for a self-supporting boom where private consumption and increasing investments are significant drivers behind the growth in GDP.

Figure 2.1

GDP growth



Note: Estimates on the basis of Economic Survey, December 2018. The annual growth rate of GDP in 2018 has not been adjusted on a discretionary basis for a large one-off payment in the 1st quarter of 2017 for a use of Danish-owned intellectual property right. This would have lowered the annual growth rate of GDP in 2018 by 0.4 percentage points.

Source: Statistics Denmark and *Economic Survey, December 2018*.

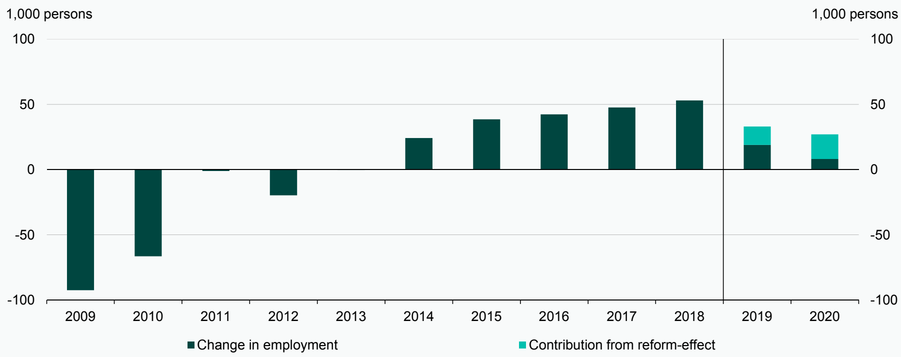
2.2 Reforms support increasing employment

Approved reforms enable employment to keep increasing. The retirement age will, as of now, gradually increase from 65½ years in 2019 to 67 years in 2022, and the voluntary early retirement pension age has gradually been raised since 2014 and will in 2023 be 64 years. The reform effect of a later age of retirement is estimated to be around 13,000 persons a year from 2018 to 2020. Further, other reforms will contribute to increase the structural employment with roughly 4.500 persons a year, reflecting the effects of previous tax and transfer agreements and the effects of the 2018 tax agreement.

In total reforms are, on average, expected to increase the structural employment by approx. 17,000 persons a year towards 2020, *cf. figure 2.2*.

Figure 2.2

Yearly contribution to the increase in employment



Note: In the forecast years the contribution of the reform-effect to the structural employment is showed.
Source: The Ministry of Finance, Statistics Denmark and own calculations.

A growing population also contributes to structural employment. The population trend implies fewer people with Danish origin in the working age population, but this is compensated by an inflow of foreign workers. The contribution from the population trend accounted for 6,000 persons in 2017 and is expected to gradually decline to 2,000 persons in 2020 due to fewer people with Danish origin in the working age population and a lower expected contribution from immigration.

Employment is expected to increase by a total of 110,000 persons from 2018 to 2020. This is larger than the increase in the structural employment of 70,000 which tend towards putting more pressure on the labour market. Employment was estimated to be ¾ per cent above the structural level in 2018 and the projections indicate a further increase in the employment gap.

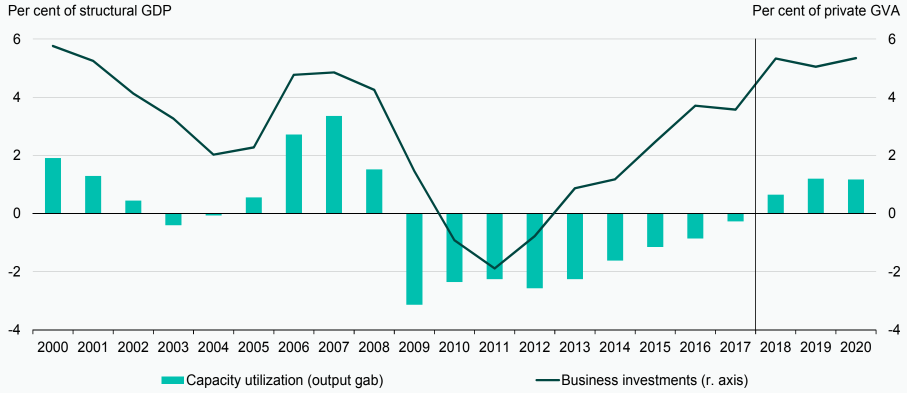
In the coming years a phased slow-down in the employment growth is expected. The chance of a soft landing needs to be seen in the light of the fact that there are no indications of a build-up of significant unbalances in terms of; unsustainable indebtedness among firms and households, house prices that are out of step with fundamental economic circumstances, or eroded competitiveness due to substantial wage increases.

2.3 Strong growth in investments

In line with previous upswings, there has been a strong development in investment which during a business cycle typically fluctuates 3-4 times as much as GDP. With increasing capacity utilization and fewer available resources, the firms need for investing in production capacity has increased. On this basis, business investments have been increasing since 2013, following some years were the scope of investments was insufficient to cover the current depreciations, *cf. figure 2.3*.

Figure 2.3

Business investments (net) and capacity utilization



Note: Estimates are based on *Economic Survey, December 2018*. The output gap is the difference between the actual output and the level corresponding normal capacity utilization, and which is consistent with stable prices. When the output gap is positive and increasing, it is a sign of pressure on capacity. Business investments are calculated net (i.e. after depreciation) and stated as a share of private GVA excl. housing utilization.

Source: Economic Survey, December 2018.

Investments are now of such a magnitude, that the size of the capital stock in proportion to labour is increasing. The ratio between capital and labour is important in terms of productivity, which, based on this fact among other things, is expected to increase more rapidly than in recent years where productivity growth has been very modest.

Many years with relatively low investments compared to firm production, has given rise to consideration whether or not the development in investments should have been structurally conditioned. International organisations have furthermore pointed out, that the backlash in investments in the years following the financial crisis was particularly prevalent in Denmark.[1] However, several factors indicate that there are important nuances to that depiction.

[1] See e.g. IMF Working Paper (2018): Investment Slowdown in Denmark: Diagnosis and Policy Options, or European Commission (2018): Country Report Denmark 2018.

In the years following the financial crisis in 2008 there was a distinctive decrease in investments globally as a result of the overall economic recession. The weak development in the Danish investments following the financial crisis should be viewed in light of the economic backlash being more severe in Denmark, where economic activity was at a higher level before the crisis. It should also be viewed in light of the significant overheating of the Danish housing market, which was carried by a large growth in the debt of households. At the same time the firms had invested a lot previous to the recession. Therefore, following the financial crisis there was a widespread need amongst households and firms to reduce debt, which led to low growth in demand. This entails that the incentive for firms to undertake investments was, all other things being equal, smaller in Denmark compared to other countries.

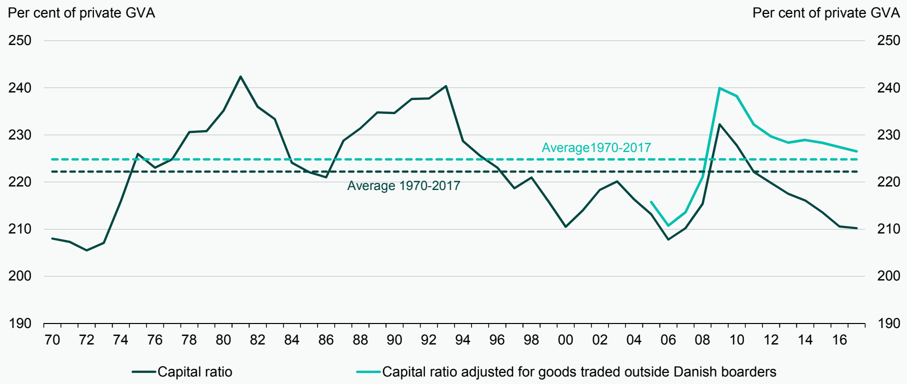
Following the financial crisis, the relatively large decline in employment – as a consequence of the overheating – meant that capital intensity (capital/labour ratio) in Denmark increased significantly. This entailed an overcapacity of capital, which the firms could draw upon, and put a natural damper on investments, which led to stagnation in the capital intensity. The capital intensity is rising again, which also has a positive effect on productivity, after a modest productivity growth in recent years.

Other countries have, to a smaller degree, experienced a similar development in the total capital intensity as in Denmark. Like other countries, the capital ratio, (capital/output ratio) which sets the capital stock in relation to production, has grown weakly in Denmark in the years following the financial crisis.

