



The National Reform Programme

Denmark
2013

Index

1. Introduction	3
2. The Economic Framework.....	5
3. Country-specific recommendations	11
3.1 Fiscal consolidation towards 2013 and stronger spending control	12
3.2 Increase long-term labour supply	15
3.3 Education	20
3.4 Removing obstacles to competition.....	24
3.5 The mortgage and property tax systems	26
4. The National Targets in the Europe 2020 Strategy	31
4.1 The national target for employment.....	32
4.2 The national target for research and development	35
4.3 The national targets for climate end energy	38
4.4 The national targets for education	41
4.5 The national target for social inclusion	45
5. Denmark's Announcements according to the Europlus Pact	52
6. Institutional Issues and Stakeholder Involvement	55

1. Introduction

Denmark has since 2008 been affected by the international economic crisis. Much has been done to support the economy, but the Danish economy is still facing three key challenges; There is a need to strengthen competitiveness and productivity growth. There is a need to enhance long term labour supply and to improve education. And there is a need for continued modernization of the public sector.

The government has an ambitious reform and modernization agenda. In the past year, a number of reforms that address these challenges – and at the same time ensure balance between public revenue and expenses – have been implemented.

In connection with the European Semester, Member States submit their yearly national Stability- or Convergence Programmes with the countries' plans for fiscal policy, and the yearly National Reform Programmes with the countries' plans for structural reforms.

Denmark's National Reform Programme describes the measures that Denmark has implemented and plans to implement to conform to the country-specific recommendations as a follow-up on the National Reform Programme and the Convergence Programme for 2012. The programme also describes the Danish implementation of EU's growth strategy (Europe 2020) and the Competitiveness Pact. Additionally, the programme presents the overall economic framework for the Danish economy based on the Convergence Programme for 2012.

The structure of the National Reform Programme is as follows:

- Chapter 2 deals with the overall economic framework for the Danish economy, based on the Convergence Programme for 2013.
- Chapter 3 focuses on the measures that Denmark has implemented and plans to implement to conform to EU's country-specific recommendations for Denmark from 2012.
- Chapter 4 describes the measures that Denmark has implemented and plans to implement to contribute to the fulfillment of the five goals in the Europe 2020 strategy.
- Chapter 5 contains Denmark's announcements under the Competitiveness Pact.
- Chapter 6 describes the involvement of relevant ministries and non-governmental organizations.

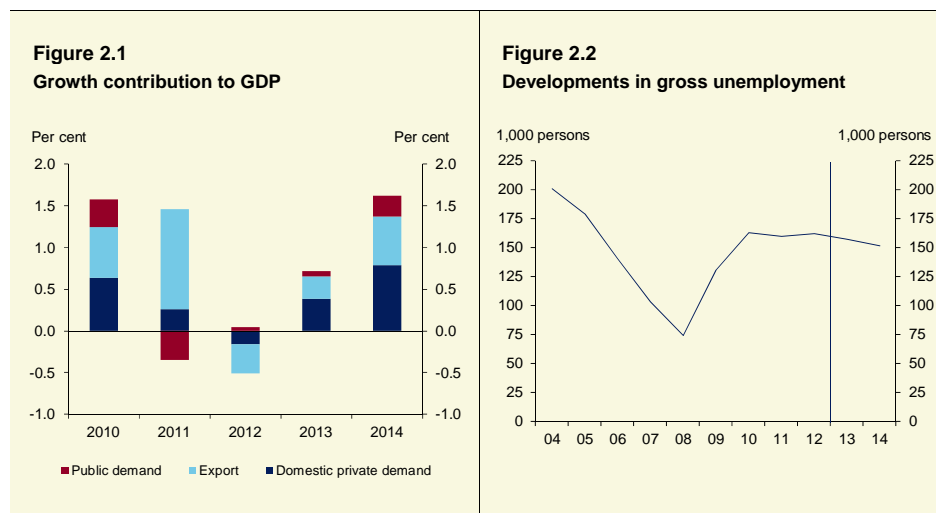
2. The Economic Framework

The recovery of the Danish economy after the downturn in 2008 has proved to be sluggish. The government has taken a number of initiatives to boost demand and to support employment in the short term. These initiatives are implemented while fiscal policy is designed to consolidate the public finances and ensure sound public finances.

Danish economy is expected to enter a period of growth and increased employment, where there will be a gradual but relatively slow normalisation of the economic situation. GDP is expected in 2013 to grow by 0.7 per cent. Growth through the year will be higher, but the fall in GDP at the end of 2012 pulls down the annual growth rate in GDP in 2013. In 2014, GDP growth is expected to be 1.6 per cent.

The Danish economy is largely influenced by developments abroad. Declining or exceptionally weak growth in many important trading partners in recent years has contributed to a weak development in domestic activity. Exports are not expected to become a major driver of growth in the Danish economy until 2014, *cf. figure 2.1*.

The possibility of renewed growth should also be seen in the light of a large private savings surplus mainly attributable to the business sector. It provides a potential for growth in investment, which has remained at a very low level in recent years, following the economic downturn. Companies have a significant incentive to bring forward investment due to the continued very low interest rates and the "investment window". The reduction in the corporate tax rate will particularly from 2014 help to underpin business investments.



The labour market has generally remained fairly stable in recent years, *cf. figure 2.2*. With a delayed effect, decline in activity at the end of 2012 is expected to lead to a slight decline in private sector employment in the first half of 2013. It is also expected to lead to a slight increase in gross unemployment through the spring. The fall in unemployment in the beginning of the year is estimated to be linked to specific conditions which have no connection with employment opportunities. Falling unemployment in January is affected by factors such as the unemployment benefits reform that will reduce registered unemployment, as the effect takes hold. In the following years the recovery is assumed to gain more speed with an average annual growth of 2 per cent towards 2020.

The medium-term scenario implies an increase in private employment corresponding to 150,000 full-time employees towards 2020. In the wake of the economic slowdown, private sector employment is expected to increase approximately 80,000 persons due to a general recovery of the Danish economy. Due to already implemented reforms and demographic changes the private sector employment will increase approximately 37,000 full-time employees, while new and forthcoming reforms and the effect from the 2012-reforms on taxes, disability pensions and flex job contributes to an additional increase of approximately 33,000 persons towards 2020.

In recent years, public finances are planned with the aim of meeting the EU recommendation requiring that the structural balance should be improved by 1½ per cent of GDP from 2010 to 2013 and that the actual deficit be brought below 3 per cent of GDP by 2013, *cf. box 2.1*.

Box 2.1**Medium-term objectives for economic policy**

The economic policy is planned so that it meets the key objectives and targets for public finances resulting from the EU recommendation, the general rules of the Stability and Growth Pact and the Budget Law:

- In 2011-2013 public finances are consolidated so the actual deficit is brought below 3 per cent of GDP in 2013 and that public finances are improved structurally by 1½ per cent of GDP.
- The Budget Law will take effect from 2014 and implies that the annual structural deficit should not exceed ½ per cent of GDP.
- Denmark's medium-term objective (MTO) for public finances in relation to the Stability and Growth Pact is -0.5 per cent of GDP.
- In 2020, there must be structural balance between government revenues and expenditures.
- The public EMU debt must be kept within a wide safety margin to the 60 per cent requirement of the Stability and Growth Pact.
- The fiscal sustainability indicator must always be positive.

The actual public finances depend largely on the business cycle, but also one-time factors may be important for the balance. The balance in 2010 and 2011, which remained below the 3 per cent limit in the Stability and Growth Pact, was in both years affected by exceptional high revenues from pension yield tax. Conversely, the deficit in 2012 of 4.1 per cent of GDP was extraordinarily affected by the repayment of retirement contributions which, in isolation, increased the deficit by 1¾ per cent of GDP. The deficit is estimated to fall below 3 per cent in 2013. In 2013 and 2014, the budget surplus is affected by significant revenues from the restructuring of the taxation of existing capital pensions. However, the actual balance is projected to stay within the limit of 3 per cent of GDP, even without this additional revenue from the conversion of capital taxation.

As the economic situation is assumed to normalise, the public deficit is further reduced towards 2020. In 2020, there must at least be structural balance between government revenues and expenditures in accordance with the objectives of the 2020-plan. Throughout the period towards 2020 the actual deficit is below the threshold of 3 per cent of GDP according to the EU's Stability and Growth Pact. At the same time, the structural balance is estimated to be approximately in balance. The assumed fiscal policy towards 2020 is therefore within the limits of the Budget Law that entails that the annual structural deficit does not exceed ½ per cent of GDP, *cf. figure 2.4*.

Figure 2.3
Development of the private employment 2013-20, contributions from reforms, economic conditions etc.

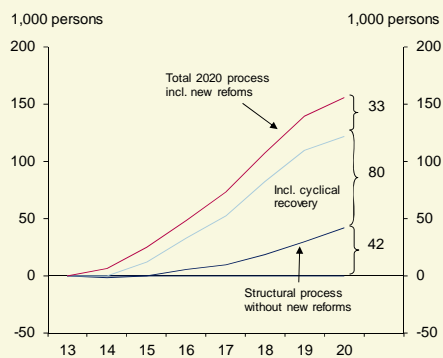
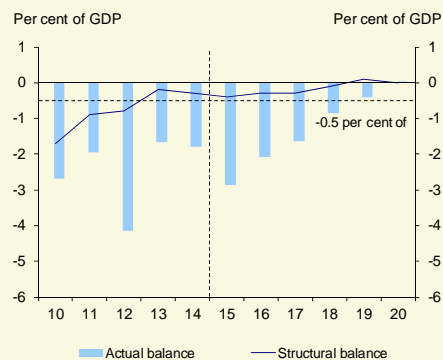


Figure 2.4
Development in the actual and structural balance, 2010-20



Note: Structural projections without new reforms indicates the effect on private sector employment from already implemented reforms and demographic changes etc. in the period 2013-2020. Incl. Cyclical recovery indicates the effect on private sector employment from the anticipated normalization of the business cycles towards 2019. 2020 projections incl. new reforms indicates the effect on private sector employment from new reforms incl. non-concrete reform ambitions that will increase private sector employment by 6,000 persons.

Source: Ministry of Finance.

3. Country-specific Recommendations

In July 2012, Denmark received the Council opinion on the economic policy in Denmark as part of the European Semester. The opinion was formed on the basis of the National Reform Programme and Convergence Programme for 2012. Denmark received a total of five recommendations, *cf. box 3.1*.

Box 3.1

Country-specific recommendations

The Council recommends that Denmark take action within the period 2012-13 in order to:

1. Implement the budgetary strategy as envisaged, to ensure a correction of the excessive deficit by 2013 and achieve the annual average structural adjustment effort specified in the Council recommendations under the excessive deficit procedure. Thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards the MTO, including meeting the expenditure benchmark.
2. Take further steps to enhance long-term labour supply by reforming the disability pension, better targeting subsidised employment schemes (the 'flex-job' system) towards people with reduced work capacity, and improving the employability of people with a migrant background.
3. Implement announced measures, without delay, to improve the cost-effectiveness of the education system, reduce drop-out rates, in particular within vocational education, and increase the number of apprenticeships.
4. Continue efforts to remove obstacles to competition, in particular in local services, the retail and construction sector, including by further opening the municipal and regional procurement of services to competition and ensuring that competition law sanctions have a sufficiently deterrent effect.
5. Consider further preventive measures to strengthen the stability of the housing market and financial system in the medium term, including by taking account of the results of the ongoing study by the Ministry of Business and Growth on the distribution of assets and liabilities across households and by reviewing the property value tax system and the municipal land value tax system.

The recommendations are to a large extent in accordance with the Government's policy goals. Denmark has already initiated several measures, and further measures will be implemented in the areas of the recommendations. Among others, various reforms have been decided and planned with a view to ensuring sustainable public finances, an increased labour supply, improve education, increase competition and strengthen stability in the housing market and the financial system.

