



The National Reform Programme

Denmark
2012

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Introduction

This year, the European Semester is implemented for the second time. Since the first European Semester the EU collaboration has been strengthened by the reformed economic cooperation (the so-called "six-pack"), which implies strengthened fiscal policy rules in the Stability- and Growth Pact and the introduction of a new cooperation on macroeconomic imbalances.

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

On the national level, the Danish Government has an objective to re-establish the progress in Danish economy and to ensure balance between public revenue and expenditure. This should occur in a way that both ensures the sustainability of public finances, room for investment in the future and social balance. The objective is to create development, dynamism and growth throughout Denmark.

On that background, the National Reform Programme describes the national implementation of EU's growth strategy (Europe 2020) and the Competitiveness Pact. Additionally, the programme indicates which measures Denmark has implemented and plans to implement in order to conform to the country-specific recommendations that EU has presented as a follow-up on the National Reform Programme and the Convergence Programme for 2011. In the National Reform Programme the overall economic framework for Denmark is also presented. This is based on the Convergence Programme for 2012.

The structure of the National Reform Programme is as follows:

- Chapter 1 deals with the overall economic framework for the Danish economy based on the Convergence Programme for 2012.
- Chapter 2 describes the measures that Denmark has implemented and plans to implement to contribute to the fulfilment of the five goals in the Europe 2020-strategy.
- Chapter 3 focuses on the measures that Denmark has implemented and plans to implement to conform to the country-specific recommendations for Denmark from 2011.
- Chapter 4 contains Denmark's announcements under the Competitiveness Pact.
- Chapter 5 describes the involvement of relevant ministries and non-governmental organisations.

1. The Economic Framework

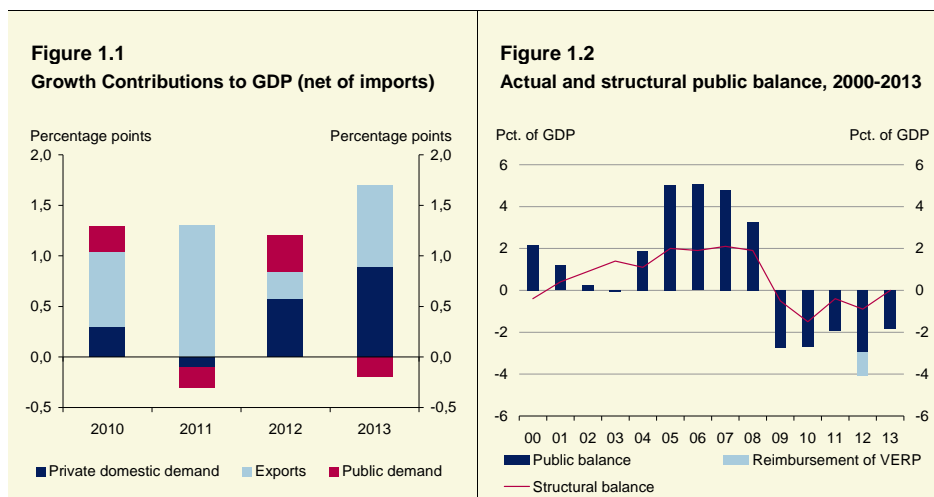
The Danish economy is expected to enter a period with growth and increased employment, and the Danish economy will gradually return to a normal economic situation if the European debt crisis continues to slow down. GDP is expected to grow by around 1¼ per cent in 2012, 1½ per cent in 2013 and 2-2¼ per cent per year the following years. This implies increased improvement in employment, which is expected to grow by up to 1 per cent per year from 2014.

In the longer run it is key to obtain balance on the public finances in 2020 and at the same time create space for a targeted growth in public expenditure. Additionally, it is crucial to increase the growth potential of the Danish economy after a number of years where growth opportunities have been dampened by a weak development in productivity and a weakened competitiveness.

In the Government Platform there are nine specific objectives for Danish economy in 2020, including structural public balance in 2020. In order to fulfil all these objectives it is necessary to present more reform proposals, which increase labour supply by 60,000 persons and improve public finances by 14 billion DKK in 2020.