In Denmark it is an important factor that an increasing share of Danish value creation since 2005 has stemmed from trade with goods outside of Danish borders. This value creation takes place without noticeable use of physical capital in Denmark. Under the assumption that this value creation takes place without any use of Danish capital stock, an estimated correction yields a capital ratio in 2017 which is close to that of the historical average, *cf. figure 2.4.*

Figure 2.4

Capital-output ratio



Note: Estimates on the basis of *Economic Survey, December 2018*. Capital stock and GVA are both exclusive dwelling and calculated in constant prices. GVA is adjusted on a discretionary basis for a large one-off payment in the 1st quarter of 2017 for a use of Danish-owned intellectual property right, *cf. Economic Survey, May 2018*. The adjusted capital ratio does not include intangible capital that is associated with goods traded outside the Danish boarders.

Source: Economic Survey, December 2018.

The adjusted capital ratio indicates that the investments of Danish firms have been in accordance with the real need on the basis of the existing capital stock as well as the development in employment and in the economy as a whole. It should be stated that the adjustment is subject to a considerable uncertainty, among others because it does not take into account that intangible capital (like patents for instance) to a considerable extent is expected to contribute to the value creation outside the Danish boarders.

Altogether, a picture begins to emerge that, in the years following the financial crisis, investments were poor in Denmark when compared to other countries. The backlash in investments should however, be viewed in light of the general economic development, including the significant decline in employment and the size of the existing capital stock. Thus, there has not been an actual structural investment crisis in Denmark. Investments have subsequently increased in line with employment growth and the increasing capacity utilization, and in 2016 the investment ratio was back on the historical average.

Chapter 3

The country-specific recommendation

As part of the European Semester, Denmark received the Council's opinion on Denmark's economic policy on 13 July 2018. The opinion was based on *Denmark's 2018 Convergence Programme* and *Denmark's 2018 National Reform Programme*. Denmark received one recommendation, *cf. box 3.1*.

Box 3.1

The country-specific recommendation for Denmark

The Council recommends that Denmark take action in 2018 and 2019 to:

1. *Increase competition in domestically oriented services sectors, for instance in the distribution of utilities and in the financial sector.*

In February 2019, the Commission published the annual country report for Denmark. In the country report, the Commission assesses, among other things, Denmark's progress with regard to the country-specific recommendation on increasing competition in the domestically oriented service sector.

The Commission recognises that Denmark in recent years has made some progress in increasing productivity and competition in the domestically orientated service sector. This is the case in e.g. retail, transport and construction. Furthermore, there has been some progress on incentivising corporation between businesses and universities.

Likewise, the Commission also notes, that there has been some progress on following up on the country specific recommendation from 2018 aiming at increasing the competition in the financial sector. However, there has only been limited progress regarding the distribution of utilities.

3.1 Increased competition in the domestically-oriented service sector, including, for example, in the utility sector and the financial sector

Retail

In June 2017, the Danish Parliament (Folketinget) adopted an amendment to the Planning Act, which, among other things, eased the rules regarding shop locations and sizes. The new retail possibilities in the Planning Act are in line with the previous recommendations from the European Commission on increased competition and productivity and gives the local governments a greater scope to plan for bigger stores, new shop concepts, combinations with e-commerce, new location opportunities etc. The new opportunities contribute to support an efficient retail structure and thus higher productivity, better service, a more diverse selection of goods and lower prices. In effect, the eased rules on shop size and location are expected to lead to increased competition.

The Ministry of Finance estimates (with considerable uncertainty) that the amendment of the Planning Act's retail possibilities will increase the structural GDP by approx. DKK ¾ billion.

Since the new Planning Act came into force and until December 2018, a number of local governments have increased their shop sizes, and a total of 16 municipalities have publiced plans for secondary centres for public consultation. On 1 January 2019, a new national planning directive for retail came into force in the 34 local governments of Metropolitan Copenhagen, which establishes a total of 7 secondary centres in Metropolitan Copenhagen.

Over the next years, it is expected that more municipalities will gradually implement the new opportunities. The development is monitored on an ongoing basis by the Ministry of Industry, Business and Financial Affairs, e.g. in a report on retail planning, which is prepared every 4 years, and as part of the overall amendment of the Planning Act in 2020.

The Danish Government has proposed the abolition of the Shops Act. The current Shops Act stipulates that a large part of the brick-and-mortar retail must be closed on 13½ select days a year. The restrictions do not apply to the entire retail sector, as this depends, among other things, on the shop type and turnover. The Danish Government's proposal for the abolition of the Shop Act will provide increased flexibility for consumers and support equal conditions of competition between different types of shops. Furthermore, the proposal will enable a more efficient capital utilisation in the industry and involve simplification of rules.

It is estimated that a complete liberalisation of the Shops Act will increase the structural GDP by approx. DKK 0.1 billion (2019 level). This reflects a more efficient utilisation of the capital stock in the industry and thus a more productive and competitive retail sector.

The financial sector

In August 2017, the Danish Competition and Consumer Authority published its report on the mortgage credit market. The report estimates that the mortgage credit system itself works relatively well when compared to housing financing in other countries. However, the report also points out that the market is characterised by difficult conditions of competition with a significant increase in contribution rates and fees in recent years. The report contains a number of recommendations for, among other things, creating better conditions for consumers. The Danish Government followed up on the Authority's report in May 2018 and established a number of initiatives, including:

- purchase and sale agreements must include a link to the online price portal tjekboliglån.dk which allows users to compare the average price of mortgages across loan providers.
- a legislative bill is proposed to extend access to eSKAT to providers of loan offers, among others.
- The Executive order on good business practice for residential credit agreements are to be revised to make it clear which institutions allow the possibility of handing over the mortgage credit bonds, whereby the borrowers can in principle manage the transaction themselves.
- Legal advisers should (but are not obliged to) encourage home buyers to obtain multiple financing offers.

Efforts are also being made to introduce a standardised and simple front page for loan agreements, and to reduce the amount of information obligations when marketing mortgage loans. This will make it easier for consumers to navigate the mortgage market.

In addition, in line with the recommendations of the Danish Competition and Consumer Authority, the Danish Government will continue to focus on the fact that EU regulations do not impede competition and that there are equal competition conditions between mortgage credit loans and mortgage credit-like loans.

Back in January 2017, the Danish Government entered into a political agreement on stricter requirements for credit institutions' justifications for raising fees on mortgages as well as an increased notification period for fee increases. During the warning period, it has become cheaper to redeem a loan. These are initiatives that seek to increase transparency and mobility in the mortgage credit market.

Finally, the Competition Council is in the process of preparing an analysis of the competition within the pension sector.

The utility sector

The utility sector provides electricity, gas, heating, drinking water and telecommunication services and takes care of garbage disposal and wastewater treatment. Thus, the sector is of great importance to households and businesses. An average Danish household spends *(cf. the Danish Government's utilities strategy)* around DKK 37,000 (2014 figure) on utility services. This is roughly equivalent to the amount spent on food. Furthermore, the purchases of utility services represent a large share of costs within the manufacturing sector – this applies in particular to the energy-intensive production companies.

For a number of years, productivity growth has been weak in the utility sector despite a great potential for increased efficiency and productivity. This is emphasized by the large difference in the price of utility services across the country.

Due to these challenges, Denmark's first utility strategy was launched in September 2016. The strategy provides a framework for the future regulation of the utility sector. This framework is based on five principles: 1. Exposing non-monopoly tasks to competition, 2. Incentive-based economic regulation of natural monopolies, 3. Good corporate governance, 4. Robust regulation of security of supply, environmental protection and health, 5. An effective and transparent regulatory authority. The strategy includes initiatives that will pave the way for annual efficiency gains worth DKK 5.9 billion by 2025.

Since the announcement of the strategy, the Danish Government has reached eight political agreements for the new regulation and organisation of the electricity, gas, heating and water sector, and a new supervisory authority for the electricity, gas and heating sector ("Danish Utility Regulatory Authority") has been established, which will play an active role in the development of the future regulation of the utility sector. These initiatives are expected to pave the way for efficiency gains worth DKK 5.5 billion in 2025.

Chapter 4

National targets in the Europe 2020-strategy

In recent years Denmark has implemented several reforms and other initiatives that contribute to fulfil the targets in the Europe 2020-strategy. Some of the Danish 2020-targets have already been met, while others are close to being met. The national targets support the Europe 2020-strategy within its five key areas: employment, research and development, climate and energy, education and social inclusion.

This chapter gives an update on Denmark's progress in meeting the targets, as well as implemented and planned initiatives in each area. The Danish Europe 2020-targets are shown in *table 4.1*.

Table 4.1

The Danish national targets

	2020-targets
The national target for employment	Structural employment rate of 80 per cent amount the 20-64 year-old.
The national target for research and development	Investments in R&D amount to 3 per cent of GDP.
The national target for climate and energy	Renewable energy must account for at least 30 per cent of the final energy consumption. 10 per cent of energy consumption within transport must stem from renewable energy. Emissions in non ETS sectors should gradually be reduced by up to 20 per cent compared to 2005.
The national target for education	Reduce school dropout to less than10 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.
The national target for social inclusion	Reduce the number of persons in household with low work intensity by 22,000 persons.