3.1 Fiscal consolidation towards 2013 and stronger spending control

The economic policy is planned to comply with the term points and objectives for public finances resulting from the EU-recommendation from June 2010 and The Budget Law, adopted in spring 2012. It ensures to maintaining the current trust in the Danish fiscal policy, and thus support continued low interest rates.

In the Council's statement based on Denmark's National Reform Programme for 2012 and Denmark's Convergence Programme for 2012 it is recommended that Denmark "implements the budgetary strategy as planned to ensure the correction of the excessive deficit by 2013 and reach the average annual structural adjustment efforts specified in the Council's recommendation for the procedure associated with excessive deficits. Then ensure an adequate structural adjustment effort in order to make sufficient progress towards the MTO (medium term budgetary objectives), including achieving the benchmark for expenditures".

Based on the latest estimates of the public finances in *Convergence Programme for 2013 (CP2013)*, fiscal policy is estimated to comply with the recommendation.

The structural budget balance is estimated to improve from a deficit of around 1.7 per cent of GDP in 2010 to deficit of around 0,2 in 2013, cf. table 3.1. Hence, the structural budget balance is improved by 1½ per cent of GDP from 2010 to 2013 in line with the EU-recommendation. The actual deficit is estimated to be reduced to 1.7 per cent of GDP in 2013 and 1.8 per cent of GDP in 2014.

Table 3.1
Actual and structural government budget balance, 2010-14

Per cent of GDP	2010	2011	2012	2013	2014
Actual government budget balance	-2.7	-2.0	-4.1	-1.7	-1.8
The above excl. conversion of taxation on capital pension	-2.7	-2.0	-4.1	-2.8	-2.8
Structural government budget balance	-1.7	-0.9	-0.8	-0.2	-0.3

Source: Convergence Programme, Denmark 2013.

Apart from the assumed non-recurring income of DKK 20 billion from the restructuring of capital taxation, the deficit is estimated to be around 2.8 per cent of GDP in 2013 and 2014¹. When the government budget balance in 2013 and 2014 is recorded exclusive of income

¹The restructuring of capital pension schemes is assumed to strengthen the public finances with DKK 20 billion in 2013 as well as 2014 (approx. 1 per cent of GDP each year).

from the capital restructuring, the deficit is thus still lower than the limit in EU's Stability and Growth Pact of 3 per cent of GDP.

3.1.1 Implemented measures

The consolidation of the public finances from 2010 to 2013 is mainly due to the phasing in of the financial elements from the tax reform in *Spring Package 2.0* (February 2009) as well as the initiatives in *The Fiscal Consolidation Agreement* (May 2010) and *Agreements of the Approved budget bill for 2012*, cf. table 3.2.

The Spring Package 2.0 contributes the consolidation of the public finances through the phasing in of the financial elements in the tax reform, including increased energy taxes, auctioning of carbon credits and the extension of the tax base for the taxation of companies.

In the *Fiscal Consolidation Agreement* it was i.a. agreed to reduce the growth in public consumption in 2011-13, to suspend the automatic §20-regulation of the income thresholds in the tax system, to postpone the planned increase of the top income tax bracket in 2011 for three years (until 2014) and shorten the period of unemployment benefit. *Agreements of the approved budget bill for 2012* include a lasting increase in the public tax revenues in 2012 and 2013 of DKK 5 billion.

The approved budget bill for 2013 continues the line of responsible fiscal policy. The agreement is considered to be neutral for the public finances in 2013. Furthermore, the municipalities have shown increased interest in prioritizing a larger share of their funds for investments and instead lowering service costs correspondingly in 2013. The government and municipalities agreed on this in January 2013 provided that the municipalities total accounts are in accordance with the financial agreement and thus within the EU-recommendation.

The overall fiscal policy contributes to strengthening public finances by approx. 2.2 per cent of GDP in the years 2011-13 (measured by the direct revenue), cf. table 3.3. The consolidation contribution from the public revenues accounts for approx. 1¼ per cent of GDP over the three years, while the contribution from the public expenditures accounts for approx. 1.0 per cent of GDP. When it comes to expenditures, it is especially the low growth in public consumption of real -1½ per cent in 2011 that provides a significant contribution to the consolidation of the public finances towards 2013.

The fiscal policies for 2014 are first determined by the agreement of the 2014 budget bill, and the assessment of public finances in 2014 is therefore based on technical assumptions.

Table 3.2
Consolidation contributions, direct revenue, etc. 2011-13

	2011	2012	2013	2011-13	2014
Per cent of GDP					
Direct revenues, total	1.0	0.6	0.6	2.2	0.3
Expenditure					
- <i>Public spending</i>	0.7	0.1	0.1	0.9	0.1
- public investment	-0.1	-0.1	0.2	0.0	0.0
- income transfers	0.1	0.2	-0.1	0.1	0.2
Revenue					
- <i>Spring Package 2.0</i>	0.1	0.0	0.2	0.4	0.1
- <i>The Fiscal Consolidation Agreement</i>	0.3	0.1	0.1	0.5	-0.1
- <i>Approved budget bill 2012</i>		0.2	0.1	0.4	0.0
Other matters	-0.1	0.1	-0.1	-0.1	0.0
Other factors affecting public finances structurally					
	-0.2	-0.3	0.0	-0.5	0.1
Underlying strengthening of public finances	0.8	0.3	0.6	1.7	0.4

Note: In the calculations of the direct budgetary impact of public finances are included among other things, an assumption of productivity growth of 1¼ per cent per year in the private sector in the zero-points for neutral fiscal policy. If the structural productivity growth for 2011-2013 is used for the zero-points, the total fiscal consolidation in 2011-2013 corresponds to approximately 1¼ per cent of GDP.

Source: Own calculations.

A responsible economic policy is essential for maintaining confidence in fiscal policy and provide basis for balance and growth in the Danish economy in the future. The government has therefore set clear medium-term fiscal objectives and introduced a precautionary principle saying that new expenditures will not be held until there is majority support for specific initiatives to ensure funding.

In order to further strengthening expenditure control and to realize the objectives of finance and expenditure, an agreement about a budget law and a new system for expenditure policy management has been made, *cf. box 3.2*. The expenditure ceilings, resulting from the Budget Law, set binding framework for expenditure in the state, the municipalities, and the regions. It is intended that the expenditure ceilings and economic sanction possibilities will ensure that the limits in the budgets are not exceeded. The government will present a bill about expenditure ceilings in 2013.

The Budget Law further requires that the deficit in the structural budget balance may not exceed ½ per cent of GDP (calculated on the basis of Denmark's own estimates for the structural budget balance). In addition, a correction mechanism that is automatically activated in the event of significant deviations will be implemented. Thus, Denmark complies with the balance requirement as assumed in the Fiscal Compact.

Box 3.2**The Budget Law's framework for public finances in 2014**

With the Budget Law, the Parliament has approved rules for a new expenditure management system for the public sector. The Budget Law supports that government expenditure develops in line with the objectives and priorities of the medium-term projections, and that the structural government deficit must generally not exceed ½ per cent of GDP, which is in accordance with the requirements in the EU Finance Pact.

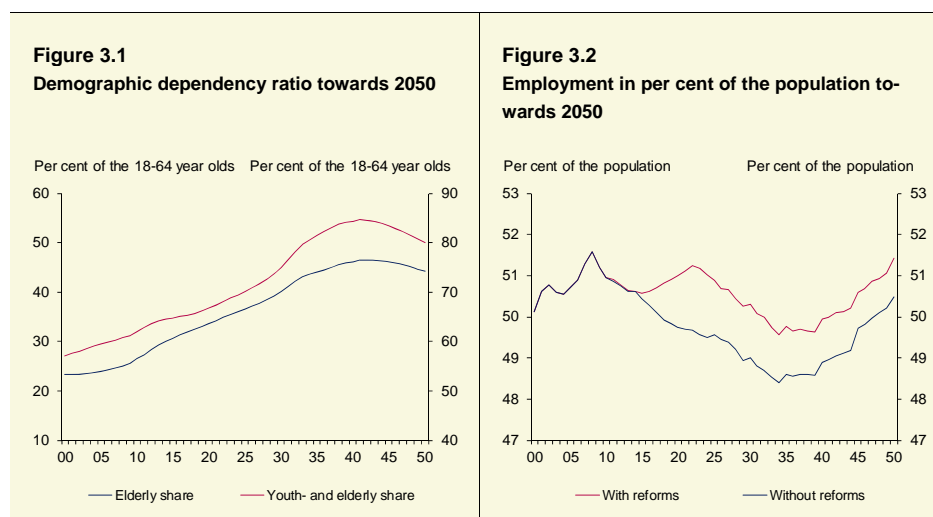
The rules in the Budget Law imply, among other things, binding expenditure ceilings for the state, regions, and municipalities. The expenditure ceilings are put into effect in 2014 and must be fixed so that they always include a rolling four year period. Expenditure ceilings for 2014-2017 will be determined in the spring 2013, based on an updated 2020 program.

For the automatic stabilizers to be able to work freely and to reduce the risk of pro-cyclical fiscal policy, the unemployment-related, and highly cyclical, expenditures, such as unemployment insurance benefits and social assistance and operating expenses related to employment activities, are kept outside a binding expenditure ceiling. Public investments are also not covered by the expenditure ceiling.

3.2 Increase long-term labour supply

In the Council's statement on Denmark's National Reform Programme for 2012, it is recommended that Denmark takes action in order to "*Take further steps to enhance long-term labour supply by reforming the disability pension, better targeting subsidised employment schemes (the 'flexi-job' system towards people with reduced work capacity), and improving the employability of people with migrant background*".

Throughout the past years, a number of reforms have been carried out, increasing the labour supply in the years leading up to 2020. This contributes to retaining a high employment level in the coming years, in spite of the demographic development, which, when seen in isolation, reduces the labour supply. The population projection entails that the number of youths and seniors will increase when compared to the number of people in the age groups most likely to be engaged in active employment within the next decades, see *figure 3.1*.



Note: Course without reforms excludes reforms passed since 2010, but includes earlier reforms, including the welfare reform. The course counting reforms includes the retirement agreement, the Consolidation Agreement, the 2012 tax agreement, the reform of social pension and flexi-job as well as reforms of cash benefits and state education support (SU).

Source: Statistics Denmark, Danish Rational Economic Agent Model (DREAM), and in-house calculations

Within the past years, reforms have been carried out which significantly increase the labour supply and employment rate, *cf. figure 3.2*. In the years leading up to 2020, it is estimated that the demographic development isolated will reduce the workforce by a number equaling 24,000 individuals, including contributions from working time, *see table 4.2*. With the 2011 retirement agreement, the increases in the retirement age and the voluntary early retirement age laid down in the welfare agreement are brought to happen earlier than planned, and the voluntary early retirement period is shortened from 5 to 3 years. With the retirement reform, labour supply will increase by 65,000 people by 2020. When taking into account the disability pension and flexi-job reforms, the 2012 tax agreement as well as reforms of cash benefit scheme and state education support (SU), the labour supply decrease caused by the demographic development is met, meaning that the share of the population in employment increases leading up to 2020.

3.2.1. Implemented measures

The Government's financial policy and employment efforts are targeted partly at supporting employment and limiting unemployment and long-term unemployment, and partly at ensuring a high labour supply and strong businesses, which is the prerequisite for continued growth and prosperity long-term.

Denmark has carried out a number of labour market and employment reforms within the past many years. The elements of the Danish model of flexicurity have, as such, undergone continuous adjustments, which have contributed to an, internationally seen, high employment frequency, *cf. figure 4.1*, and low unemployment rate, and which contributes to promoting improvement of qualifications and create incentives to work. Box 3.3 describes the reforms and

measures that have been passed since NRP2012, as well as certain larger initiatives that affect the labour supply significantly.