The Danish economy is expected to enter a relatively long period during which the economic situation is gradually normalised. In 2012 economic growth is supported by the Government's kick start and the reimbursement of the voluntary early retirement contributions. From 2013 growth is expected to become more self-sustaining and the largest contributions are expected to stem from private consumption and business investment, which both have been relatively low for a long period, as well as exports, c.f. *figure 1.1*. On that background economic growth is expected to reach 1.2 per cent in 2012 and 1.5 per cent in 2013 in the adjusted economic assessment, c.f. *Convergence Programme 2012 (CP2012)*.

At the same time the structural balance is expected to improve from a deficit of 1½ per cent of GDP in 2010 to balance in 2013. The structural deficit is assessed to 0.4 per cent of GDP in 2011 and 0.9 per cent of GDP in 2012. Based on the new statement of public accounts for 2011 the actual deficit is now estimated to reach 1.9 per cent of GDP in 2011 (on national accounts basis). The deficit is expected to reach 4.1 per cent of GDP in 2012 and 1.9 per cent in 2013, c.f. *figure 1.2*. Therefore, Denmark is expected to respect the EU recommendation according to the procedure for excessive deficits, cf. *CP2012*.



Note: The growth contributions are calculated by the so-called input-output based method, where the contributions from e.g. exports are corrected for both the direct and indirect import contents.

Kilde: Statistics Denmark and own calculations.

The Government Platform outlines nine objectives for the Danish economy in the longer run, including structural balance in 2020, cf. box 1.1. These objectives form the reference point for fiscal policy in the period 2014-2020.

Box 1.1
Medium-term objectives for economic policy

The Government Platform has set nine goals for the Danish economy in the longer term:

- The structural public budget balance should at minimum be balanced in 2020
- Compliance with the Stability and Growth Pact and the EU recommendation to improve the structural budget balance by 1½ per cent of GDP in 2011-2013
- The fiscal sustainability indicator must always be positive
- The public EMU debt must be kept within a wide safety margin to the requirements of the Stability and Growth Pact
- Productivity must be increased so that Denmark gets closer to the top OECD-countries
- Denmark should improve its wage competitiveness
- Further investments in research and education
- Structural labour supply must be increased with 135,000 persons by 2020
- Income inequality must be limited

Source: "A Denmark that stands together", Government Platform, October 2011.

In 2012 the Government will present a number of reform proposals aimed at increasing growth and employment. The reforms cover both the disability pension and flex-jobsystem,

on which the Government presented a reform proposal in February, as well as the upcoming proposal for a tax reform and partite negotiations. Proposals on reforms of study grants to ensure faster study completion, the cash benefit system, and the activation schemes are also planned as well as initiatives to strengthen productivity and competition, see also *section 3.2*.

Overall the reforms are aimed to strengthen public finances by approx. 14 bn. DKK in 2020 and increase employment by 60,000 fulltime persons, c.f. *CP2012*. The reforms will ensure that public finances are at least sustainable and that there is space for a modest and targeted increase in public service, c.f. the Government Platform "*A Denmark that stands together*".

At the same time it is key that Denmark is capable of exploiting the renewed international economic progress to create lasting and sustainable growth and employment. This requires that Danish competitiveness is improved and that productivity is strengthened in both the private and public sector.

The latest collective wage agreements are pointing towards moderate wage increases in Denmark the coming years, c.f. *CP2012*. That will in theory benefit Danish competitiveness, but whether a concrete improvement will happen depends on the wage and productivity development, both domestically and abroad.

Throughout the past 15 years Danish productivity growth has been low compared to other European countries, and it is necessary to strengthen productivity growth in the future. Therefore, the Government has set up a productivity committee, which will identify the causes of the low productivity since the mid-1990s, and on this basis set out specific recommendations that can enhance productivity in Denmark.

The Government has also initiated a pro-active business and growth policy which aims at strengthening the framework for doing business and at the same time focus on the growth conditions in areas, where Danish businesses have special strengths and potentials. As part of this work various growth-teams have been established and they will present concrete recommendations. Through this the Government is among other things focusing on strengthening Denmark as a production country.