From 2014 to 2020 Denmark receives a total of approx. DKK 3 billion from the EU Regional Fund and Social Fund (structural foundations). The funds are equally distributed on the two foundations and are to be co-financed with at least 50 per cent Danish funds. The Structural Funds-initiative contributes to fulfil the five Danish Europe 2020-goals.

With the Regional Fund investments are made in innovation and green transition among others, contributing to the EU 2020-goals regarding research and development as well as climate and energy. Similarly, the Social Fund-initiative contributes to more young people receiving education and to strengthening the social inclusion.

In 2018, the Structural Funds effort in Denmark 2014-2020 was evaluated mid-term. Overall, the evaluation concludes that the projects that have been initiated have contributed to meeting the goals determined by the programme and thereby also the Danish EU 2020 targets concerning employment, R&D, greenhouse gas emissions, energy efficiency, social inclusion and education. At the time of the evaluation, only a few projects were completed, so the evaluator has not yet quantified the contributions to the EU 2020 targets. This will happen in the final evaluation of the programme.

The EU's European Agricultural Fund for Rural Development, which finances the EU's rural development programmes under the EU's Common Agricultural Policy (CAP), likewise contributes to the EU 2020-strategy by promoting a sustainable development of rural districts and the development of a EU agricultural sector which is more territorially and environmentally balanced, climate-friendly, resistant and competitive, and innovative. The rural development programmes are carried out in Denmark through the Danish Rural District Programme (LDP). In total there is allocated approx. DKK 8.9 billion through the LDP in the period 2014 to 2010, of which approx. DKK 6.8 billion are EU funds.

4.1 The national target for employment

The labour market has for an extended period shown positive development with prospects of continuing improvements. Since the turning point in the first quarter of 2013 employment has increased by 226,000 persons, of which 221,000 have obtained employment in the private sector. At the same time, unemployment is at a historically low level, disregarding the period 2007-2008, where the labour market was overheated.

In time with the phasing in of already decided reforms, and as a result of continuing favourable economic development, an additional 110,000 persons are expected to obtain employment from 2018 to 2020. Of this, 70,000 are attributed to increased structural employment while 39,000 are attributed to improved business cycles.

After 2020, already decided reforms contribute to continuing sustainable increases in employment. From 2020 towards 2025 the structural employment is expected to increase further by 65,000 persons. It is estimated that the employment gap was closed in 2017 and the labour market is now in a situation of rising capacity pressures. In 2020 employment is expected to exceed the structural level by 36,000 persons.

The structural aspects of the Danish labour market are generally sound. This is reflected in growing structural employment and low structural unemployment. Both unemployment and long-term unemployment are at low levels in a historical perspective. At the same time flexibility in the Danish labour market is high, which is reflected in a relatively high job turn-over and in most unemployed finding a new job relatively fast.

The Danish employment target is a structural employment rate of 80 per cent in 2020 for 20-64-year olds. The employment rate for 20-64-year olds was 76.9 per cent in 2017 which is about 4.5 percentage points above the EU average. This difference can to a large extent be explained by the higher employment rate among Danish women, *cf. figure 4.1*.

Figure 4.1

Employment rate in Denmark and the EU for 20-64-year old men and women

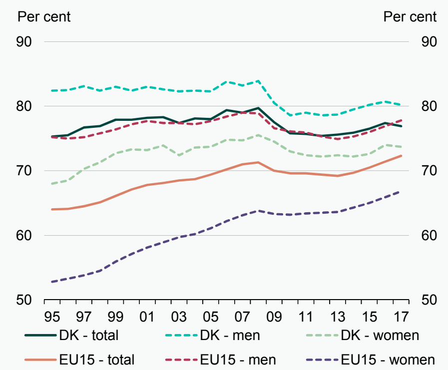
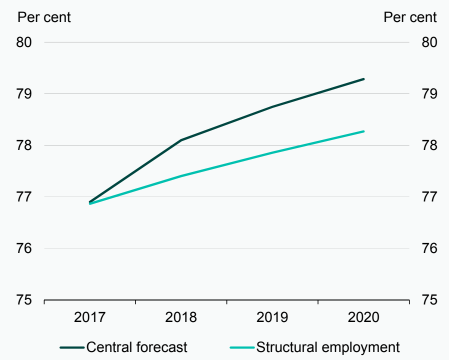


Figure 4.2

Total employment rate towards 2020, 20-64-year olds



Note: The employment rates in figure 4.1 are based on the EU Labour Force Survey, corresponding to the Danish Labour Survey. There is a break in the time series for Denmark in 2016 and 2017. The data break means that the employment rate was overestimated in 2016.

Source: Eurostat, Statistics Denmark and own calculations.

Employment is estimated to increase from 2017 to 2020, corresponding to an increase in the employment rate of about 2.4 percentage points for 20-64-year olds. The central forecast estimates a 79.3 per cent employment rate in 2020 and a 78.3 per cent structural employment rate in the absence of further initiatives *cf. figure 4.2*.

The central forecast of the employment rate is 0.4 percentage points lower in 2020 than estimated in Denmark's National Reform Programme 2018. This primarily reflects a decrease in in the employment rate as estimated in the Labour Force Survey from 2016 to 2017, which has an effect on the level of the estimated employment rate. On the contrary, expectations of the business cycle have increased since the preparation of the National Reform Program 2018, which in isolation moves the employment rate upwards.

Statistics Denmark notes that there is a break in the time series in the Labour Force Survey in both 2016 and 2017 and that data from 2016 in particular is subject to uncertainty. The recent development is therefore to be interpreted cautiously.

The Government has an ambition to increase employment by 55-60,000 full-time employees in 2025 through new reforms and initiatives and to increase prosperity by DKK 80 billion (measured by structural GDP). Achieving the Government's target for further reforms will help to prolong the upturn and sustain continued employment growth while avoiding bottlenecks and labour market pressure in general.

Since the publication of The National Reform Programme 2018, a range of initiatives affecting the outlook of increasing employment have been implemented. Primarily in connection with the fiscal bill for 2019 (*Finanslov 2019*) agreements which increase the structural employment have been made. The agreements contain initiatives such as a new benefit for employed old-age pensioners (*seniorpræmie*), increased earnings limit for student grant recipients and tax and duty reductions. For further information about reform effects, reference is made to the analysis by The Ministry of Finance *Økonomisk Analyse: Reformer har styrket dansk økonomi, November 2018*.

A simpler and more future-proof employment system

The Danish labour market model secures a flexible, effective and competitive labour market. In December 2018, Statistics Denmark registered 2,767,400 employed wage earners – this is the highest amount in history. To maintain the positive situation, the Danish Government has implemented a number of initiatives that future-proofs the labour market and creates a more simple and modern employment system:

Agreement on a simplification of the active labour market policy system

In August 2018, a broad political agreement was made regarding a comprehensive simplification of the active labour market policy system. The agreement entails that local authorities will be allowed greater freedom to plan measures offered to the particular citizen. At the same time, companies will be met with fewer time-consuming registrations, and unemployed will be met with fair demands, understandable rules and avoid rigid requirements for job applications. If one, for example, has a job at hand, it will no longer be a requirement to seek further employment.

The Disruption Council – Partnership for Denmark's Future

The Disruption Council has on eight meetings in 2017 to 2018 discussed how companies, citizens and the labour market can become equipped to take advantage of the potential from technological development and globalization. This has, among others, contributed to a collective agreement between the platform company, Hilfr, member of The Confederation of Danish Industry, and the Danish trade union, 3F, in April 2018 - the first agreement established between a trade union and a platform company in Denmark. The Disruption Council's work has furthermore contributed to that the Government in May 2018 entered a political agreement on better conditions for growth and correct taxation for the sharing- and platform economy.

The Disruption Council terminated its work in February 2019 with a follow-up report of the Government's initiatives.

Transitional mechanism for supplementary unemployment benefits is made permanent

In December 2018, a broad majority of the Danish Parliament adopted a law that makes the transitional mechanism for supplementary unemployment benefits permanent. This entails that citizens who have used up the right to supplementary unemployment benefits will not lose a month of unemployment benefits if they have been employed for only a single day.

New think tank on retention for seniors

The Government established, in the summer of 2018, a think tank that will contribute to a better work life for seniors and through this make seniors postpone their pension. Until the summer of 2019, the think tank will gather information on what makes seniors stay longer on the labour market and how the labour market policy system can get unemployed seniors back into employment.