Box 3.3

Passed and agreed initiatives to increase the employment rate and labour supply since NRP2012

- **Reform of the disability pension scheme and flexi-job scheme (June 2012).** The purpose of the reform is to retain as many as possible in the labour market – preferably in non-subsidised employment. The reform is intended to ensure that the future will see an increased emphasis on the resources of the individual and the development of his or her working ability. Therefore, rehabilitation teams have been established in all municipalities. Here, the employment-related, social and health-related resources and challenges of the individual will be clarified simultaneously, focusing on training, employment, and financial independence.
 - The flexi-job scheme will be targeted and the flexi-job grant rearranged in order to enable individuals with low working capacity to enter a scheme.
 - High-income individuals will not receive the largest flexi-job grants.
 - The access to social pension is being limited, meaning that individuals under the age of 40 will, as the starting point, be awarded a resource clarification process rather than disability pension. The process will be evaluated on an on-going basis for the purpose of assessing the possibilities of the individual returning to the labour market.
- **Agreement on tax reform (June 2012).** The June 2012 tax reform ensures that working pays off. It is estimated that the reform will contribute to an employment rate increase of approximately 16,000 people in the long run, including contributions from increased working hours. The following elements of the reform are particularly significant to the labour supply:
 - Increase of the general employment allowance
 - Implementation of a special employment allowance for single parents
 - Increase of the top-bracket tax threshold
 - Moderate regulation of transfer payments in the years 2016-23
- **Reform of the cash benefit scheme.** It is important to the Government that all youths receive an education and that youth unemployment is reduced. Therefore, the Government has agreed on a cash benefits reform, the emphasis of which is to help youths obtain an education or find employment.
 - Youths with no education who have the prerequisites to begin and complete an education must be ordered to do so,
 - Youths with no education must be offered upskilling for the purpose of entering ordinary employment.
 - Youths who do have an education must be helped find employment.
 - The efforts towards youths with weak reading and writing skills will be intensified and systematised.
 - For adult cash benefits recipients with the ability to work, the focus on their own active job search will be increased, and the efforts for vulnerable unemployed persons is intensified for the purpose of paving the way for a return to employment or education.
- **Increase of qualifications achieved through education (April 2013).** The reform includes a targeting of the state education grant system, and its purpose is, among other things, to make students complete their education faster, thus increasing the labour supply. The main elements of the reform proposal are:
 - Students who begin their tertiary education more than two years after completing the upper secondary education that gives access to the higher educational system will only receive state education grant for the official duration of their study programme.
 - In the future, the state education grant will be terminated for students who are delayed by 6 months. This currently happens at 12 months.
 - The universities will be obligated to shorten the average course of study by 4,3 months by 2020. If the universities do not reach this objective, their spending allocations will be cut.
 - State education grants will only be given to supplementary examination courses at upper secondary level for the so-called "turbo courses", ensuring that youths begin their education quicker.
 - A 5-education cap will be introduced, meaning that youths will only receive state education grant during 5 post-secondary educations.

The June 2012 tax reform ensures that being employed pays off, and long-term, the reform is estimated to contribute to an employment increase of approximately 16,000 people, including contributions from increased working hours.

The reforms of the disability pension scheme and flexi-job scheme contribute to increasing the labour supply by approximately 12,000 full-time persons by around 2030, by which time the reforms will be fully implemented. The purpose of the reforms is to retain as many as possible in the labour market - preferably in non-subsidised employment.

In April 2013, agreements were made to reform the cash benefits scheme and state education grant scheme, which, together, will increase the employment rate by approximately 10,000 persons going on 2020. In addition to this, an increase of approximately 1,000 persons will result from the productivity increase that will come from the capital apparatus that comes from the initiatives in *Growth Plan DK*, which improves the framework conditions for businesses.

On top of this, reforms that have already been implemented, including especially the retirement reform and the unemployment benefit reform included in the Consolidation Agreement, also contribute to a significant improvement of the labour supply going on 2020.

Ethnic minorities make up a large part of the target group for both the agreed and proposed reforms. Especially the reforms of disability pension scheme and flexi-job scheme as well as the cash benefit scheme is intended to strengthen the efforts to help ethnic minorities with limited labour market attachment gain employment. Ethnic minorities make up about 1/5 of the people in flexi-job and on disability pension and 1/3 of the recipients of cash benefits.

Furthermore, in November 2012, the Government presented its integration policy "A Strengthened Integration Policy". This makes clear that the task of helping more immigrants gain employment will, primarily, be solved as an integrated part of the ordinary, municipal measures within the area. However, some areas require a particularly targeted effort, and within such areas, the target will be achieved through reforms across areas of responsibility.

In 2012, the Government also launched an extraordinary effort for long-term unemployed individuals who are at risk of running down their right to unemployment benefits. The agreements entail the advertisement of 12,500 "emergency jobs" (jobs that long-term unemployed individuals at risk of losing the right to unemployment benefits may be placed first in line to) and that specified employment measures targeted at the long-term unemployed will be implemented (the emergency agreement). With the 2013 Finance Act, a further agreement has been made on a particular youth effort, which is to ensure that more youths obtain an education and gain employment.

3.2.2. Planned measures

With the *Growth Plan DK*, the Government has presented a renewed plan, which builds upon the ambitious reform agenda of Denmark at Work ("*Danmark i Arbejde*"). The aim is an average economic growth of 2 per cent annually in the years leading up to 2020, and that approximately 150,000 new private-sector jobs will be created through reforms in Denmark, as the economy improves.

The Government's ambition is a dynamic labour market, in which vacancies are filled rapidly, and unemployed people find employment quickly. The Government emphasises that companies are able to find the qualified labour that they need, and that those unemployed hold the right qualifications.

The Government has agreed upon and proposed a number of reforms in order to achieve the target of an increased labour supply by 2020. The reforms are expected to both strengthen the incentives to work as well as strengthening the labour market attachment of youths, seniors, ethnic minorities, those with reduced working capacity, and others, see section 4.1. Initiatives planned to increase employment and labour supply are shown by box 3.4.

The target laid down in *Growth Plan DK* is to increase growth (measured by GDP) by DKK 40 billion, of which DKK 20 billion come from increased labour supply. Reform of disability pension scheme and the flexi-job scheme as well as the 2012 tax agreement are estimated to ensure half of this reform contribution.

Growth Plan DK furthermore presents that further reforms, which can increase the labour supply by approximately 6,000 individuals going on 2020, and, as such, meet the ambition to increase growth (measured by GDP) by approximately DKK 20 billion due to increased labour supply, are intended.

Box 3.4**Initiatives proposed to increase employment and labour supply**

- **Sickness benefits reform.** The Government wishes to abolish the limited duration of sickness benefits, in order to ensure that no one on sick leave risk finding themselves without maintenance. At the same time, those on sick leave must be met with a swifter and better effort than is the case today. The proposition entails:
 - That everyone on sick leave must have their case re-evaluated after six months. If the person on sick leave no longer fulfils the conditions for prolongation of the sickness benefits period, the person will be transferred to a resource clarification process.
 - The efforts of the resource clarification process will be planned individually and contain a holistic effort with offers targeted at employment, education and social and health issues, and, if possible, at helping the individual re-enter employment.
 - During the full duration of the process, the individual will receive a grant the same amount of cash benefits. The grant is independent of own means or the spouse's income.
 - A new rule concerning prolongation for seriously ill citizens suffering from a life-threatening condition ensures sickness benefits during the entire course of an illness.
 - Individuals on sick leave, who fulfil the conditions for prolongation of their sickness benefits in accordance with the current seven prolongation rules will not be affected. They will continue to receive sickness benefits with no rate alterations.
- **New employment policy.** It is the Government's goal to gather a broad majority of Parliament parties and social partners in order to fundamentally change the employment policy. Therefore, the Government has initiated an examination of the entire effort system for unemployed persons. The examination will answer three questions:
 - How is a better employment effort, which helps those unemployed find employment as fast as possible, ensured?
 - How is a more meaningful employment effort, which begins with the unemployed person, without compromising the principle of the unemployed person having to be available to the labour market, ensured?
 - How may the collaboration between jobcentres and businesses be further strengthened, including ensuring the best possible job match, for instance so that businesses receive the most qualified labour, and the unemployed gain lasting employment?

3.3 Education

The Government is focused on ensuring higher quality and efficiency in the education system. For this reason it has launched an ambitious proposal for a reform of the primary and lower secondary school, and initiatives have started up to create greater quality in vocational education and training programmes and to solve the challenge of training places. At the same time, the Government is concentrating on more completing their education and young people both starting and completing their education more quickly.

In the Council's statement concerning Denmark's national reform programme for 2012 and the convergence programme for 2012 it is recommended that Denmark should take steps with a view to *"without delay implementing the measures announced in order to improve cost efficiency in the education system, reducing the drop out percentage, especially in the vocational education sector, and increasing the number of training places"*.

3.3.1 Implemented measures

Reform of state education grant system and framework for higher education programmes

In April 2013, an agreement was made on a reform of the state educational grant scheme and framework for higher education programmes. The reform addresses the cost-effectiveness of the grant system and one of the central challenges for the Danish society, that Danish graduates from higher education are older than their European counterparts. The reform will by 2020 improve the public finances by DKK 2.2 billion (295 million euros) which is used at initiatives strengthening the Danish economy, competitiveness and job creation, cf. box 3.6.

Box 3.5

Initiatives in the reform of state education grant system and framework for of higher education programmes

- The state education grant is to be limited to the **standard time limit** if the student starts to study more than two years after gaining the entry qualification
- Increased demands on students regarding **progress** in their studies at higher education programme
- Focusing of the state education grant for **supplementary examination courses at upper secondary level**
- A maximum of **five youth education programmes** with the state education grant
- Revised state education grant for **students living with their parents**
- The same **regulation** of the state education grant as transfer payments such as unemployment benefit and social security
- **Higher income** allowed while still receiving the state educational grant
- **Bonus for faster completion** of higher education than the standard time limit
- **Higher travel reimbursement** for students
- Follow-up on ECJ judgment in case C-46/12, L.N.
- **New framework for higher education programmes** that support active completion of studies including automatic registration for courses and exams, better possibilities for the students to obtain credits for prior education, better and more flexible transition between bachelor and master's degree, better opportunities for more flexible admission, increased demands on universities regarding improvements in time of study and the possibility of early study tests.

Vocational education committee

In autumn 2012 the Government appointed a vocational education committee with representatives from the parties on the labour market (The Confederation of Danish Employers (DA), The Danish Confederation of Trade Unions (LO), Local Government Denmark (LGDK) and Danish Regions), the Ministry of Finance and the Ministry of Children and Education (Chair). The committee is to make recommendations for a long-term, sustainable solution to the training place challenge, increased quality in vocational education and training programmes as well as an enhancement of opportunities for low-skilled adults in the adult and continuing education training system, so that low-skilled adults with labour market experience are secured the fastest route to skilled education and training and simultaneously do not take up training places in the vocational education system that could be given to the young.

The first part of the committee's work concerning a training place and education guarantee was completed in October 2012 as input to the negotiations about the Finance Act for 2013,

and the recommendations form part of the political agreement about better vocational educational training programmes and a strengthened education guaranteed from November 2012.

The second part of the committee's work is taking place from December 2012 to May 2013. In this part, the committee is now to make recommendations to the Government concerning the way in which vocational education and training programmes and especially training places can to higher degree be targeted at the young at the same time as better opportunities for adults and increased quality in the vocational education and training programmes are ensured, including admission requirements, the structure of the programmes and better possibilities for the pupils achieving higher academic levels, competences in the field of innovation and entrepreneurship as well as study competences with a view to any further training and education.