2. The National Targets in the Europe 2020 Strategy

Denmark had a new Government in October 2011. At the same time, the Government presented its Government Platform “A Denmark that stands together”. The Government Platform contains ambitious objectives in a number of areas, where the Government intends to take new initiatives and implement reforms.

Since the Government came into office a number of initiatives have been taken, among others the *retirement reform*, the *Budget Bill for 2012*, a kick-start of the Danish economy, and the *Energy-agreement 2012-2020*. The Government has also presented a proposal for reform of the disability pension and flex-job scheme, which is currently being negotiated with the other political parties.

Additionally, various committees have been set up with the aim of presenting proposals for new initiatives in areas as for instance education, social inclusion etc.

The national targets for the 2012 National Reform Programme are set out in *table 2.1*.

Table 2.1
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 2013-2020 of up to 20 per cent by 2020 relative to 2005.
The national target for education	Less than 10 per cent school drop out 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.

2.1 The national target for employment

Employment and labour supply are correlated. Empirical evidence points out that an increased labour force leads to an approximately similar increase in employment. By implementing reforms that increase labour supply, growth can be increased while the stability of public finances is secured, and an opportunity is created for a targeted expansion of public services. An increased labour supply will thus contribute to fulfil the Danish employment goal, which is a structural employment rate of 80 per cent of the part of the population aged 20-64 by 2020.

The reforms of retirement and unemployment benefits increase the labour supply by up to 80,000 persons. It is the objective of the Danish Government that new reforms shall increase the supply of labour by an additional 55,000 persons towards 2020, c.f. *the Government Platform*. Through this, the total labour supply contribution of reforms reaches 135,000 persons in 2020. The agreement on the Budget Bill for 2012 furthermore contains initiatives¹, which in isolation are estimated to reduce labour supply by about 5,000 individuals. The requirements for new reforms have thus been increased correspondingly to 60,000 full time persons, to secure that the overall target in the Government Platform is reached.

More reforms are needed to reach this goal, including, among others, a tax reform and a tripartite agreement with the social parties, cf. *section 3.2*.

The new reforms are estimated to increase employment measured in persons by 25,000-30,000 persons and thereby the reforms contribute to increasing the employment frequency – the rest of the reform contribution should be attributed to initiatives which increase the average number of hours worked. Including the effects of both new and previously decided re-

¹ This concerns the abolishment of certain, particularly low benefits in the social assistance system, cf. *section 2.5* as well as certain increases in taxes and charges.

forms, the structural employment frequency is estimated to 80¼ per cent in 2020 (when calculated in line with the EUROSTAT calculation), c.f. *CP2012*. The actual employment rate in the period 2002-2011 is shown in *table 2.2*.

Table 2.2

Employment frequencies for young people, seniors, and total workforce. Breakdown by gender 2002-2011 (no cyclical correction). Per cent

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
20-64 – All	78.3	77.4	78.1	78.0	79.4	79.0	79.7	77.5	75.8	75.7
15-64 – All	76.4	75.1	76.0	75.9	77.4	77.0	77.9	75.3	73.3	73.1
Men	80.2	79.7	79.9	79.8	81.2	80.8	81.6	78.0	75.6	75.9
Women	72.6	70.5	72.0	71.9	73.4	73.2	74.1	72.7	71.1	70.4
15-29 – All	70.9	66.1	67.8	68.1	70.3	70.8	72.0	67.5	63.1	62.4
Men	73.6	69.3	69.9	70.6	72.3	73.0	73.8	67.3	62.6	63.0
Women	68.1	62.8	65.6	65.6	68.2	68.5	70.1	67.6	63.6	61.9
55-64 – All	57.3	60.7	61.8	59.5	60.7	58.9	58.4	58.2	58.4	59.6
Men	64.2	68.0	69.2	65.6	67.1	64.9	65.2	64.8	63.3	63.8
Women	50.0	53.1	54.2	53.5	54.3	52.9	51.5	51.7	53.7	55.3
55-59 – All	75.5	75.8	78.1	78.0	79.2	79.7	80.8	79.4	76.9	76.4
Men	80.9	80.7	83.7	81.6	83.5	83.8	85.2	83.4	78.7	78.1
Women	69.8	70.8	72.5	74.5	75.0	75.7	76.4	75.5	75.0	74.8
60-64 – All	34.1	39.0	40.6	37.3	40.4	38.6	37.4	38.4	40.8	42.9
Men	43.3	49.9	51.0	46.3	49.5	46.4	46.6	47.6	48.5	49.6
Women	24.1	27.4	29.7	28.3	31.1	30.9	28.2	29.2	33.2	36.2

Source: EUROSTAT and own calculations.