Recommendations for a better working environment

The Government's committee of experts on working environment terminated its work in the fall of 2018 by giving 18 recommendations that all have in common that initiatives on the working environment shall be based on the individual workplace. A better working environment prevents physical and mental overloading and contributes to a longer work-life. The recommendations will become the grounds for political discussions on new policy initiatives regarding the working environment.

Clarification of rules regarding early retirement and resource clarification process

In May 2018, a broad majority of the Danish Parliament adopted a law that specifies and clarifies the rules regarding early retirement pension and resource clarification process. With the new rules, it is clarified that municipalities, in some cases, can grant citizens the right to early retirement without the citizen having been through a resource clarification process. It is also clarified that it is a prerequisite to initiate a resource clarification process that the municipalities can identify initiatives where there is a realistic expectation that the citizen can develop his or her capacity for work.

Initiatives for persons on the margin of the labour market

The unemployment rate was, according to Statistics Denmark, 3.7 per cent in January 2019. Even though this is low, it is a Government goal to get everybody on board. The Government has therefore implemented a number of initiatives to move more people from welfare benefits to employment:

More people with a disability must become employed or be in education

The Government has in 2018 increased its focus on strengthening education and employment for people with a disability. As a part of this, through the Rate Adjustment Funds for 2019, DKK 128.4 million has been allocated for the period 2019 to 2022 for a number of initiatives on the area. The initiatives focus, among others, on smoother transitions from education to employment, a targeted effort towards getting more people into employment, better options regarding education and more knowledge and information on disability.

Partial agreement on ensuring qualified labour for companies

In the fall of 2018, the political parties behind the Employment Reform agreed to reprioritise DKK 100 million to a number of initiatives that will upgrade skills for unemployed and secure qualified labour for companies. The purpose of this is to improve the job centres' service and to help businesses that have a shortage of labour, give cash benefit recipients who are ready for a job an early and job-focused effort with a permanent caseworker, and improve measures for unemployed that lack basic reading, writing and mathematical skills.

Promoting labour market participation among immigrants and refugees

Denmark wishes to increase the labour market participation among immigrants and refugees, and the Government has initiated a number of initiatives to contribute to this:

Status on the basic integration training programme (IGU)

As part of the tripartite agreement on labour market integration, the basic integration training programme (IGU) was introduced in 2016 with the purpose of offering practical work experience and upskilling for refugees whose qualifications cannot yet sustain a job on ordinary Danish pay and employment conditions. By January 2019, a total of 1,890 IGU programmes have been registered.

The evaluation of the basic integration training programme was published in June of 2018, and it shows that municipalities and companies are satisfied with the programme. Furthermore, it shows that the basic integration training programme contributes positively to refugees' vocational, social and language skills. In February 2019, the social partners and the Danish Government decided to prolong the programme until 30 June 2022.

More women with an immigrant background must become employed

With the Rate Adjustment Funds for 2019, DKK 95 million has been allocated for the period 2019 to 2022 to a targeted municipal effort towards getting more women with an immigrant background into employment. The efforts will, among others, focus on education and other forms of upskilling as a supplement to company targeted efforts.

Denmark's implementation of the EU Youth Guarantee

In Denmark, all unemployed below the age of 30 without a job-qualifying training or education must be given an active offer no later than after a month of unemployment. The offer must focus on training and education, and it must continue without interferences until the young person can start and complete an education or training programme on regular terms. The training-oriented measures may, for instance, consist of courses in reading, writing and mathematics, bridge-building programmes at vocational schools, apprenticeships, subsidised jobs and mentorships. Denmark already meets the EU Youth Guarantee, but the Government has initiated a number of measures to get more young persons into the labour market.

New youth proposal

In December of 2018, the Government presented a proposal that intends to move young persons from educational help and into employment or an education. With this proposal, the Government wants to give municipalities a better possibility to target measures that will get young persons into employment – rather than measures that are only targeted towards education. This will bring the young persons into the labour market so that they, in the long run, can be better equipped for an education. At the same time, the municipalities that keep young persons in education will be rewarded with a cash bonus.

Integration of long-term unemployed persons into the labour market

Denmark puts a strong emphasis on labour market integration of the long-term unemployed. The effects of an early and active employment promotion and a focus on initiatives to counteract long-term unemployment are reflected in a low number of long-term unemployed in Denmark: 1.3 per cent compared to EU28 of 3.4 per cent (data from Eurostat from 2017). Among the initiatives for the integration of long-term unemployed into the labour market is the initiative "More people must become part of the labour market II" (*Flere skal med II*).

More people must become part of the labour market II (Flere skal med II)

With the Rate Adjustment Funds for 2017, "More people must become part of the labour market" was created to clarify the further process for the weakest cash benefit recipients and through company targeted measures help the target group closer to the labour market.

The Rate Adjustment Funds for 2018 allocated DKK 87.5 million to disseminate "More people must be integrated into the labour market II". Through an allocation between funds in 2018 and the Rate Adjustment Funds for 2019, DKK 109.1 million extra has been allocated to this purpose.

Analyses of the employment area

Since the publication of the National Reform Programme in 2018, the Ministry of Employment has published a number of impact analyses on the employment area, including a new recruitment analysis.

New recruitment analysis

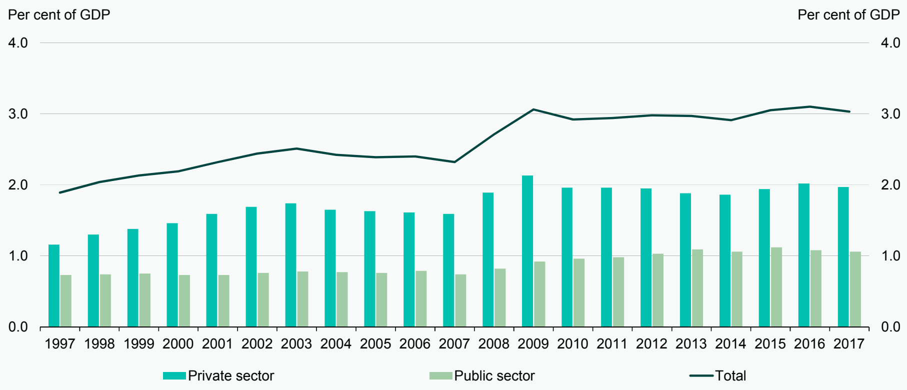
In December 2018, the first of a number of on-going analyses of companies' recruitment situation was published. The research shows the scale and character of companies' recruitment challenges, including that 23 per cent of companies' recruitment efforts in the fourth quarter of 2018 were in vain. This corresponds to 66,700 unsuccessful recruitments nationally. The results of the analysis furthermore show that on average half of companies' unsuccessful recruitment attempts ended with the position not being occupied while the other half ended with the position being filled by another profile than demanded.

4.2 The national target for research and development

The Government continues to have a target of the public research budget comprising at least 1 per cent of GDP. Moreover, there is considerable private investment in research and development. Denmark is among the highest ranked countries in international assessments of national investment in research and development, *cf. e.g. Research and Education Policy Report 2018*. Overall, approx. DKK 66 billion of investment in research and development was carried out in 2017. Of this, approx. two thirds were carried out by the private sector, while the remaining third was carried out by the public sector, *cf. figure 4.3*.

Figure 4.3

Private and public investments in research and development



Note: 2017 is a preliminary number. The data in the figure is calculated by where the research has been carried out, i.e. there will be research and development carried out in the public sector that has been financed by private funding, and vice versa.

Source: Statistics Denmark.

The total public and private sector investments in research and development have increased from 1.89 per cent of GDP in 1997 to 3.05 per cent of GDP in 2017. In 2017, privately executed research and development comprised 1.97 per cent of GDP, while publicly executed research and development comprised 1.08 per cent of GDP. Denmark's investments in research and development are thus on track with the Europe 2020 objective of 3 per cent of GDP.

In December 2017, the Government published its research and innovation policy strategy "Denmark - Ready to seize future opportunities". The Government put forward two overall objectives for future research and innovation policy: 1. Danish research must be of the highest international quality and 2. Research must provide the highest possible benefit for society.

The objective of Danish research is to be of the highest international quality

The Government has the ambition that the entirety of Danish research should be of a high international quality, while the best Danish researchers should be comparable to the very best in the world. Initiatives to support these ambitions include:

Pioneer Centres

The Government aims to create some special research centres - Pioneer Centres - with a long-term focus, a great amount of freedom and an ambitious financial framework that will carry out visionary research which will lead to fundamental and transformative breakthroughs. The aim is to give specially-chosen research leaders with substantial international experience the opportunity to establish elite research environments, which would be comparable to the best research environments in the world. The Ministry of Higher Education and Science has entered into a dialogue with a number of private foundations about the specific development of the centres. The agreement on the distribution of the research reserve as well as other research priorities in 2019 will see DKK 180 million invested in the centres.