Furthermore, the Government has taken a number of initiatives in the educational area in connection with the *Finance Act Agreement for 2013*.

Agreement on better vocational education and training programmes and a strengthened education guarantee

As part of the *Finance Act Agreement for 2013*, the Government entered an agreement concerning better vocational education and training programmes and a strengthened education guarantee. Among other things, the agreement is to contribute to reducing drop out in the vocational education and training programmes and increasing the number of pupils who enter in-company practical work experience, *cf. box 3.6*. The agreement set priority DKK 3.1 billion over the period 2013-16, *cf. table 3.3*. The agreement is the first phase of the effort concerning a better and fairer education guarantee in terms of a fundamental and long-term solution for better vocational education and training programmes and a strengthened education guarantee. The next step is to be negotiated between the parties to the agreement in 2013 when the vocational education committee has completed its phase II.

Table 3.3
Agreement concerning better vocational education and training programmes and a strengthened education guarantee

DKK million 2013-pl.	2013	2014	2015	2016
1. A strengthened education guarantee	131.6	184.6	199.6	204.6
2. Increased quality in vocational education and training programmes	433.4	-	-	-
3. One-year continuation of Youth Package II	210.3	-	-	-
4. Continuation of the vocational adult and continuing education and training centres	47.1	47.1	47.1	47.1
<i>Reserve for increased quality in vocational education and training programmes etc.¹</i>	-	534	504	498
Total	822.4	765.7	750.7	749.7

1) Of which a total of DKK 286.0 million in 2014, DKK 280.8 million in 2015 and DKK 274.8 million in 2016, already announced as a continuation of increased grants for vocational education and training programmes in Finance Act 13.

Box 3.6**Initiatives in the agreement concerning better vocational education and training programmes and a strengthened education guarantee**

- **A strengthened education guarantee in vocational education and training programmes** comprises 12 concrete initiatives which together are to strengthen the education guarantee for pupils and optimise the utilisation of training place capacity in enterprises, so that more pupils complete vocational education and training programmes, drop out is reduced and the most pupils possible enter in-company practical work experience, among other things through the establishment of practical work experience centres. The initiatives correspond to the recommendations made by the government-appointed vocational education committee with the participation of the parties to the labour market.
- **Increased quality in vocational education and training programmes** focusing on ensuring a competence boost for teachers and managers and continuation of the mentor scheme, the contact teacher scheme, practice-related basic courses etc.
- **One-year continuation of Youth Package II.** Youth Package II was agreed in 2009 between the then Liberal-Conservative government and the Danish People's Party, the Social Democratic Party and the Social-Liberal Party as part of the Globalisation Agreement. With the agreement came the implementation of a number of initiatives aiming at strengthening the effort for more young people getting a job and an education and in the longer term contributing to a better trained and educated work force. The initiatives in Youth Package II are in three areas: the primary and lower secondary school, transition and youth education programmes.
- **Continuation of the vocational adult and continuing education centres (VEU centres).** The 13 VEU centres were established on 1st January 2010 with a view to fulfilling in a more targeted and efficient way the needs of users in the area of basic vocationally oriented and general and continuing education.

3.3.2 Planned measures

Proposal to boost the primary and lower secondary school

In December 2012 the Government presented a proposal for the reform of the primary and lower secondary school, *"Make a good school even better – boosting standards in the primary and lower secondary school"*. The Government objective is that 95 per cent of a youth cohort to complete at least one youth education programme. At the same time about every sixth pupil leaves the primary and lower secondary school without functional reading skills or without basic skills in mathematics. Against this background, the Government finds a boost of the primary and lower secondary school crucial. The Government desires all pupils to have a coherent and active school day with more and better hours for teaching and activity. It is the objective of the Government that the primary and lower secondary school should challenge all pupils so that they become as good as they can be. At the same time the reform should contribute to reducing the significance of social background in terms of academic results. The Government desires to strengthen confidence in and well-being in the primary and lower secondary school. It is the Government's ambition that the reform should take effect from the start of school in 2014.

Box 3.7**Initiatives in "Make a good school even better – boosting standards in the primary and lower secondary school"**

- A **coherent school day** where the youngest pupils attend school for 30 hours a week, pupils on intermediate level attend school for 35 hours a week, and the oldest have 37 weekly hours.
- More and better teaching in **Danish** and **Mathematics**
- The introduction of '**activity hours**' focusing on movement, homework assistance and play in combination with academic standards
- Strengthening of **English, practical/musical subjects, science and technical subjects** as well as optional subjects
- Increased focus on the **transition to youth education**
- **Strengthened continuing education and training** of teachers, managers and social educators as well as focus on better application of knowledge concerning good teaching
- Clear **national objectives for the development of the primary and lower secondary school**: all pupils should be challenged, confidence in and well-being in the primary and lower secondary school is to be strengthened and the significance of social background is to be reduced
- A **simplification of rules** and greater freedom for schools and local authorities

Strengthening vocational education and training programmes

The Government has appointed a ministerial committee for youth education programmes, which is to present coherent, evidence-based, cost-efficient measures that can ensure that all complete a relevant youth education programme and that better quality is secured.

On the basis of, inter alia, the work in the ministerial committee for youth education programmes, the Government will make a proposal for a *flexible education programme* for young people who do not have the qualifications for completing an ordinary youth education programme.

It is the expectation that in the course of 2013 the Government will make a proposal in the area of vocational education as a follow-up to the completion of the work in the vocational education committee.

Service check of upper secondary education programmes

The Government is also conducting a service check of the content and frames of upper secondary school programmes. Part of the service check is to be implemented as a development plan, which is a trial and development activity where the schools will have the opportunity to develop and test new forms of teaching and working.

Better and more adult and continuing education and training

With *Growth Plan DK*, the Government has set aside a pool of DKK 1 billion for 2014 – 17 for a significant competence boost of the work force. Among other things, this is to support manufacturing companies and jobs remaining in Denmark.

3.4 Removing obstacles to competition

Effective competition in the markets and for public works, services and supplies boosts productivity and innovation and fosters improved consumer conditions. The Government is therefore pursuing an ambition to step up competition throughout trade and industry and for public works, services and supplies.

The Council has recommended that Denmark take action within the period 2012-2013 to “continue efforts to remove obstacles to competition, in particular in local services, the retail and construction sector, including by further opening the municipal and regional procurement of services to competition and ensuring that competition law sanctions have a sufficiently deterrent effect”.

3.4.1 Implemented measures

In October 2012, the Government presented its competition policy package *Styrket konkurrence til gavn for Danmark (Strengthened competition for the benefit of Denmark)*. The package set out specific initiatives for tightening up competition law and for stepping up competition, both within trades oriented at the domestic market and within public works, services and supplies.

The Danish Competition Act and the Danish Penal Code were amended in December 2012 so that, among other measures, the sanctions on contravention of the Competition Act were made more stringent. As of 1 March 2013, cartel members will be liable to a custodial sentence, and fines for individuals and enterprises have been raised significantly. In addition, a number of minor amendments were made to ensure effective legal enforcement and compliance. The legislative amendments are expected to act as stronger deterrents in preventing companies from contravening the Competition Act.

In June 2012, a statute was adopted on promotion of competition in the electricity market etc. This new act introduces schemes such as a wholesale model in the electricity market, where electrical power trading companies become the main players in relation to consumers, and restructuring of the universal service obligation, such that the customers must actively opt for the universal service obligation product.

In August 2012, the Government presented the consumer policy audit paper *Trygge forbrugere, aktive valg (Confident consumers, active choices)*. The audit paper contains 23 initiatives to make it easier and more attractive to be an active consumer. Several of the initiatives have already been carried out, and the rest have been launched. The Government has amongst other introduced a system of risk labelling for loan products and changed the Danish Marketing Practices Act which increases the powers of the Consumer Ombudsman and make enforcement of the rules more effective and flexible. In addition the government has established a committee concerning marketing in relation to children and adolescents. The goal of the committee is to present initiatives to improve consumer protection of children and adolescents. Furthermore in response to the governments appeal for more accurate marketing of broadband internet speeds the Consumer Ombudsman has agreed with the consumer Council and a number of business organizations

3.4.2 Planned measures

Based on the competition policy package of October 2012, the Government has appointed a number of working parties and commissions to examine the options for modernising the pharmacy sector, to modernise the authorisation schemes for electrical, plumbing and sewerage contractors, to perform an audit of the electricity supply sector and to identify challenges in the taxicab trade.

In addition, an analysis is in preparation of the building and construction sector as well as an analysis of the retail sector. Finally, the Government has appointed an inter-ministerial task-force which will be reviewing more than 100 professions regulated by law to determine whether the regulatory system can be made more effective.

Measures initiated by the Government in order to step up competition and facilitate partnerships for public works, services and supplies include the following:

- The Government will be appointing a working party which, in follow-up to the EU's forthcoming new public procurement directive, will present proposals for a new Danish public procurement act that will provide greater clarity and flexibility for enterprises and contracting authorities, including in relation to new types of procurement such as those based on operational needs. The bill is due to be presented in Parliamentary Year 2014-2015.
- The Government appointed a working party tasked with altering the frameworks for the current complaints system with a view to reducing the number of unjustified complaints. The working party submitted its report in December 2012 and a new act is expected to be adopted in spring 2013.

The Government will perform annual follow-up on the initiatives in the competition policy green paper of October 2012 – starting in June 2013.

3.5 The mortgage and property tax systems

The Council has recommended that Denmark take action within the period 2012-2013 to “consider further preventive measures to strengthen the stability of the housing market and financial system in the medium term, including by taking account of the results of the ongoing study by the Ministry of Business and Growth on the distribution of assets and liabilities across households and by reviewing the property value tax system and the municipal land value tax system”.

The Ministry of Business and Growth analysed Danish households' mortgage and other debt on the basis of actual micro data with a view to determining whether household borrowing poses a risk to financial stability.

The analysis reveals that just under 90 per cent of total mortgage loans in owner-occupied homes and second homes were taken out by the half of Danish households with the highest incomes. If household debt is considered in relation to income, the analysis reveals that 95 per cent of households spend less than half of their income after tax on servicing their total debt, including their mortgage, bank debts and the like. The analysis indicates that Danish households are resilient to interest-rate rises.

With reference to the same data material, Danmarks Nationalbank (the central bank of Denmark) analysed household finances and concurred that by far the majority of households enjoy robust finances capable of withstanding interest-rate rises and extended periods of unemployment.

The results of the analyses do not provide a basis for concluding that household debt and the composition of such debt pose a threat to financial stability.

3.5.1 Implemented measures

The Government has taken action in a number of areas with the aim of increasing stability in the housing market. The Government has carried out a number of initiatives with a view to further strengthening the countercyclical properties of mortgage products:

Stable housing finance and good customer advisory services

With its executive order on best practices, the Government has taken initiatives aimed at ensuring good customer advisory services. As of 1 May 2013, the Government will be introducing rules under which banks and mortgage institutions will only be able to offer variable-rate loans and/or loans with deferred amortisation to house buyers who would be able to finance their home by means of a fixed-rate loan with amortisation. Credit rating of the customer is to be performed according to the bank's/mortgage institution's customary credit policy.

In addition, the Government will be introducing a traffic light scheme for loan risk signalling. The traffic light scheme is to be regarded as a supplement to the credit institutions' ordinary advice to borrowers. The traffic light scheme enters into effect on 1 July 2013.

Spreading of refinancing auctions for adjustable-rate loans

At the present time, all mortgage institutions have ceased issuing adjustable-rate loans for refinancing in December. New mortgage loans are now being issued for refinancing during the other quarters. Assuming that the mortgage institutions continue to issue adjustable-rate loans according to this pattern, refinancing auctions will be evenly spread over the year by 2017.