2.1.1 Implemented measures

Through the adoption of the retirement reform the Government has implemented reforms which will contribute to increasing the supply of labour in both the short and the long term. A number of the initiatives will, at the same time, stimulate employment, including youth employment, through, among others, an intensified focus on education and improvement of skills. *Box 2.1* describes the reforms and measures passed since NRP2011 as well as certain major, previously reported initiatives with a significant impact on the supply of labour.

Box 2.1**Passed initiatives to promote employment and labour supply**

- **An agreement on retirement reform (2011).** With this agreement, public finances are improved by DKK 18 billion in 2020, fiscal sustainability is strengthened with around DKK 10 billion, employment is increased approximately 65,000 people in 2020, and GDP is increased by DKK 47 billion in 2020. The three main elements of the agreement are:
 - The voluntary early retirement pension age and the public pension age are raised five years earlier than in the Agreement on the Welfare Reform from 2006.
 - The voluntary early retirement pension period is gradually shortened to three years from 2018-23. At the same time, the voluntary early retirement pension is raised, and the deduction from pension savings in the voluntary early retirement pension will be increased.
 - As of 2014, a “senior disability pension” will be introduced, resulting in a quicker and easier access to early retirement pension for worn-out individuals less than five years from the formal pension age.
- **An agreement on initiatives for young unemployed (2011).** As part of the 2012 Budget Bill, the Government entered an agreement that places a special focus on the large number of unemployed, untrained young people and unemployed, young graduates. The measures are based on the principle of “right and duty” when it comes to training and work. The agreement is under implementation and contains four initiatives, for which DKK 60 million has been allotted in 2012 and 2013:
 - More unemployed young people will be trained through the adult apprenticeship scheme.
 - Job rotation shall help more unemployed young people enter the labour market.
 - A job and skill development package for academically weak young people.
 - Trainee programmes shall give unemployed graduates access to the labour market.
- **An agreement on a strengthened effort for young people (2011):** In July 2011, an agreement was made to help young unemployed into education or employment. The agreement contains a number of initiatives, targeted at various groups of unemployed and sectors, worth a total of DKK 100 million and has been implemented. Among the initiatives are:
 - Possibility to enter an “upgrading of skills job” for all young people, regardless of education.
 - Targeted training for young unemployed, including separate active measures towards young unemployed within the construction sector.
 - A strengthened effort towards unemployed academics.
 - Job rotation scheme/arrangement for unemployed with a higher education.
 - Courses in reading, writing and mathematics for an increased number of young people.
 - Campaigning for an increased number of work-experience placements and traineeships.
- **An agreement on improved conditions for unemployed (2011).** With the Budget Bill for 2012, the Government entered into an agreement on initiatives to improve the possibilities for unemployed to upgrade their skills. Among the initiatives, which are under implementation, are:
 - Unemployed skilled, unskilled workers and unemployed with outdated training have the option of 6 weeks of training of their own choice, until and including the vocational training level. The categories of training programs are currently being expanded, as the former price cap is removed (additional cost: DKK 197 million in 2012 and 225 million in 2013).
 - One-year extension of the pilot scheme concerning requalification jobs for unemployed unskilled and skilled workers (additional cost: DKK 8 million in 2012 and 12 million in 2013).

Box 2.1, continued**Passed initiatives to promote employment and labour supply**

- More funds set aside to the job rotation scheme (additional cost: DKK 20 million in 2012).
- Increased funding for unemployed lacking basic qualifications who need to improve their basic reading and writing skills (DKK 25 million in 2012).
- A more flexible framework for repeated activation of non-employable persons receiving social assistance.