Talented researchers must have attractive career opportunities

The Government has expanded the researcher talent programme Sapere Aude Starting Grant from the Independent Research Fund Denmark to strengthen funding opportunities for talented younger researchers at the assistant- and associate professor level, as well as establishing a national ERC support programme to improve the chances of talented young researchers to successfully secure grants from the European Research Council (ERC).

Furthermore, the Ministry of Higher Education and Science is, in cooperation with the universities, implementing a review of career paths at Danish universities, to support a healthy career development, effective use of talent, and increased mobility.

Finally, the Ministry of Higher Education and Science will follow the development of gender equality at Danish universities, discuss the development with the universities and send an annual evaluation to the parliamentary Higher Education and Research Committee.

The objective of research providing the highest possible benefit for society

The Government wants to boost efforts to ensure that research provides the best possible benefit for Denmark, so that the significant investments in this area reap a high return. In particular, Denmark must be better at translating research to innovation and entrepreneurship. The Government will therefore work to ensure that Danish knowledge-based innovation creates even better results and more value in Danish companies. Initiatives to boost the societal benefit of research include:

International panel of experts for world-class knowledge-based innovation

The Government is appointing an international panel of experts to provide recommendations for the development of Danish knowledge-based innovation. The aim is for Denmark to be amongst the leading nations in converting new knowledge into innovation.

Using the best international examples as a starting point, the group of experts will present recommendations for how Denmark's overall effort for knowledge-based innovation can be improved. The international panel will look at the overall knowledge-based innovation system in Denmark and at the whole food chain from research to innovation and entrepreneurship. Based on this, the panel's recommendations will address how the public efforts can be boosted, including efforts to create 1. knowledge-based technology services for companies, 2. cooperation, networks and matchmaking and 3. knowledge-based entrepreneurship.

Strengthen technology transfer

From 2013 to 2017, almost 80 companies have been established on the basis of agreements with universities on the transference of technology and rights, which corresponds to about 16 companies a year on average. It is important that the universities work to support the establishment of more new companies. The Ministry of Higher Education and Science has therefore, together with Universities Denmark, implemented a review of the universities' technology transfer.

The review includes both the universities' regulation framework and practice for technology transfer, including the opportunities for promoting the use of standardised terms of agreement. The objective is to provide easier access for smaller companies and entrepreneurs to utilise new knowledge and technology from the universities.

Grand challenges

The Government will implement Grand Challenges, which are competitions to motivate researchers, companies and organisations to develop research-based, innovative solutions that will contribute to solving some of the future's great challenges. The Government will reward the best solutions with a prize.

National centre for research in new digital technologies

The Government, as part of its research and innovation strategy and the Strategy for Denmark's Digital Growth, has proposed the establishment of a new national centre for research in digital technologies. The agreement on the distribution of the research reserve as well as other research priorities in 2019 will see DKK 100 million invested in activities in a national centre for research in digital technologies. The centre, which will be a cross-institutional establishment, will support the development of the digital area and contribute to cross-disciplinary research in e.g. artificial intelligence, big data, Internet of Things, and IT security. The research may include ethical and moral aspects of new technological developments and the use of artificial intelligence and big data in a Danish context.

Evaluation of Innovation Fund Denmark

The Government has appointed an international panel of experts to evaluate Innovation Fund Denmark. Innovation Fund Denmark was established in 2014 with the aim of providing funding to strategic and challenge-driven research, technological development and innovation to increase the share of innovative companies as well as private companies' investment in research and development. The evaluation follows the political agreement on Innovation Fund Denmark and will also include whether the fund is living up to its legally agreed objective and the fund's role in the overall research, development and innovation system. The panel's report with recommendations is expected to be ready at the end of February 2019.

Establishment of a Forum for Research Financing

The Government has appointed a Forum for Research Financing with representatives from private and public foundations as well as universities, which will strengthen the cooperation, coordination and work allocation between these agents. Overall, the forum will support the creation of the best possible quality and effect of the many funds that are invested in research and innovation at the Danish universities. The forum will discuss several issues, including challenges and improvement potential, wherein the collaboration between publicly financed research, the universities and private foundations' research financing is of particular importance. One challenge that must be discussed is the question of indirect costs associated with externally financed research projects. With an international survey as its basis, the forum will identify and discuss models for a sustainable management of indirect costs.

4.3 The national target for climate and energy

Denmark is subject to the following binding national targets laid down by the EU in the climate and energy area for 2020:

- Annual obligations for the period 2013-2020 for non-ETS greenhouse gas emissions. The target increases towards 2020, when Danish emissions must be reduced by 20 per cent compared with the level in 2005[1].
- The share of renewable energy in final energy consumption must rise to 30 per cent in 2020, an increase from about 16 per cent in 2005.
- A total of 10 per cent of energy consumption by the transport sector (roads and railways) must be from renewables in 2020.

Furthermore the Government has committed itself to a reduction target in the EU for the non-ETS (Emissions Trading System) sectors of 39 per cent in 2030 compared to the level in 2005.

The Government's energy and climate policy

The Danish Government is working actively towards making Denmark a net-zero-emission society at the latest by 2050. In the energy agreement from 2018, the contracting parties have allocated funding, which paves the way towards having at least 55 per cent of Denmark's energy needs covered by renewable sources by 2030. Further, in Oc-

[1] The non-ETS greenhouse gas emissions primarily include emissions from transportation, agriculture and individual heating.

tober 2018 the Government presented a climate and air proposal, which contains a series of initiatives that focus on fulfilling Denmark's reduction target for the non-ETS sectors. The proposal offers a plan to achieve the target with contributions from both concrete initiatives in the short-term, long-term goals and a strengthened research effort. Overall, the energy agreement and the climate and air proposal, combined with the historical effort within climate and energy policies, contributes to Denmark being well on its way in pursuing the different climate policy goals, which are to be fulfilled by 2030.

The energy sector

The transition of the energy sector is essential in the Danish climate action policy. With the energy agreement from 2018 a broad majority in the Danish Parliament agreed on multiple initiatives to support and extend the Danish position in the climate and energy area and additionally support the EU targets. The agreement ensures a continued transition of the energy sector and entails large investments in renewable energy and energy efficiency. With the agreement, funding has been allocated to pave the way towards reaching approximately a 55 per cent renewable energy share in 2030. At the same time Denmark will, with the agreement, reach a renewable energy share in consumption of electricity of over 100 per cent and at least 90 per cent of district heating consumption will be based on other types of energy than coal, oil and gas in 2030.

Status for climate and energy policy targets

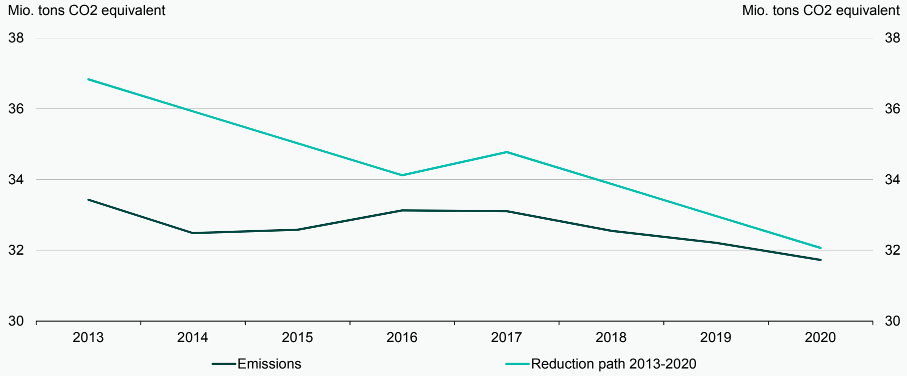
As part of the 2008 EU Climate and Energy Package, Denmark is obligated to reduce emissions from the non-ETS sectors by 20 per cent in 2020 compared with the 2005 level, and to achieve sub-targets in the years from 2013-2020. The sub-targets increase gradually up to the end-target in 2020. Due to natural fluctuations in emissions, it is possible, however, to carry over over-compliance from one year to offset under-compliance in another.

The latest baseline projection from the Danish Energy Agency was published in April 2018. The projection takes stock of the progress towards the Danish national 2020 targets set by the EU for the climate and energy area.

The EU-obligation for the non-ETS sectors through the period 2013-2020 are expected to be accomplished with over-compliance, *cf. figure 4.4*. The accumulated over-compliance is expected to be about 14 million tons CO_2 equivalents in total for the whole commitment period.