Initiatives from the mortgage sector to ensure more stable housing finance

The mortgage sector has taken a number of initiatives which will ultimately make housing finance more stable. Parts of the sector have introduced "two-tier mortgaging", where the final 20 percentage points of the loan cannot be taken out as variable-rate loans with a fixed-rate period of less than five years. At the same time, there is no option for deferred amortisation for this final part of the loan. In addition, some mortgage institutions have introduced differentiated administration margins depending on the loan type so that fixed-rate loans are subject to the lowest administration margins, while more risky loans are subject to higher rates.

Intensified monitoring of systemic risks

The Systemic Risk Council was established in February 2013 and has held its first meeting on the 8th of April. The task of the council is to monitor the build-up of systemic financial risks and to recommend initiatives which may prevent and manage systemic financial risks. Specifically, the council may come up with observations, warnings or recommendations directed towards relevant authorities or under certain circumstances towards specific corporations. The recipient of a recommendation has to provide in public an explanation if a given recommendation is not followed. The members of the council are representatives from the economic ministries, the Danish FSA and Danmarks Nationalbank as well as independent experts. The chairman of the council is Danmarks Nationalbank.

Removal of uncertainty surrounding homeowner taxation

Under current legislation, the tax deductibility of high interest charges will be gradually reduced from approx. 33.7 per cent to approx. 25.7 per cent over the period 2012-2019. The freeze on property value tax will remain unchanged. On the back of the tax reform agreement of June 2012, consensus has been reached that property value tax and the tax value of the interest-rate deductibility are to be retained as per the current legislation up until 2020. This has removed uncertainty surrounding future homeowner tax liability.

3.5.2 Planned measures

Regulation of Systemic important financial institutions (SIFIs)

The SIFI committee published its report on the 14th of March 2014 with recommendations on the identification of SIFI's as well as requirements to and crisis management of SIFI's. Specifically the committee recommends that SIFI's are identified on the basis of its size and the possible substitution of its activities. The committee recommends stronger requirements in terms of equity (1 – 3.5 per cent), build-up of a crisis management buffer (5 per cent), preparation of plans for reestablishment and crisis management, liquidity requirements, requirements on corporate governance, and requirements on a strengthened supervision. Finally, it is recommended that alternative measures for crisis management of SIFI's are introduced. The recommended measures are very similar to those in the proposal for an EU directive about reestablishment and winding up of credit institutions. It is expected that political negotiations begin in May 2013 and that a bill will be introduced in the autumn of 2013.

Danish mortgage institutions' need for supplementary collateral

A task force has been appointed to address the need among Danish mortgage institutions to provide supplementary collateral in the event of a fall in property prices. The task force is examining the consequences of the requirements for supplementary collateral ensuing from the EU Capital Requirements Directive (CRD). The CRD was implemented in Danish legislation as of 1 July 2007 with the introduction of the so-called covered bonds ("SDO") and covered mortgage bonds ("SDRO"). A large proportion of the bonds behind the financing of the Danish housing stock are of the covered bond type. The task force on supplementary collateral identifies the risks to which the credit institutions and bondholders are exposed in the short and the long term, together with any cyclical effects, and how complying with the requirement for supplementary collateral may affect borrowers with different loan types.

One of the reasons for introducing two-tier mortgaging in parts of the sector is that the split into two loans ultimately reduces the need to provide supplementary collateral. This is because only the first 60 per cent of the mortgage loan is funded by covered bonds, whereas the final 20 percentage points of the loan are funded by traditional mortgage bonds ("RO"), which are not subject to a requirement for provision of supplementary collateral in the event of a property price fall.

The task force on supplementary collateral is composed of representatives from relevant sector organisations, the Central Bank of Denmark, the Danish Financial Supervisory Authority and the Ministry of Business and Growth. The task force expects to submit its report in autumn 2013.

4. The National Targets in the Europe 2020 Strategy

Since the Government came into office, a number of reforms and measures have been implemented in areas that entail to contribute to the fulfillment of the key targets in the Europe 2020 strategy. The Danish targets are ambitious and reflect the objectives of the Government Platform “*A Denmark that stands together*”.

The national targets for the 2013 National Reform Programme are set out in table 4.1.

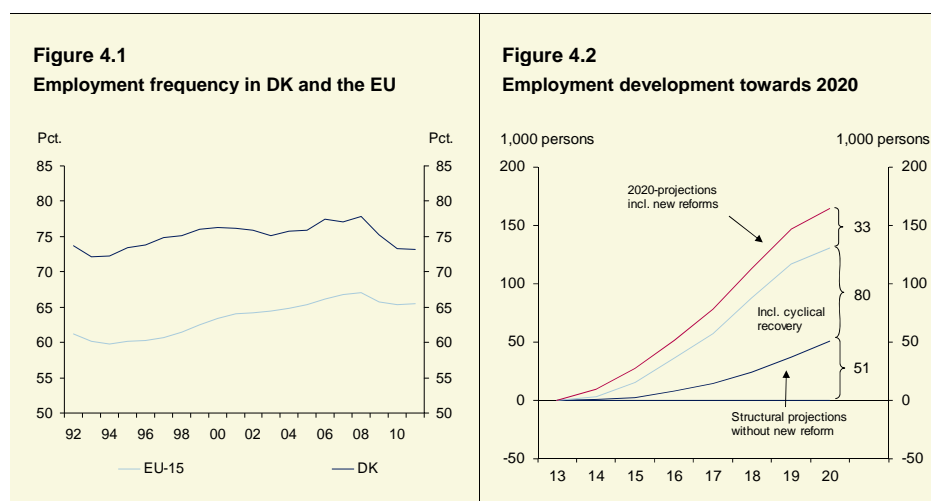
Table 4.1

The national targets

	Targets in 2020
The national target for employment	80 per cent structural employment rate.
The national target for R&D	3 per cent of GDP
The national target for climate and energy	Increase in the energy consumption stemming from renewable sources to 30 per cent by 2020 and use of renewable energy in the transport sector of 10 per cent by 2020. Gradual reduction of emissions in non-ETS sectors in 2013-20 of up to 20 per cent by 2020 relative to 2005.
The national target for education	Less than 10 per cent school dropout rates of the population aged 18-24 and at least 40 per cent of the population aged 30-34 having completed tertiary or equivalent education.
The national target for social inclusion	Reduce the number of people in households with low work intensity by 22,000 towards 2020.

4.1 The national target for employment

Like many other countries, Denmark continues to be affected by the financial crisis. Growth is low, and the employment rate has not yet begun to rise after the international setback that followed the financial crisis. The unemployment level has increased, but a well-functioning and flexible labour market means that the gross unemployment rate remains low compared to previous setbacks. The employment frequency for the age group 20-64 has also declined since 2008, but remains significantly higher than the EU average, cf. figure 4.1.



Note: The reform contribution in figure 4.2 includes approximately 1,000 individuals, who derive from the productivity increase through an increased capital apparatus following the initiatives of *Growth Plan DK*, and including the effects of increased working hours. See note for figure 2.3 for further explanation. The structural projection without new reforms in figure 4.2 is inclusive increased public employment towards 2020.

Source: Eurostat and in-house calculations.

The Danish Government is determined to maintain a high employment rate and improve the possibilities for people who receive income support to re-enter employment or begin an education. In the *Growth Plan DK*, a central element is to increase the employment in Denmark. This will happen through increased education as well as through reforms to increase the labour supply. Specifically, the reforms will contribute to increasing employment by 33,000 full-time persons going on 2020.

The agreement on the tax reform and the reform of the disability pension scheme and the flexi-job scheme has been estimated to increase the labour supply by 12,000 persons (16,000 when taking in contributions from working time). The agreement to reform the cash benefit scheme and state education grants will, estimated, increase labour supply by approximately 9,000 persons (10,000 persons when including contributions from working time). *Growth Plan DK* furthermore includes the ambition to carry out additional reforms, which may increase the employment by up to 6,000 persons. Finally, previous reforms, including espe-

cially the retirement agreement, contribute to a significant increase in employment going on 2020.

As such, the reforms will support the completion of the Danish target for employment, which is to reach a structural employment frequency of 80 percent of those aged 20-64 by 2020.

Table 4.2
Contributions to changes in employment 2013-20

	Effect, 1,000 individuals	Working hour effect	Total
1,000 individuals (including contributions from increased working hours)			
Demographic contributions (age, gender, origin)	-10	-11	-21
Estimated contributions from previous reforms	72	0	72
Proposed and implemented reforms	21	6	27
<i>Of this</i>			
- 2012 tax agreement ²⁾	4	6	11
- Reform of disability pension scheme and flexi-job scheme	8	-3	5
- Specific initiatives in <i>Growth Plan DK</i> ³⁾	9	2	11
Total change in structural employment	83	-5	78
Economic contributions	80	0	80
Total change in actual employment	163	-5	158
Further reforms in <i>Growth Plan DK</i>	-	-	6
Total change in actual employment including further reform ambitions			164
Of this, private sector employment			155

Note: Effect on work hours are measured as number of employed persons with average working hours in 2013. Persons with average working hours are referred to as "full-time persons" in the text. Due to round off, sums may differ from the total.

- 1) Including initiatives in the Consolidation Agreement, tax agreements from 2007 and 2009, the retirement reform as well as the educational objectives.
- 2) Includes estimated effect for 2013.
- 3) Includes reform of state education grants as well as slight increase in average working hours due to higher real wages following easing of business taxation.

Source: Statistics Denmark, DREAM, and in-house calculations.

Going on 2020, the economic situation is expected to normalise, and the estimate is that this will increase the employment by up to 80,000 individuals, cf. figure 4.2 and table 4.2. Apart from the normalisation of the economic situation, a vast number of reforms contribute to the increase of the employment frequency going on 2020, see also section 3.2.

Altogether, it is estimated that the employment may increase by 160,000 individuals going on 2020, including contribution from working hours. Altogether, the normalisation of the economic situation, the underlying demographic development, as well as previous, new and proposed reforms, are expected to increase the employment frequency by approximately 5 percentage points going on 2020.

4.1.1 Implemented measures

Since NRP2012, an agreement has been made on a tax reform, a reform of the disability pension scheme and the flexi-job scheme, and reforms of the cash benefits scheme and state education grants. Furthermore, already implemented reforms, including especially the retirement agreement and the unemployment benefit reform of the Consolidation Agreement contribute to a significant increase in the labour supply going on 2020.

The June 2012 tax reform ensures that being in employment pays off, and long-term, it is estimated that the reform will contribute to an employment increase of approximately 16,000 individuals, including contributions from increased working hours. Going on 2020 the reform is estimated to increase the employment rate by approximately 11,000 individuals, *cf. table 4.2*. The labour supply increase may especially be ascribed to the increase of the general tax allowance, particularly the tax allowance for single parents, increase of the upper tax threshold, as well as the moderate regulation of transfer payments in the years 2016-23, all of which contribute to making employment pay off.

Reforming the disability pension scheme and flexi-job scheme contributes to increasing the labour supply by approximately 5,000 full-time persons in 2020 (and around 12,000 full-time persons by 2030), *cf. table 4.2*. The reform came into force on 1 January 2013. The purpose of the reform is to retain as many as possible on the labour market. The access to disability pension is being limited for individuals under 40, who will, instead, be offered a newly established resource clarification process, which emphasizes the resources of the individual as well as developing their working capacity, aiming at a return to the labour market. The reform further entails that the flexi-job scheme is made more specific and that the government grant is restructured, enabling individuals with low working capacity to enter a flexi-job, while ensuring that those with the highest wages do not receive the highest grants.