The Government has set aside funding for an effort towards individuals under notice due to large-scale dismissals. These efforts are strengthened through an increase in the funding to help people under notice to re-enter the labour market. These funds can be applied for jointly by the company dismissing its employees and the jobcentre in order to help the individuals under notice (is implemented, additional costs in 2012 are DKK 20 million).

- **Fiscal consolidation agreement (2010).** The agreement contains among others a reform of the unemployment benefit scheme, reducing the benefit period from 4 to 2 years as of 1 July 2010. The condition to qualify for unemployment benefits has been harmonised to 52 weeks of employment in all cases. The harmonisation takes effect as of 2 July 2012. The Fiscal Consolidation Agreement contributes to an increase in the structural employment of approximately 10,000 people, including the effects of the tax-related parts of the agreement. With the 2012 Budget Bill, it was agreed to extend the benefit period temporarily by 6 months for all insured unemployed who exhaust their right to unemployment benefits in the second semester of 2012, provided that the total length of the benefit period does not exceed four years.

In connection with the 30 January 2012 European Council, it was decided that the countries must address the specific measures they will take to tackle the challenges concerning employment, education and qualifications (the national employment plan) in their national reform programmes. The implemented and planned measures in the present chapter, as well as *sections 2.4 and 2.5* concerning education and social inclusion, respectively, constitute Denmark's national employment plan.

The Commission has, in the Annual Growth Survey, focused on working with unemployment and job-creating growth. The Commission emphasises especially that obstacles hindering labour market mobility must be removed, that the incentive to work must be strengthened, for instance through unemployment benefit adjustments, efficient activation and easily accessible life-long learning. Youth unemployment is furthermore a highly emphasised focal point, which Member States are encouraged to prioritise highly. The Government's employment policy contributes to Denmark following the recommendations from the Commission and contributes to reaching the shared employment goal.

Denmark has implemented a number of labour market and employment reforms the past many years. The elements of the Danish flexicurity model have continuously undergone adjustments, which have contributed to a relatively high employment rate and low level of unemployment in an international perspective, and promoted upgrading of skills and created incentives to work.

2.1.2 Planned measures

It is the Government's ambition to create a dynamic labour market, in which vacancies are quickly filled and unemployed re-enter employment quickly. It is the Government's priority that businesses should be able to find the qualified labour they need, and that the unemployed hold the appropriate qualifications.

The Government will present proposals for a number of reforms to reach the objective of an increased labour supply by 2020. The reforms are expected to increase the incentive to work and strengthen labour market attachment for, among others, young people, seniors, ethnic minorities and individuals with reduced working capacity, cf. *section 3.2*. Proposed initiatives to promote employment and labour supply are set out in *box 2.2*.

Box 2.2

Presented initiatives to promote employment and labour supply

- Reform of the disability pension and flex-job schemes (2012).** In February 2012, the Government presented a proposal to reform the disability pension and flex-job schemes. The total reform proposal is expected to increase the labour supply by 5,000 people in 2020 and approximately 12,500 people long-term, hereof 2,300 and 7,700 people in non-subsidised employment. Equally, the proposal is estimated to improve public finances with DKK 1.9 billion in 2020 and with as much as 3.5 billion long-term. The basic elements of the disability pension reform are that vulnerable and exposed persons under 40 of age will not, initially, have access to disability pension, but will receive an individual and coherent effort in a resource clarification programme, i.e. an effort working across public institutions adapted to the individual person. Rehabilitation teams will be established in the municipalities with the purpose of coordinating the efforts for the individual person. The flex-job scheme will be adjusted so that the largest subsidies are targeted at those with the lowest wages and the least working capacity. Flex-jobs will be made temporary for young people. Unemployed, who have been referred to a flex-job, will have the right and duty to the same active employment effort as other unemployed.