Figure 4.4

Yearly non-ETS emissions 2013-2020 and the reduction path (EU target)

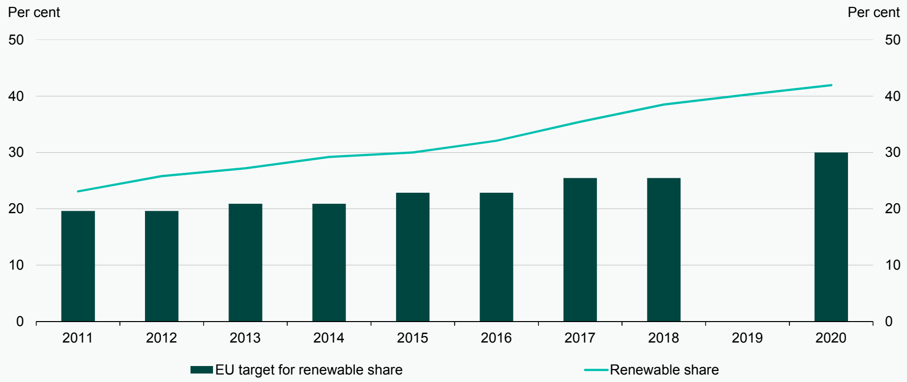


Source: Danish Energy Agency (2018), Denmark's Energy and Climate Outlook 2018.

Under the EU Climate and Energy Package from 2008, Denmark has committed to increase its share of gross final energy consumption stemming from renewable sources to 30 per cent in 2020, an increase from approximately 16 per cent in 2005. According to the latest projection, this target is expected to be exceeded with a share of final energy consumption of about 42 per cent in 2020, *cf. figure 4.5*.

Figure 4.5

Renewable share of extended final energy consumption



Note: The shown projection of RE-share is from Danish Energy Outlook 2018. The share of RE in the expanded final energy consumption lies above the EU-target throughout the period.
Source: Danish Energy Agency (2018), Denmark's Energy and Climate Outlook 2018.

The EU Climate and Energy Package also includes a separate renewable share target for the transport sector, by which Denmark is obligated to reach a renewable share in land based transport of at least 10 per cent by 2020. This target only applies in 2020, with no sub-targets towards 2020. In 2015, The Danish Energy Agency prepared an analysis which concluded that an increase of the blending obligation at the time was the least cost-intensive initiative in fulfilling the 2020-goal. With the Government's climate and air proposal, the requirement for mixing biofuels into petrol and diesel is increased to 8 per cent. Biofuels can reduce the CO_2 emissions for both cars, busses and other heavy transport in a transitional period, and will furthermore contribute to Denmark fulfilling its EU obligation on renewable energy for the transport sector in 2020.

In December 2016 the Danish Parliament adopted a blending requirement for advanced biofuels of 0.9 per cent, applicable from 2020. This is higher than the EU's requirement of 0.5 per cent advanced biofuels by 2020.

EU targets for 2030

In October 2014, EU heads of state and government agreed upon the overall framework for the EU's climate and energy policy towards 2030. As a core element the 2030 framework contains a binding target for the reduction of EU's greenhouse gas emissions by at least 40 per cent in 2030 compared to 1990. To achieve this goal, the sectors covered by the EU Emissions Trading System have to reduce emissions by 43 per cent in 2030 compared to 2005, while the sectors outside the EU Emissions Trading System have to reduce emissions by 30 per cent in 2030 compared to 2005.

In 2018, the EU-Parliament and council agreed on a goal that in 2030, 32 per cent of energy consumption is to come from renewables. In addition, a non-binding goal on 32.5 per cent was set, with which the EU obligates to reduce the energy consumption in 2030. Agreements have been made regarding legislation for revision of EU's Emissions Trading System and of the effort sharing in the non-ETS sectors was decided. This creates the framework for the EU and Denmark's climate action policy in the period 2021-2030. In the revision of the Emissions Trading Directive structural reforms of the Emissions Trading System were secured, which is expected to minimise the surplus of allowances. This is expected to contribute to a higher price on CO_2 emissions and a more market-based green transition.

In the effort sharing regulation for the non-ETS sectors, Denmark has committed itself to a national binding reduction target of 39 per cent by 2030 compared to 2005. Denmark has been allowed significant flexibility in order to reach the target, partly through the possibility to include improvements in the uptake and emissions from soils and forests and partly through the possibility to utilise restricted amounts of allowances from the EU's Emission Trading System to reach the target. The flexibility contributes to ensure that reductions can be made where they are most cost-efficient. At the same time, they contribute to the best possible consideration of the competitiveness of the industry.

4.4 The national target for education

The Danish Government has acceded to the EU headline targets for education set out in the Europe 2020 strategy to reduce school drop-out rates to 10 per cent for 18-24-year-olds, as well as increase the per cent-age of 30-34-year-olds having completed a higher education or equivalent to at least 40 per cent by 2020.

In 2017, the drop-out rate among 18-24-year-olds was 8.8 per cent, while 48.8 per cent of 30-34-year-olds had completed a higher education programme. Thus the EU headline targets have been achieved.

The Government has carried out a number of initiatives in the education area to improve the quality of Danish education programmes. These initiatives are described in the following section.

Primary and lower secondary education (Folkeskolen)

In September 2018, the Government presented a proposal for adjusting the Folkeskole reform. The Folkeskole reform took effect from August 2014.

The Folkeskole reform introduced a longer and more varied school day with additional lessons and time allocated to assisted learning, new requirements about collaboration with the wider world through the open school concept, exercise, homework support and deeper academic knowledge, a skills boost for teachers, pre-school teachers and school managers, as well as simplifying a number of regulations.

The Folkeskole reform has been monitored via a thorough accompanying research programme. After 4½ years, the research shows that most students are thriving, and that students and parents are pleased with the Danish Folkeskole system. The status report for the Folkeskole for 2017/2018 also shows that there has not been a noticeable progress in the academic level or satisfaction of students, which is why the Folkeskole has not yet achieved the objectives set out by the reform.

On 30 January 2019, the Government therefore entered an agreement with the political parties Socialdemokratiet, Dansk Folkeparti, Radikale Venstre and Socialistisk Folkeparti about a number of adjustments to the Folkeskole. The adjustments include reducing the school week from pre-school class to 3rd grade by 90 hours annually per year group. There is also the option for converting assisted learning by up to two hours in 4th to 9th grade to other school activities. Furthermore, 90 hours teaching in German or French (5th grade), art (6th grade) and history (9th grade) have been added. Finally, the agreement would see a general improvement in the quality of assisted learning.

In 2017, the rules concerning the national Common Objectives (objectives for subjects) were relaxed. The 3,170 underlying competences and knowledge objectives became guiding, while the overall competence objectives for the ability of students continued to be binding. Teachers were also given increased freedom locally to plan their teaching. The focus has been on implementing the relaxation of these rules e.g. with the recommendations of an advisory panel, dialogue meetings, etc. These took place in cooperation with the stakeholders in the education sector.

Practical knowledge has been strengthened in the Folkeskole in 2018, so that in the future, students must choose a practical/musical subject in 7th and 8th grade that they will be examined in. There will also be a requirement that they find a work experience placement in 8th and 9th grade, and the collaboration between primary and lower secondary schools and vocational schools is improved.

As a result of the February 2018 agreement on initiatives for Denmark's digital growth, a pilot program has been implemented for mandatory technology literacy in schools during the period 2018-2021. In March 2018, the Government launched a new natural sciences strategy to boost natural science subjects in primary and youth education programmes, and contribute to increasing interest among children and young people in the natural sciences.

To ensure that students starting in 1st grade have adequate language competences to keep up with the teaching, a decision was made in early 2018 to introduce language tests and intensive support in pre-school classes at schools where more than 30 per cent of students live in a marginalised residential area.

The preparatory education area

A Danish parliamentary majority adopted a reform of the preparatory education area in 2017. The reform initiatives will improve efforts for young people who are not ready for youth education following primary education. The agreement includes a new Preparatory Basic Education (FGU) to equip this group of young people for a youth education or the labour market. Owing to the complexity of the task, however, there is some delay in the implementation process e.g. institution set-up and employee handover.

Vocational education and training (VET)

The reform on better and more attractive VET programmes took effect from the beginning of the school year in August 2015. The reform had the objective of more young people choosing a VET programme directly after 9th or 10th grade. The target is that by 2020, 25 per cent will choose a VET programme, increasing to 30 per cent by 2025.

VET programmes can be combined with an exam at general upper secondary education level, known as EUX, whereby the student becomes a skilled worker and achieves general study competencies. The initiatives have resulted in more students choosing a VET programme, often in the EUX programme.

In continuation of the reform, a large majority of parliamentary parties in November 2018 entered into an agreement to increase the approach to and completion of vocational training, which also includes a strengthened effort in primary school. The agreement also focused on ensuring a more coherent education course and a more attractive teaching environment.