In April 2013, the Government agreed on reforms of the cash benefit scheme and state education grants, which, together, will increase the employment rate by approximately 10,000 persons going on 2020. In addition to this, an increase of approximately 1000 persons will result from the productivity increase that will come from the capital apparatus that comes from the initiatives in *Growth Plan DK*, *cf. table 4.2* and *section 3.2*.

As a result of the 2011 retirement agreement, it has been possible for members of the voluntary early retirement scheme to withdraw from the scheme and have all contributions paid out in full, without any tax liabilities. The number of people who have taken up this opportunity is significantly higher than the estimate laid down in the 2012. This means that slightly fewer early retirement pension recipients are expected long-term, but going on 2020, the bigger withdrawal from the scheme is not of significant consequence, as the larger withdrawal number is expected to be countered by a higher degree of actual use by the remaining members of the voluntary early retirement scheme.

4.1.2 Planned measures

According to the *Growth Plan DK*, the government aims to present further reforms to increase labor supply by approximately 6,000 persons by 2020, thereby helping to fulfill the ambition of increasing growth (and thus raise the level of GDP) by DKK 20 billion as a result of increased education and increased labor.

4.2 The national target for research and development

Research and development are highly prioritised as the basis for the development of fresh knowledge, new products and new services. Investments in high level research and innovation constitute a decisive precondition for Denmark to maintain a high level of prosperity. Investments play a part in laying the foundations for future jobs and prosperity.

The Danish Government has established a national target for investments in research and development of 3 per cent of GDP. Publicly financed research is to amount to a minimum of 1 per cent of GDP¹. In addition, with the innovation strategy, "Denmark – a nation of solutions" from December 2012, the Government has formulated the objective that Denmark is to be among the 5 OECD countries where the business sector invests most in research and development as a percentage of GDP.

In addition, with the innovation strategy the Government has established national targets for, respectively, the share of innovative enterprises and the share of highly educated persons in the private sector, which is to be in the top 5 among European OECD countries in 2020.

The targets in the innovation strategy for Denmark's placing in relation to comparable countries are important reference points for future competitiveness and growth potential.

Denmark has achieved the 3 per cent target, *cf. table 4.3*. Private research comprises 2.1 per cent GDP in 2010. The public research budget has in general been rising since 2005 and is at a relatively high level in comparison with other countries. In 2013 publicly financed research is budgeted at 1.09 per cent of GDP, *cf. figure 4.4*.

¹ The Commission calculates the countries' research percentages on the basis of accounting figures from the institutions and enterprises that have conducted the research. In the case of the private sector, this corresponds to the Danish calculation. In the case of the public sector, the national calculation is based on budget figures because the public expenditures are managed ex-ante over the Finance Act. Therefore, differences may occur in calculations of research percentages in the case of publicly financed research.

Table 4.3
Development in public and private research investments in percentage of GDP, 2005-2010

	2005	2006	2007	2008	2009	2010
Public	0.78	0.82	0.75	0.84	0.95	0.98
Private	1.68	1.66	1.63	1.94	2.20	2.10
Total	2.46	2.48	2.38	2.78	3.15	3.08

Source: Statistics Denmark.

Figure 4.3
Private investments in research and development in percentage of GDP, 2001-10

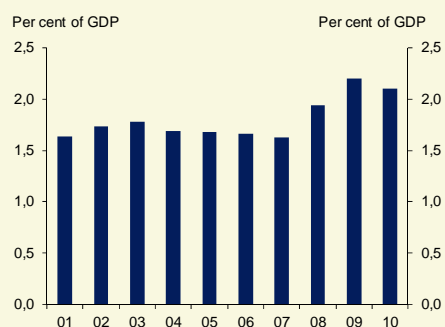
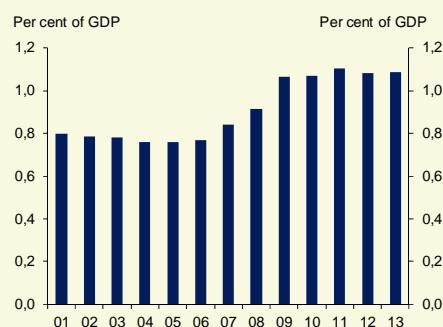


Figure 4.4
Public research and development expenditure in percentage of GDP, 2001-13



Note: Data in figure 4.4 is calculated as a budgetary figure.

Source: Statistics Denmark and Ministry of Finance.

4.2.1 Implemented measures

New, large-scale government initiatives in the field of research, development and innovation appear from box 4.1 below. These are new initiatives since NRP2012 as well as initiatives still in the process of implementation and which strengthen research and development.

Box 4.1**Implemented and agreed measures for the promotion of research, development and innovation****Public research and institutions of higher education:**

- Strengthening development and evidence basing at university colleges and academies of professional higher education as well as research in the professional subjects of an annual DKK 355 million in 2013-15 as part of the *Finance Act Agreement for 2013*
- Continuation of strengthening of funds for basic research from 2012 and the introduction of three years' budget security as part of the *Finance Act Agreement for 2013*
- Maintaining an intake of 2,400 PhD students a year as part of the *Finance Act Agreement for 2013*
- DKK 40 million for research on new production systems as part of the *Finance Act Agreement for 2013*
- Publication of the RESEARCH2020 catalogue functions as a basis of knowledge and decision-making for the political prioritisation of funds for strategic research

Research, development and innovation by enterprises:

- The establishment of three new centres of innovation in Seoul, Sao Paolo and Bangalore
- Strengthening and expansion of the knowledge pilot scheme: DKK 36 million in 2012, DKK 53 million in 2013 and DKK 45 million in 2014 as part of the *Finance Act Agreement for 2013*

4.2.2 Planned measures

In the EU Commission's "Innovation Union Scoreboard 2013", Denmark achieved third place in the overview of Member State's performance in the field of innovation. The Government wishes to maintain a continued high level of ambition for investments in research and innovation. Research is to be debureaucratised and better anchored in the world of education than hitherto. The Government will, moreover, ensure that universities and other knowledge institutions increase the mutual exchange of knowledge with the surrounding society. An international evaluation of the Danish research and innovation system conducted by the European Research Area Committee (ERAC) in 2012 concluded that while the Danish system functions well, several things could be improved. With the launching of the national innovation strategy in December 2012, the Government has initiated a paradigm shift in long-term innovation policy.

The innovation strategy is to ensure that more of Denmark's positions of strength in knowledge and business life are converted into new growth and job creation, and public investments are to a higher degree to contribute to innovative solutions to global societal challenges. The innovation strategy contains 27 concrete initiatives, *cf. also box 4.2.*

Box 4.2**Planned measures**

- It is the Government's goal that more of Denmark's positions of strength in knowledge and business life should be converted into new growth and job creation, and public investments are to a higher degree to contribute to innovative solutions to global societal challenges. The Government has therefore launched a national **innovation strategy** with 27 concrete initiatives, which among other things focus sharply on enhanced exchange of knowledge between knowledge institutions and enterprises. One of the initiatives is drawing up an innovation catalogue (**INNO+**), which is to create a firm academic basis for prioritising distinctive and more focused innovation ventures than before. Other innovations include a **review of the council structure**, establishing a **fund for maturing markets**, strengthened knowledge collaboration and innovation by means of **recognition** and attractive **career paths** for researchers and teachers, the spread of **practice elements** at all levels of education to support innovation and the initiation of **social partnerships concerning** innovation.
- Research, development and innovation form a crosscutting element in the Government's work with a proactive business and growth policy. As part of this work, the Government has appointed eight **growth teams** within business areas where Danish enterprises have special strengths and potentials. It is the task of the growth teams to identify concrete factors that can strengthen conditions for growth in the business areas selected, for example within research, development and innovation. On the basis of the recommendations of the individual growth teams, the Government is to draw up plans for growth with a view to strengthening the research, development and innovation effort for each business area, among other things.

4.3 The national targets for climate and energy

The national targets for climate and energy encompass the following:

- EU target of a 20 per cent reduction of emissions in non-ETS sectors by 2020 compared with the 2005 level.
- EU target of increasing the share of final energy consumption stemming from renewable sources to 30 per cent by 2020.
- EU target for use of renewable energy in the transport sector of 10 per cent by 2020.

Climate-policy targets

In October 2009, the EU heads of state and government confirmed that the developed countries are to reduce their greenhouse gas emissions by 80-95 per cent by 2050, relative to the 1990 level. The target has not yet been defined exactly, made legally binding, or shared between the Member States.

As part of the EU Climate and Energy Package's target for a total reduction in greenhouse gas emissions of 20 per cent below 1990 levels by 2020, Denmark has committed to reducing its non-ETS emissions by 20 per cent relative to 2005 levels. There are annual commitments for the period 2013-2020, and it is possible to carry an overshoot forward to the subsequent year. With the implementation of the initiatives agreed in the energy agreement from March 2012 it is expected that the target will be reached by 2020.

Energy-policy targets

Under the EU Climate and Energy Package from 2008, Denmark has committed itself to increasing its share of final energy consumption stemming from renewable sources from 17 per cent in 2005 to 30 per cent by 2020. With implementation of the initiatives agreed in the energy agreement from March 2012, this target will be met with a renewable share of final energy consumption of more around 35 per cent by 2020.

Furthermore, provided the assumptions about economic growth, developments in energy prices etc. hold, the initiatives in the energy agreement will lead to an absolute reduction in gross energy consumption of 12 per cent by 2020 relative to 2006. In the 2008 energy agreement, the target was a reduction of 4 per cent by 2020 relative to 2006.

As part of the Climate and Energy Package, on an equal footing with other Member States, Denmark must meet the requirement for at least 10 per cent of energy consumption in the transport sector to come from renewable sources. This target will be met with the implementation of the transport initiatives agreed in the energy agreement.

4.3.1 Implemented measures

With the energy agreement from March 2012, a series of initiatives have been decided to underpin and expand Denmark's position in the climate and energy area. Furthermore, with the agreement, important steps are taken to meet the target of 100 per cent renewable energy in the Danish energy and transport sector by 2050. The energy agreement covers the period 2012-2020. The most important initiatives are listed in box 4.3.

The energy agreement is fully financed with contributions from security of supply tax, PSO (Public Service Obligation) and net tariffs.

Box 4.3**The most important measures decided in the energy agreement for the period 2012-2020****An energy-efficient society with less wasted energy**

- Energy-saving initiatives by energy companies will be increased by 75 per cent from 2013-2014, and by 100 per cent from 2015-2020 compared to 2010-2012.
- An overall strategy will be prepared for energy renovation of the existing building stock.

Green and sustainable energy supply based on renewable energy

- An additional 1,000MW from offshore wind turbines by 2020.
- An additional 500MW from inshore wind turbines up to 2020.
- Up to 2020, it is anticipated that new onshore wind turbines will be erected with a total capacity of 1,800MW. It is anticipated that during the same period turbines totalling a capacity of 1,300MW will be decommissioned.
- The existing PSO-financed pool for new renewable technologies for electricity production (solar, waves etc.) will be extended.
- A total of DKK 25 million will be set aside in 2014-2015 to support major construction and demonstration activities in wave power projects.
- The shift from coal to biomass at large-scale power plants will be made more attractive with an amendment to the Heating Supply Act.
- A total of DKK 35 million has been allocated to the promotion of renewable technologies in district heating. For example, geothermal energy and large heat pumps.
- Existing funding for the use of biogas for CHP will be increased.
- Alternative uses of biogas, i.e. in the natural-gas grid, in industrial processes or in the transport sector, will be made more financially attractive with a series of new funding schemes.
- An overall strategy will be prepared for the establishment of smart electricity grids in Denmark.

More renewable energy in buildings

- A ban from 2013 on installation of oil and natural-gas installations in new buildings.
- From 2016, it will no longer be possible to install oil-fired installations in existing buildings in areas where district heating or natural gas are alternatives.
- For the period 2012-2015, an annual pool of DKK 42 million has been set aside to support the conversion from oil and natural-gas installations to renewable energy in existing buildings.