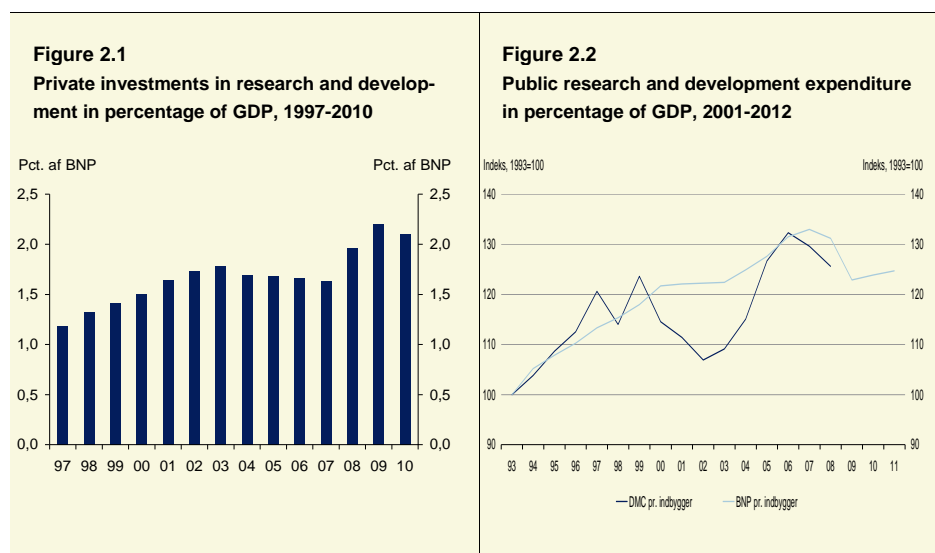
2.2 The national target for research and development

The Danish Government has set a national target for investments in research and development of 3 per cent of GDP by 2020. Publicly funded research shall comprise at least 1 per cent of GDP².

Research and development has high priority as a foundation for development of new knowledge, new products and new services. Investments in high-level research and innovation are crucial prerequisites for providing for Denmark's future. These investments help lay the foundation for future jobs and welfare.

² The Commission uses national accounts figures to determine the level of research by the public and the private sector. For the private sector this is similar to the Danish method. However, with regard to the public sector Denmark manages its research expenditure ex-ante based on the annual Budget Bill. Due to the different methods, differences between the Commission's method and the Danish method could appear with regard to publicly funded research.

Denmark has reached the 3 per cent target, cf. *table 2.3*. Private research comprised 2.1 pct. of GDP in 2010, cf. *figure 2.1*. The public research budget has been increasing since 2005 and is at a relatively high level compared to other countries. In 2012, 1.05 per cent of GDP is budgeted towards publicly funded research, cf. *figure 2.2*.



Note: Data in figure 2.1.b is calculated as a budgetary figure. Funding from the Budget Bill is included (including funding from the Danish National Advanced Technology Foundation). Also included are revenue losses on account of the 150 per cent deduction scheme, funding from the Danish National Research Foundation, funding from the Danish Regions and municipal councils, as well as funds that Denmark has received from the EU and the Nordic Council of Ministers.

Source: Statistics Denmark and the Danish Ministry of Finance.

Table 2.3
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.

2.2.1 Implemented measures

New government initiatives within research, development and innovation are listed in *box 2.3*. They include new initiatives since NRP2011 as well as initiatives that are still under implementation and which strengthen research and development.

Box 2.3

Passed initiatives for the promotion of research, development and innovation

Public research and universities:

- DKK 8 billion for research and innovation in the period 2010-2012 from the Globalisation Fund. Funds have been allocated for a talent development programme for elite researchers, a comprehensive modernisation of university laboratories, an increase in the payment per student, an increase in base funding for universities, a Match Fund to encourage universities to attract external funding, increased focus on strategic research within fields where Denmark has an international position of strength, a green research stimulus package and the improvement of a number of innovation and knowledge transfer initiatives among others.
- Increasing the research reserve by DKK 300 million as part of the agreement on the Budget Bill for 2012.
- More than doubling the annual intake of PhD students from 1,100 in 2002 to 2,600 in 2011. The increased number will be maintained in the future, as well as increasing focus on ensuring that a larger number of PhD recipients gain employment in private companies.
- Implementation of environmental technology development and demonstration programme in 2012. DKK 50 million has been allocated for this purpose as part of the Budget Bill for 2012.
- Implementation of the FORSK2020 process, which identifies areas of effort that form the basis for the political prioritisation of funds for strategic research.
- Less bureaucracy associated with the framework for the competitively awarded publicly funded research grants.
- Establishment of four Strategic Platforms for Research and Innovation (SPIR) in the period 2010-2012 with a budget of DKK 50-80 million per SPIR.
- Expansion of the capital base for the innovation environments, hence the environments can invest 200 million DKK per year in 2010-2012. The capital investment per enterprise is increased to DKK 6 million.