As part of the agreement, an apprenticeship commitment was also introduced, which is a declaration of intent from the company that the company intends to hire the young person in an apprenticeship at a later date.

In connection with the tripartite agreement from 2016, a number of benefit education programmes were established, in which the students were given particularly good opportunities to enter into an apprenticeship during the VET-programme. Furthermore, the government and the social partners agree to strengthen the companies' incentives to create more apprenticeships for students in VET by introducing a bonus to the companies recruiting more students, funded by an additional fee from the companies who do not have apprentices.

The initiatives have helped more students to get an apprenticeship. The dropout rate in VET is therefore expected to decline in the coming years, because of demands on the students' basic school education, and because of the focus on ensuring apprenticeships.

The objective of the tripartite agreement from 2016 on 2,100 more internships in 2018 compared with 2016 is met. According to figures from December 2018, a total of 2,800 more apprenticeships were created throughout 2018.

General upper secondary education programmes

The new upper secondary education reform took effect from the 2017/2018 school year. The reform also increases focus on more student's in general upper secondary education choosing natural science studies. This is backed up by the Government's national natural science strategy, which was launched in 2018. The objective of the strategy is to increase the awareness among children and young people about the opportunities in subjects like maths, biology, physics and chemistry - and an important element is to strengthen teachers' teaching competences, and create better conditions for talented students within natural sciences.

An accompanying research programme runs alongside the reform which follows and evaluates the progress and results of the general upper secondary education reform during the period 2017-2021. The accompanying research focuses each year on a particular theme from the reform, which in 2018 included the first feedback on the new introductory course, where students are presented to several different specialised study programmes (hhx, htx and stx) before they make their final decision.

Adult education and continuing training

The Government and the social partners entered into a tripartite agreement in October 2017, to significantly strengthen the Life Long Education for adults, the agreement allocates DKK 400 million to a transition fund aimed at unskilled and skilled workers in employment. The objective is to give the group the option of continuous vocational education (CVET) to boost their qualifications. The agreement has DKK 2.5 billion worth of initiatives to run over the course of four years. The status will be reported at the conclusion of the period.

Higher education programmes

The Government has carried out a number of initiatives in the higher education area which include:

Flexible education

In September 2018, the Government presented its proposal Flexible university education of the future. The proposal was followed in December 2018 by the Agreement on more flexible university education, with the support of all parliamentary parties.

As a supplement to the two-year Master's programmes, a new type of programme was established: one-year academic graduate programmes. The programmes can be taken on an ordinary full-time basis, or arranged to be taken part-time.

Moreover, the academic Bachelor's legal claim to be able to continue on a Master's programme is extended so that Bachelor's holders have better opportunities to seek employment following their Bachelor's degree.

The Government has also decided to establish a national competence panel to advise the Minister for Higher Education and Science and the higher education institutions on the demand for competences and developing trends in relation to education and the labour market.

The Disruption Council

As part of the Disruption Council's work with the skills of the future, several new initiatives have been launched in relation to higher education programmes.

A talent initiative will be launched for higher education programmes, to strengthen the talent culture across higher education. From 2019, a number of specific ventures will be implemented where the most talented students will be challenged by an ambitious talent programme associated with the best research environments in the world. Meanwhile, higher education institutions will have a freer framework for talent development and more knowledge about effective talent initiatives.

Furthermore, extra funding will be allocated to digital competence development in higher education programmes, together with a strengthened knowledge base about the institutions' work to integrate digital competences into all programmes.

New technology pact

In April 2018, the Government implemented a Technology Pact, whereby a close collaboration between the business community and educational institutions will boost skills in the workforce and track more young people into education programmes in the digital and technology area. The goal is that 20 per cent more will complete a training or higher education programme over the next 10 years in the STEM area (Science, Technology, Engineering and Math).

Improved guidance

As of 1 August 2018, a number of guidance centres have been gathered into one institution, Studievalg Danmark. The objective with the new structure is to create a better framework for guidance at a high professional level for more than 250,000 young people across the country, and support good matches between applicant and programme.

4.5 The national target for social inclusion

As part of the Europe 2020 Strategy, the Danish government has set a national target that more people should be lifted out of social exclusion and be included in the working community. Parallel to this, the government has established 10 specific goals for social mobility that are monitored in the annual Social Policy Report. With these goals the government clearly demonstrates the importance of including more people in the working community and reducing social exclusion. The goals establish the direction for social policy and are accounted for at both national and municipality level where possible.

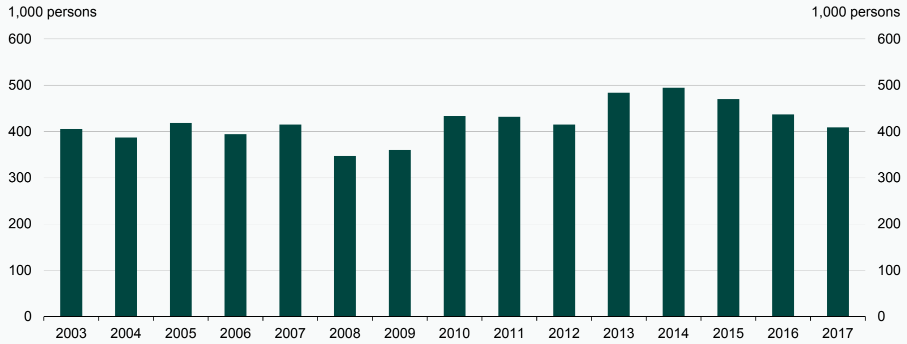
The development of the Danish 2020 target

As a part of the Europe 2020 Strategy's target of lifting 20 million Europeans out of poverty and social exclusion, the Danish government's target is to reduce the number of people living in low work-intensity households (LWI) with 22,000 by 2020.

According to Eurostat, 409,000 people were living in low work intensity households in Denmark in 2017. This represents a decrease of 26,000 people since 2016. The decrease from previous years thus continues and the number of people in LWI-households has fallen by 86,000 people since 2014, *cf. figure 4.6*.

Figure 4.6

People in households with low employment (LWI)



Note: LWI-households are defined as households where the mean work intensity for people between 18 and 59 years (not including students below 25 years) in the household is less than 20 pct. during a calendar year.
Source: Eurostat.

Since the spring of 2013, employment has increased by 226,000 people. The employment growth is expected to continue albeit at a slightly lower rate. From an estimated growth in total employment of 50,000 people in 2018, employment is expected to increase by a further 33,000 people in 2019, *cf. Economic Survey, December 2018*.

2008 is the baseline year for all EU-countries' 2020-targets for social inclusion. In Denmark, the number of people in LWI-households was 347,000, making it a historically low level, *cf. figure 4.6*. Between 2008 and 2014, the number of people living in LWI-households increased due to the 2008-2009 economic recession and the following period of subdued growth and lowered employment.

LWI-households encompass both students older than 24 years and people on disability retirement with a social pension, which is an explanatory factor for the relatively high number of people living in households with low work-intensity in Denmark.

Since 2008 there has been a significant increase in the number of students in higher education. These are often included in the LWI group since students in Denmark typically live in independent households. In 2017, there were close to 14,000 more students between 25-29 years in higher education compared to 2008. Thus, the 2017 number of LWI-households is still approx. 62,000 people above the level from 2008, in spite of significant improvements over the last years. The reforms in recent years of disability pension, social assistance, sickness benefit and unemployment benefit set the framework for more people to become an active part of the labour market. Therefore, the reforms and initiatives described in chapter 4.1 also largely influence the number of persons in LWI-households.

In addition to the reinforced economic incentives to work, focus is on initiatives that can help vulnerable and socially excluded individuals on in life and into the labour market.

The development of the 10 Goals for Social Mobility

Since 2016 the government has annually monitored the developments of the 10 Goals for Social Mobility in the Social Policy Report, *cf. box 4.1*.

Box 4.1

The Government's 10 Goals for Social Mobility

More people in the labour force
1. Improved proficiency levels for disadvantaged children in primary and lower-secondary school
2. More disadvantaged young people to complete upper-secondary education
3. More people with disabilities to enter education and employment
4. More people with mental disorders or social problems to enter education and employment
5. More victims of domestic violence to enter education and employment

Fewer marginalised people
6. Fewer disadvantaged young people to commit crime
7. Fewer homeless
8. More effective treatment of drug abuse
9. More effective treatment of alcohol abuse
10. More people outside the labour force to be involved in voluntary activities

The latest annual report from December 2018 shows that there is progress on four out of the 10 goals, whereas there is a slight regression on two of the goals. The remaining four goals are either status quo or there is a lack of new data.

From a general perspective, the development is thus heading in the right direction although there are only slight improvements on a year-to-year basis:

- Crime-rates amongst disadvantaged children and youths are declining (goal 6). In 2016, 7 per cent of disadvantaged youths between 15-17 years had received a criminal conviction in comparison to 9 per cent in 2014.