More renewable energy in trade and industry

- Funding is awarded for construction and installations to promote energy-efficient use of renewable energy in industrial production processes. The total pool from 2014 to 2020 is DKK 3.45 billion.
- A grant of DKK 30 million will be introduced annually from 2013 to 2020 to retain and promote industrial CHP in industry and horticulture.

Electricity and biomass in the transport sector

- The strategy for the promotion of energy-efficient vehicles such as hybrid plug-ins, electric cars etc., which realises a pool of a total of DKK 70 million in the years 2013 to 2015 for hydrogen and for infrastructure for gas in heavy transport.
- Inclusion of 10 per cent biofuels in transport by 2020.
- A total of DKK 15 million will be set aside in 2013-2015 for the continuation of the pilot scheme for electric cars.

4.3.2 Planned measures

In the government coalition agreement and the government's energy proposal *Our Future Energy* from November 2011, the government presents its national climate-policy target of a 40 per cent reduction in total greenhouse gas emissions by 2020 relative to 1990.

With initiatives in the energy agreement, Denmark will achieve a reduction in greenhouse gas emissions of approximately 35 per cent in 2020 compared with 1990².

In 2013, the Government will present a climate plan that works towards the goal of a 40 per cent reduction by 2020 compared with 1990.

4.4 The national targets for education

The Government has concurred in the general EU targets in the educational area in the Europe 2020 strategy on reducing educational drop out to 10 per cent for the 18-24 year olds and increasing the number of 30-34 year olds who have completed a higher or similar education to a minimum of 40 per cent.

Denmark contributes to fulfilling the EU targets through the national targets, which, however, are computed by other methods than the EU targets. The Danish national targets are that 95 per cent of a youth cohort should complete at least one youth education programme in 2015 that 60 per cent of a youth cohort should complete a higher education programme in 2020, and at least 25 per cent should complete a long-cycle higher education.

It is a central Government target that quality should be raised in the primary and lower secondary school, at youth education programmes and in higher education. It is simultaneously the Government's objective that more people should receive an education and that young Danes complete their education faster. This will contribute to enlarging the supply of well-educated manpower while at the same time reducing average educational costs.

4.4.1 Implemented measures

Reform of state education grant system and framework for higher education programmes

In April 2013, an agreement was made on a reform of the state educational grant scheme and framework for higher education programmes. The reform addresses the cost-effectiveness of the grant system and one of the central challenges for the Danish society, that Danish graduates from higher education are older than their European counter parts. The reform will by 2020 improve the public finances by DKK 2.2 billion (295 million Euros) which is used at initiatives strengthening the Danish economy and job creation.

Inclusion in the primary and lower secondary school

The Government wishes the greatest possible number of children to have the opportunity of being part of a community of children and a class by being included in the ordinary primary and lower secondary school. Therefore, in April 2012 the Danish Parliament adopted new rules to ensure better inclusion in the primary and lower secondary school. The new rules

²This does not include sinks or emissions from the LULUCF-sector (Land-use, Land-use Change and Forestry). There are however a number of outstanding issues concerning accounting rules, base year as well as concerning the international scientific updating of parts of accounting methods and finally the fact that there will be intermediary fluctuations in some of the emissions.

mean new delimitation of special needs education such that special needs education is reserved for pupils who need more comprehensive support, that is support for more than nine weekly clock hours or need a remedial class or special school.

The Finance Act Agreement for 2013

The Government has taken a number of initiatives in the area of education in connection with the *Finance Act Agreement for 2013*, which contribute to meeting the objectives for the Danish education system, cf. box 4.4.

Box 4.4

Implemented and agreed measures to improve education since NRP2012

- **Reform of state education grant system (SU) and framework for higher education programmes, cf. section 3.3.**
- **Inclusion in the primary and lower secondary school.** The Danish Parliament has adopted rules that ensure better inclusion in the primary and lower secondary school. This entails, among other things, a delimitation of special needs education. The objective is that most children possible should be part of a community of children and a class.
- **Agreement on better vocational education and training programmes and a strengthened education guarantee.** With the *Finance Act Agreement for 2013*, the Government entered an agreement on better vocational education and training programmes and a strengthened education guarantee. The agreement entails prioritisation of government funds corresponding to about DKK 3 billion between 2013 and 2016. The funds are to be used on, among other things, a strengthened education guarantee, including in-company practical work experience and reduced drop out, and increased quality in vocational education and training programmes. The agreement encompasses the launching of a number of specific initiatives, cf. section 3.3
- **Full financing of costs for extra intake.** DKK 2.9 billion has been earmarked in the *Finance Act Agreement for 2013* for increased activity and the state education grant at the higher education programmes to finance the record-breaking intake in 2012.
- **The taximeter increase for the humanities and social sciences is to be continued.** The *Finance Act Agreement for 2013* is to continue the taximeter increase for the humanities and social sciences by DKK 250 million a year in 2013-15.
- **Improvement of facilities and buildings.** As part of the *Finance Act Agreement for 2013*, DKK 6.5 billion is to be earmarked in 2012 and 2013 to improve the facilities and buildings used for research and teaching at the universities.
- A reform of **teacher training programmes** has been adopted, which is to contribute to improving the primary and lower secondary school.
- Entering three-year **development contracts** with all institutions of higher education. The new development contracts contain concrete, ambitious targets for the number of teaching hours, lower drop out, better coherence in the higher education system, more innovation in the education programmes, more cooperation with the business sector, less delay for the students and a better rate of employment for graduates.
- A new, comprehensive **quality assurance system** for higher education, which is to contribute to safeguarding the quality and social relevance of new and existing education programmes. At the same time the system is to lead to significantly less bureaucracy for the educational institutions. The new accreditation system involves, among other things:
 - A change from the accreditation of each individual study programme to accreditation of the institution as a whole
 - Pre-qualification of new study programmes with a focus on their relevance to society
 - The possibility of selecting programmes with special quality challenges for special review.

4.4.2 Planned measures

In its government platform, the Government has a clear, goal-directed focus on raising the quality of youth education programmes and higher education.

In summer 2013, the Government is expected to make a proposal in the area of vocational education and training as a follow up to the government-appointed vocational education committee, *cf. section 3.3*. The Government has, in addition, launched its proposal for a reform of the primary and lower secondary school that is to strengthen its quality.

At the present time activities have been initiated with a view to further developing and improving the education system on several levels, *cf. box 4.5*.

Box 4.5**Planned measures to improve education****Basic school and day care**

- In December 2012 the Government presented its proposal for a **reform of the primary and lower secondary school**, "**Make a good school even better – boosting standards in the primary and lower secondary school**". The Government wants all pupils to have a coherent and active school day. The objective is to improve the academic quality of the primary and lower secondary school so that all pupils become as good as they can be and the significance of social background in relation to academic results is reduced. The aim is that the reform should take effect from school year 2014, *cf. section 3.3*.
- **Development programme – Day care of the Future**: The Government has initiated a development programme in the area of day care, where the goal is to **strengthen the well-being and learning of all 0-5 year olds**, and where the significance of social heritage is reduced in relation to children's learning and well-being. The focus of the development programme is to produce knowledge about the effect on children's learning and well-being and can therefore also contribute to strengthening academic standards in the primary and lower secondary school.

Youth and vocational education and training programmes

- **Service check of upper secondary school programmes**. A service check is to be conducted of the content and framework of upper secondary school programmes. Part of the service check is to be implemented as a development plan, which is a trial and development programme where the schools have the possibility of developing and testing new forms of teaching and working.
- **Flex education**. The Government wishes to establish a flex education for young people who lack the qualifications for completing an ordinary youth education programme. The main objective of the programme is to prepare the pupils as well as possible to enter into paid employment.
- **Better vocational education and training programmes**. In continuation of the recommendations of the Vocational Education Committee, in 2013 the Government is to present an ambitious **proposal for a reform of vocational education and training programmes**. This is to contribute to more pupils choosing vocational education directly after primary and lower secondary school, and to more completing a vocational education and training programme they have embarked on.
- **Better and more adult and continuing education and training**. In its proposal *Growth Plan DK*, the Government has earmarked DKK 1 billion between 2014-17 for a significant **competence boost of the workforce**, which, among other things, is to support manufacturing companies and jobs being retained in Denmark.

Higher education etc.

- **Innovation strategy**, *cf. section 4.2*. The three focus areas of the strategy aim at the educational investments strengthening innovative capacity. The share of the highly educated in the private sector is to be increased so that Denmark is one of the five best European OECD countries in 2020. Among other things, this involves a culture change so that the ability to become innovative becomes a fundamental element in all education in Denmark, from primary and lower secondary school to PhD. This must be supported by, for example, better career paths for researchers and teachers, spreading practice elements to all programmes, and a number of other initiatives directed at the whole of the education system.
- **Reform of the social educator study programme**. The quality of the social educator study programme is to be enhanced so that the programme lives up to the demands and challenges that social educators meet in kindergartens, schools, after school care and the many workplaces they are associated with as an important part of the personnel. The Government will present a proposal in spring 2013.

4.5 National target for social inclusion

The Danish Government's Europe 2020 strategy target is to reduce the number of people in households with low employment by 22,000 people towards 2020. This target is maintained. The number of people living in households with low employment increased from 347,000 in 2008 to 480,000 in 2011, one reason being the financial crisis. When citizens lose their jobs or never gain a foothold in the labour market, the implications are significant for both the individual and society at large.

The Government considers it highly important that Denmark is a society where inequality is limited and where everyone really enjoys equal opportunities. The Government aims to reduce poverty and give special priority to socially disadvantaged children and young people. Social, financial and health limitations pass from one generation to the next. Therefore, the Government gives priority to efforts aimed at creating equal opportunities for everyone. In this connection, initiatives to prevent social problems are essential, especially in relation to socially disadvantaged children and young people.

The Government has set up an expert committee tasked with analysing methods for measurement of poverty and drawing up proposals for a possible Danish poverty threshold. The Government's expert committee on poverty will present its report in the spring 2013, and the Government will subsequently consider the recommendations of the committee.

4.5.1 Implemented measures

In 2012, the Government launched several initiatives to underpin social inclusion, *cf. box 4.6*. The Government implemented reforms, etc. to enable a greater number of people to lead an active life by being self-supporting and participating in society. Furthermore, through the Finance Act and the rate adjustment pool for 2013 (a public pool of funds earmarked for disadvantaged groups), several initiatives have been introduced to ensure better inclusion and support for some of the most socially disadvantaged groups in society, both among children and adults. The initiatives underpin the Government's measures in 2011, which, for instance, resulted in the abolishment of a range of low benefits.