Box 2.3 continued**Passed initiatives for the promotion of research, development and innovation****Companies' research, development and innovation:**

- Establishment of the Business Innovation Fund of DKK 760 million in the period 2010-2012 with the aim of supporting innovation and market maturity within the green and welfare areas.
- The launch of the growth initiative "Sund vækst og velfærdsløsninger" (Healthy growth and welfare solutions) with 23 initiatives that will strengthen opportunities for innovation in Danish health and welfare companies, among others.
- The launch of www.IP-Handelsportal.dk, which will make it easier for Danish companies to trade with knowledge.
- Establishment of a new innovation centre in Hong Kong.
- Implementation of a trial of intelligent public procurement of new welfare technology via output-based performance specifications in public procurement.
- In order to strengthen the growth culture and get more entrepreneurs into solid growth courses, the Fund for Entrepreneurship has been established, which will spread education in entrepreneurship and innovation in the education system, and the regional growth houses, which will strengthen the growth competencies of enterprises.
- Call for tender of the small and medium-sized businesses (SMB) initiative for interaction between SMBs and knowledge institutions with a doubling of the contribution for knowledge-coupons from DKK 25 to 50 million in 2011 and 2012.
- Establishment of a national programme for innovation networks in SMBs (The Innovation Network Denmark Programme) with a yearly budget of on average DKK 80 million in 2010-2012.
- Tripling of the number of knowledge pilot projects in SMBs in 2012 compared to 2010-2011 with a doubling of budgets from around DKK 12 to 25 million per year.

2.2.2 Planned measures

The Government wants to maintain a continued high level of ambition for investments in research and innovation. Research must be freed from bureaucracy and embedded more broadly in the world of education than before. Furthermore, the Government wants to ensure that universities and educational institutions become even more open and share knowledge with the surrounding society.

Companies' own research and development are important sources of innovation. In the Commission's assessment of Denmark's National Reform Programme 2011, it appears that Denmark has a successful and well-adjusted innovation system. In the European Commission's "Innovation Union Scoreboard 2011", Denmark is placed second when it comes to Member States' innovation performances.

However, it also appears from the Commission's evaluation of NRP2011, that Denmark has relatively weak points regarding the number of patents and number of PhDs, as well as it is noted that Danish companies could be more innovative.

On this background, the Danish Government finds it necessary to increase interaction between companies and knowledge institutions to strengthen innovation in Denmark. The Government has therefore announced initiatives that will contribute to meeting these targets and ambitions, cf. *box 2.4*.

Box 2.4**Planned initiatives**

- The Government aims to improve Denmark's ability to compete on knowledge and innovation. The Government has therefore initiated development of an **innovation strategy** that will support innovation in companies. The strategy will develop a general vision for innovation in Denmark, examine the existing research and innovation system, and develop a new model for partnerships that will ensure that investments in research and development are translated to concrete solutions, growth and new jobs.
- The Government has initiated the preparation of an **intelligent public procurement strategy** across ministries and authorities to utilise the potential in making use of public demand in order to enhance innovation in the public and private sectors, cf. *section 3.4*.

2.3 The national target for climate and energy

The national targets for climate and energy correspond to the EU targets and 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 from 17 per cent in 2005 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 industrialised 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, nor 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.

Realisation of the Kyoto target of a 21 per cent reduction in greenhouse gas emissions relative to 1990 from 2008 to 2012 is a step on the way towards the 2020 objective.

Energy-policy targets

Under the EU Climate and Energy Package from 2008, Denmark has committed to increase 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 2012-2020*, this target will be met with a renewable share of final energy consumption of more than 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.

2.3.1 Implemented measures

With the *Energy-agreement 2012-2020*, a series of initiatives will 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 most important initiatives are listed in *box 2.5*.