- There are indications that the treatments of drug and alcohol abuse have become more efficient (goal 8 and 9). In 2016, 46 per cent concluded their treatments as either clean or with a reduced and stabilised level of abuse. This represents an increase of 1 percentage point in comparison to 2014.

- There is progress on the goal that more people outside employment should be involved in voluntary activities (goal 10). Since 2012, the proportion of people who are outside the labour force that partake in voluntary activities has increased from 26 per cent to 30 per cent in 2017.

- There is a slight regression on the goal that more disadvantaged youths should complete upper-secondary education (goal 2). The proportion of the 18-21-year olds that are in, or have completed, upper-secondary education has declined from 51 per cent in 2014 to 47 per cent in 2016. This is in part due to fewer disadvantaged youths starting vocational training, which could be the result of changed entry requirements for vocational education in 2015. It is thus possible that a proportion of the disadvantaged youths are in preparatory education instead.

- The development in the number of homeless people (goal 7) shows that the number of homeless people in Denmark has increased from approx. 6,100 people in 2015 to approx. 6,600 people in 2017.

Objective clause on inclusion of socially excluded adults

The Consolidation Act on Social Services contains the overarching rules regarding the help and support given to citizens with reduced functional capacity or special social problems. The main implementation of social services is placed with the 98 municipalities. Within the legislative framework, they have a relatively large degree of freedom to adjust their choice of methods to correspond to local circumstances.

In 2018, a new provision on the objective of initiatives for socially excluded adults came into effect. The purpose of giving support according to the Consolidation Act on Social Services is to ensure that the citizens receive coherent and holistic support according to their individual needs. One aspect of the initiative is to increase attention to furthering inclusion into society. This includes helping to strengthen the individual's opportunity to participate in education, employment and social relations.

Reforms to increase social inclusion

In 2018, the Government introduced a series of specific initiatives in order to improve social services such as early childhood education and care (ECEC) as well as the social policy measures towards disadvantaged children and youths, socially excluded adults and disabled people:

Prohibition of discrimination of people with a disability

In 2018, Denmark has passed a bill that includes a far-reaching prohibition of discrimination on the grounds of disability outside employment. The prohibition includes both direct and indirect discrimination and covers all aspects of society. The act came into effect on July 1st 2018 and gives efficient measures for enforcement as there is direct access to complain to the Board of Equal Treatment (Ligebehandlingsnævnet) if the prohibition is violated.

For measures to increase employment amongst people with a disability see chapter 4.1.

ECEC: "1,000 days programme – a better start to life"

It is in the first 1,000 days of life that the fundamental cognitive, social and behavioural competencies are developed. Social vulnerability begins already when the children are very young and in ECEC. Already at the age of three, there is a difference in children's social, linguistic and early mathematical competencies corresponding to up to two years. The numbers are the same when children start school. Therefore, the Government wants to intervene early. In the Finance Act of 2019, the Government and the Danish People's Party has prioritised DKK 1 billion to improve the social policy measures in the first and most important years for children from socially vulnerable families.

The resources are to be distributed through funds. The purpose of the funds is to consolidate a far-reaching effort that can help the socially most vulnerable and disadvantaged families and children in the first 1,000 days of the child's life in the three most central areas for the child:

- ECEC of high quality: DKK 760 million for more pre-school teachers and assistants in ECEC with a high proportion of 0-2 year olds from socially vulnerable and disadvantaged families and DKK 750 million for a lift of competencies for pre-school teachers and assistants in ECEC regarding socially vulnerable children's first 1,000 days.

- Within the family: DKK 115 million for efforts within the home in the child's first 1,000 days, including screening of, dialogue with and instruction of the parents. DKK 5 million for materials for the parents on the child's development in the first 1,000 days. This includes inspirational material, etc. to be used in dialogue between parents and ECEC-staff and managers about mutual expectations and responsibilities. The initiative also includes that the ECEC is supported in the dialogue and cooperation with the parents regarding healthy eating habits and good routines for meal situations in the home. The materials are especially aimed at vulnerable families.

- Health care: DKK 45 million for increased health care initiatives for vulnerable and disadvantaged families in the child's first years and in ECEC.

Initiatives targeting socially excluded children and youths

As part of the Rate Adjustment Funds (Satspuljeaftale) for 2019, DKK 249.3 million are earmarked for a Development and Investment Programme on the children and youth front. The aim is to support a more knowledge-based and efficient social policy in the area. Ultimately, the Development and Investment Programme should help ensure that better social policy measures that make a real difference are developed and dispersed so that socially excluded children and youths as well as disabled children and youths have strengthened opportunities for personal development, health and an independent adult life. In the first year of the Development and Investment Programme, there will be a total of four measures: Three that focus on ensuring better and more knowledge-based measures aimed at the parents of socially excluded children and youths as well as disabled children and youths. The fourth measure focuses on improving the school years for children placed outside the home.

Strengthening of the quality of social policy measures in the social psychiatry sector (socialpsykiatrien)

People suffering from mental or psychosocial disabilities often have good opportunities for development and thereby the opportunities to enter education, employment and become active members of civil society if they receive the right support at the right time. Therefore, there is a need to improve the social psychiatry sector so that more attention is paid to the differentiated target group and the partly altered needs for support.

Hence, the government has initiated a series of social policy measures in order to improve the quality and competencies of the social psychiatry sector. Amongst other things, the initiatives will support a strategic restructuring and development of the social policy efforts within the municipalities, ensure a knowledge- and competency improvement of managers and employees, as well as strengthen the quality of the biggest support areas of the social psychiatry, which are housing support and social housing. In the annual political agreement on the Rate Adjustment Funds (Satspuljeaftalen) for 2019, DKK 100 million are earmarked for these initiatives in the period 2019-2022.

The Social Tax Exemption Card (Det sociale frikort)

The Danish parliament has passed a law to test a social tax exemption card, which came into effect on January 2nd 2019. The purpose of the social tax exemption card is that citizens with special social problems have the possibility to earn up to DKK 20,000 tax-free annually for a test period during 2019 and 2020. The tax exemption card will give socially excluded citizens the possibility to earn up to DKK 20,000 tax-free per calendar year through ordinary and unsupported work for corporations, public authorities, etc. without the income being deducted from social security benefits or other income-determined social benefits.

The social tax exemption card should give the most vulnerable citizens a better opportunity to participate in society's communities, contribute and experience value in everyday life. Additionally, the aim is that the social tax exemption card will encourage businesses to take social responsibility by engaging socially excluded citizens.

The target groups for the social tax exemption card are people with special social problems, people that are socially excluded (i.e. because of homelessness or abuse) or people with mental difficulties (i.e. anxiety or depression), and that fulfil the conditions for receiving help or support because of this in accordance with paragraph V of the Consolidation Act on Social Services. Additionally, it is a condition that the citizen is far from education or employment, such that they have neither been in education nor had a work-based income of more than DKK 10,000 within the last year.

Chapter 5

Institutional issues and stakeholder involvement

Denmark has an established procedure for the Parliament's involvement in the Danish and European growth and employment agenda. This is a priority part of the Danish EU decision procedure, when the Europe 2020 strategy and the European Semester are on the agenda in the EU, in various Council formations and in the European Council.

The Government and the Danish Parliament have agreed on an extended involvement of the European Affairs Committee and the Finance Committee in relation to 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 and discuss the most important questions in those committees. 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 the expected contents of the Danish National Reform Programme and Convergence Programme 2019 and the Commission's country report for Denmark.

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

The three consultations are referred to as the "National Semester". In 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 approx. 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 organisations on the European growth and employment 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 typically meet three times a year at official and ministerial level respectively. 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, the Contact Committee is informed about the Annual Growth Survey, and thematic meetings are held with a focus on elements of the growth and employment agenda, e.g. a meeting was held in November 2018 chaired by the Minister for Foreign Affairs with focus on the current discussions regarding the future of the EU and the consequences of the British referendum on their withdrawal from the European Union.

The draft version of the Danish National Reform Programme 2019 was sent for consultation to the Contact Committee and discussed at a meeting of the Committee 20 February 2019. 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 Danish Parliament on the European Semester and the NRP ("the national semester")

14 December 2018: Joint consultation of the European Affairs Committee and the Finance Committee on the Commission's Annual Growth Survey of 2019 and the Commission's early warning report in 2019 under the macroeconomic imbalances' procedure.

March 2019: Joint consultation of the European Affairs Committee and the Finance Committee on the expected contents of the Danish National Reform Programme and Convergence Programme 2019 and the Commission's country report for Denmark etc.

June 2019: Joint consultation of the European Affairs Committee and the Finance Committee on the draft country-specific recommendations.

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