Box 4.6**Implemented and agreed measures to underpin social inclusion since NRP2012**

- **Reform of the disability pension scheme and flexi-job scheme(2012).** The reform, which entered into force on 1 January 2013, aims to ensure that, in future, there will be greater focus on the individual's resources and development of his or her working capacity. As a result of the reform, resource clarifying processes and rehabilitation teams will be established by all local authorities as part of new preventive initiatives aimed at people at risk of ending up receiving anticipatory pension benefits. The purpose is to ensure that far more people are offered help to lead an active life instead of relying on passive income support.
- **Reform of the cash benefit scheme (2013).** It is important to the Government that all youths receive an education and that youth unemployment is reduced. Therefore, the Government has agreed on a cash benefit reform, the emphasis of which is to help youths obtain an education or find employment.
- **Agreement on implementation of the rate adjustment pool for 2013 (2012).** The agreement means that, in the 2013-2016 period, some DKK 360 million will be earmarked for socially disadvantaged children and young people. Of this amount, DKK 268 million will be used as part of an overall effort to ensure extensive, early and preventive measures in relation to children to protect them from abuse and neglect. In addition, DKK 60 million will be earmarked for counseling teams to support inclusion in day-care facilities and schools. DKK 51 million will be earmarked for socially disadvantaged adults, and this also involves the development of a strategy for disadvantaged Greenlanders and their children as well as a strengthening of the role of shelters in the social initiatives. Finally, DKK 50 million will be earmarked for holistic initiatives in the field of social housing.
- **Strengthening of integration activities (2012).** These include a better reception of newly arrived foreigners, taking into account the overall family situation. At the same time, a national integration barometer will be introduced, which has clear integration targets with a view to promoting the social inclusion of refugees and immigrants, including areas such as employment, education, income support and citizenship.
- **Finance Act 2013 initiatives aimed at social inclusion.** Under the agreement, a number of initiatives have been adopted targeting the most disadvantaged groups in society. A right to a refund of dental expenses has been introduced for people receiving the lowest benefits. The scope for action of local authorities has also been widened in relation to tenants at risk of eviction.
- **Improvement of drug misuse treatment (2012).** With this plan, the quality of social drug misuse treatment will be improved, for instance by ensuring that knowledge and methods with a documented effect will be used in connection with treatment.

4.5.2 Planned measures

The fact that too many citizens rely on passive income support remains a challenge. The Government therefore intends to launch more initiatives, including initiatives specifically aimed at young people who are going into education or employment.

In this connection, the Government will continue its work to reform the social benefits to promote social inclusion. The Government intends to abolish the time limit for receiving sickness benefits to ensure that no citizens who are off sick face the risk of being left without any income support. Moreover, the quality and speed of initiatives for ill citizens are improved.

5. Denmark's Announcements according to the Europlus Pact

Denmark participates in the Europlus Pact together with the euro area countries and a number of countries outside the euro zone. The participating countries have committed to working towards the following four goals: to foster competitiveness, to promote employment, to ensure fiscal sustainability and to safeguard financial stability. Each country decides which specific steps that will be needed in order to meet the goals.

Table 5.1
Denmark's announcements according to the Europlus Pact

Goals of the Europlus Pact

To strengthen labour supply, employment and public finances	<ul style="list-style-type: none"> • Tax reform • Reform on disability pension and flexie- job • Reform on student's grants and cash benefit scheme • <i>Growth Plan DK</i> initiatives on job creation in the private sector towards 2020 (150,000 private jobs, including the effects of economic recovery)
To strengthen the public expenditure management	<ul style="list-style-type: none"> • The Budget Law and expenditure ceilings for 2014-17 • <i>Growth Plan DK</i>, including initiatives on development and modernisation of the public sector to free up DKK 12 billion towards 2020.
To strengthen competitiveness and productivity	<ul style="list-style-type: none"> • The initiative <i>Strengthened competitiveness for the benefit of Denmark</i> • The productivity commission and growth teams • <i>Growth Plan DK</i> initiatives on strengthening productivity corresponding to DDK 20 billion in 2020, including a reduction of the corporate tax to 22 per cent.
To strengthen financial stability	<ul style="list-style-type: none"> • Initiatives on well-functioning and efficient mortgage institutions, including the industry's own efforts • The SIFI committee's recommendations on designation and requirements to systematically important financial institutions

In recent years, several reforms have been implemented in Denmark to strengthen labour supply and employment. Public spending management has been enhanced and initiatives that contribute to strengthened competitiveness and financial stability have been carried out. Significant measures have thus been taken within all four areas of the Europlus Pact.

Denmark's announcements under the Europlus Pact

In accordance to the Europlus Pact of 2011, the participating countries should take action in order to fulfill the common overall goals in the following areas: strengthened competitiveness, increased employment, further contributions to fiscal sustainability and financial stability.

Strengthened labour supply, employment and public finances.

As a result of *the tax reform of June 2012*, lower tax on labour income has raised the payoff from working. The reform is expected to increase the labour supply by 16,000 persons in the long term. *The reform on disability pensions and flexie-job of May 2012* aims to retain as many people in the workforce as possible – and preferably in regular employment. Also, the reform puts increased attention on each individual's resources and seeks to develop his or her ability to work. When fully phased, the reform is estimated to increase employment by 12,000 persons. In addition to this, already implemented reforms such as *the retirement reform* and *the unemployment benefit reform* contribute to significantly higher labour supply towards 2020.

In April 2013, an agreement was reached on *the reform of the cash benefit scheme and student's grants*. It is essential to this reform that cash benefits are abolished for all uneducated people younger than 30 years and replaced with a student allowance approximately equivalent to the Danish student's grants. Youths however, who cannot immediately start on an education, will receive an activity supplement and they will thus be granted a total cash benefit corresponding to the amount they were eligible to before the reform. Also, the Danish student's grants system has become better targeted and brings the students quicker and better through the educational system.

These reforms represent important steps towards increased labour supply and employment. The aim of the Government is to create 150,000 new jobs in the private sector towards 2020 as the economic recovery materializes. This will contribute to an annually increase in GDP of approximately 2 per cent on average up until 2020.

Strengthened public expenditure management

Denmark complies with the objectives of *the EU recommendation* and *the Budget Law* with regards to public finances. This maintains confidence in Danish economy, contributes to keeping interest rates low and underpins a stable economic development.

The Budget Law sets the framework for the public sector's expenditure management system and in the spring of 2013 the Government will propose politically binding expenditure ceilings for the state, regions and municipalities, respectively, for the period 2014 to 2017. This law will ensure that the developments of the public finances comply with the goals and priorities of the medium-term projection up until 2020 and keep the structural public balance on a level below the threshold set in the Fiscal Compact of maximum ½ per cent of GDP.

The Government will continuously ensure balanced public expenditure growth and fiscal sustainability. In *Growth Plan DK*, the Government has planned to accept a public consumption increase by a total of DKK 26½ billion for the period 2013-2020. Furthermore, the Government will intensify its work on modernizing the public sector. It is important for the public sec-

tor to be efficient in order to provide good opportunities for everyone and to foster economic growth and employment in the private sector. The modernisation of the public sector will free up DKK 12 billion towards 2020 and the Government will thus be able to initiate targeted improvements of public services.

Strengthening of competitiveness and productivity

In recent years, Denmark has moved down the list of the world's most prosperous countries. This is mainly due to weak productivity growth. The Government has established a *productivity commission*, which will identify the causes for the relatively low productivity growth in Denmark since the 1990's. The Commission's recommendations will be included in the Government's forthcoming steps towards raising productivity in the future.

Further, the Government has established eight *growth teams*, who will – in cooperation with the business sector – inspect the conditions for growth in greater international industrial areas, where the potential for growth is prevalent for Danish companies in particular. The purpose is to point out specific actions that would improve the companies' productivity and development potential.

In October 2012, the Government put forward *the competitiveness proposal* which will strengthen competitiveness – especially for businesses that are most active in the domestic market. The Government has great focus on strengthening the long-term growth potential through competitiveness.

The Government has put forward a growth target of DKK 40 billion in *Growth Plan DK*. The intention is to boost the activity of the Danish economy by DKK 40 billion (measured in GDP-level) towards 2020 through reforms and growth initiatives. This corresponds to increased structural GDP growth by $\frac{1}{3}$ percentage points on average each year in the period 2014–2020, so that the overall year-on-year growth will amount to 2 per cent on average. Half of the growth target is redeemed through improvements of the economic environment for businesses – including a reduction of the corporate tax, which strengthens competitiveness, supports employment and boosts productivity. The other half of the growth target is met through initiatives that raise educational attainment and employment.

Financial stability

In 2012, the Government has set up a committee of systematically important financial institutes in Denmark, which investigates the criteria for being designated as a *systematically important financial institution (SIFI)* in Denmark, and further, what kind of requirements they should be imposed (including how international requirements to SIFI's are implemented in Denmark) and how to manage SIFI's that might face difficulties. The committee's report was published in March 2013. Political negotiations on the regulations of SIFI's are expected to commence in the spring of 2013.

The scope and composition of the household debt are not considered as being a threat to the financial stability, *cf. section 3.5*. In order to improve the stability in the housing market, the Government has introduced rules that apply to the banks and mortgage lenders where home buyers are only permitted to a mortgage loans with flexible interest rate and/or deferred annuity if they would be able to finance their home with fixed-rate loans and ongoing repayments.

Further, the Government has established a working group regarding Danish mortgage lenders' *need for supplementary collateral* in case of property price falls. The working group is expected to report its results in the autumn of 2013.

The financial sector has also implemented initiatives to support financial stability. Auctions on the re-financing of adjustable-rate loans has been scattered throughout the calendar year rather than having them mostly in December. Secondly, a share of the financial sector has implemented the so-called *two-tier mortgages*, where the top 20 percentage of the mortgage credit borrowing cannot be used as collateral for flexible interest rate loans with an interest rate adjustment period of less than five years. Also, deferred annuity can neither be chosen for the top percentage of the mortgage loan as well.

6. Institutional Issues and Stakeholder Involvement

Through the *Contact Committee for the Europe 2020 strategy*, regional and local authorities as well as a broad range of interest organisations are kept closely and continuously informed about the European growth and employment agenda and the development of the European Semester as well as involved in the preparation of the national reform programme.

The Contact Committee for the Europe 2020 strategy was set up already in 2001 in connection with the adoption of the Lisbon Strategy with the aim to establish a close dialogue between relevant ministries, regional and local authorities as well as interest organisations regarding the EU's overall growth and employment agenda. The Contact Committee includes around 30 organisations representing many different interests. In 2011, the Contact Committee was enlarged with a number of organisations within the social area as a result of the increased focus of the Europe 2020 strategy on the social dimension.

The Contact Committee ensures national embeddedness of the Europe 2020 strategy and provides its members with a direct channel to the national decision-making process as well as strengthens the Government's basis for decision-making regarding the national work on the Europe 2020 strategy and the European growth and employment agenda. The Contact Committee does not replace the various special EU committees within the framework of the Danish EU decision-making procedure, but works as a parallel hearing and consultation forum in the growth and employment area.

In the course of the European Semester, the Contact Committee is briefed e.g. at regular meetings about 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 parts of the growth and employment agenda, e.g. a meeting was held in October 2012 focusing on job and growth creation in the EU. The Minister for European Affairs chairs several of the meetings of the Contact Committee.

Regarding the European Semester 2013, the Contact Committee met ahead of the European Council's meeting in March. The draft of Denmark's National Reform Programme 2013 was sent for consultation to the Contact Committee in mid-March and subsequently discussed at a meeting of the Committee, and the committee members afterwards had the opportunity to submit comments on the draft. To the extent possible, the comments of the Contact Committee are reflected and incorporated in the National Reform Programme. Another meeting of the Contact Committee will be held in the beginning of June with a view to discussing the Commission's recommendations to Denmark.

As part of the Danish EU decision-making procedure, the *Danish Parliament* is continuously involved in the discussions regarding the European growth and employment agenda when the Europe 2020 strategy and the European Semester are on the agenda of the individual Council configurations as well as of the European Council.

In this connection, the Danish Parliament has had the opportunity to discuss the recommendations given to Denmark in relation to the European Semester 2012. Denmark's National Reform Programme 2013 has also been sent to a number of committees in the Danish Parliament prior to being forwarded to the Commission.

Box 6.1**Implementation of growth and employment agenda**

Local and regional authorities as well as interest organisations, including the social partners, are important partners for the implementation of the growth and employment agenda in Denmark, e.g. regional growth fora have the responsibility for the regional effort for growth and employment development. Denmark has a long tradition of close involvement of local and regional authorities and organisations in the European growth and employment agenda.

The National Reform Programme

Denmark 2013

In tables numbers do not necessarily
sum to totals due to rounding

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