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

Furthermore, with the *2012 Budget Bill*, the Government has agreed on a green subsidy scheme for energy renovation of housing. A total of DKK 500 million has been set aside in 2013 as well as in 2014.

Furthermore, a number of initiatives have already been taken to ensure that Denmark will realise its Kyoto commitments for 2008-2012. Calculations indicate that, if use of the flexible JI and CDM credits is included, Denmark will fulfil its Kyoto commitment for 2008-2012. However, there are a number of uncertainties in the estimate, for example uncertainties about CO₂ uptake by soils and forests as well as the carbon content in waste.

Box 2.5**The most important initiatives decided in the *Energy-agreement 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 (Public Service Obligations) 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 pool will be increased from DKK 250 million in 2013 to DKK 500 million annually from 2014 to 2020.
- 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.

2.3.2 Planned measures

In the Government Platform 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 the initiatives in the energy agreement, Denmark will achieve a reduction in greenhouse gas emissions of 34 per cent in 2020 compared with 1990. In 2012, the Government will present a climate plan that points towards the goal of a 40 per cent reduction by 2020 compared with 1990.

2.3.3 Sustainable growth and resource efficiency

It is the ambition of the Danish Government to create the best possible conditions for the transition of the Danish economy to a green economy corresponding to the ambitions of the *Roadmap to a resource efficient Europe*, which the European Council the 1st and 2nd of March concluded should be implemented rapidly, see box 2.6. The roadmap is a strategy for the transition to a green economy characterized by increased resource efficiency, aiming at meeting a number of milestones in 2020. A balanced transition to a green economy will contribute to a robust economy in light of future scarcity of resources and risks of rising prices.

Box 2.6

Implemented measures

A green focus in the *Budget Bill* for 2012 including the following elements:

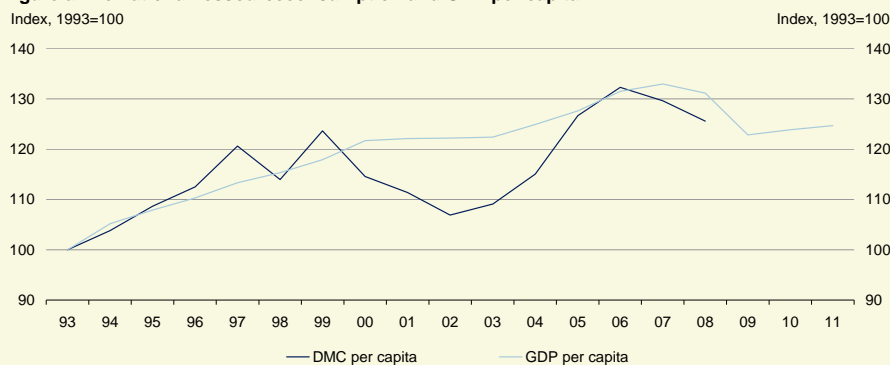
- The taxation on motor vehicles, the green ownership taxation on vehicles and other environmental and consumption taxes will in the future be adjusted to the price development. Furthermore, the taxation on NOx will be increased by 20 DKK per kg the 1st of July 2012.
- Establishing a taskforce developing an action plan on climate change adaptation.
- Establishing an environmental technology development and demonstration programme (MUDP), as described in section 2.2.1.

Planned measures

- Establishing a commission on nature and agriculture. The commission shall present proposals for solutions of the structural, economic and environmental challenges of Danish agriculture, including how the agriculture sector can contribute to the solution on climate change and the environmental challenges.
- The Government has appointed a committee of ministers which, among others, shall develop principles for a new business and growth policy, including analyse how the growth, business and job potential in the green transition and other global challenges can be realized. The committee will finalize its work in 2013 and continuously present action plans.
- The Government will shift taxation to ensure incentives for green behavioural change. The Government has therefore presented a proposal for the redistribution and increase of the taxation on pesticides in order to diminish health and environmental consequences of pesticides. The Government has also presented proposals for the increase of taxation on energy as a part of the Energy-agreement 2012-2020.
- The Government will present a strategy for intelligent public procurement, which among others shall underpin a green transition, cf. section 3.4.2.
- The Government has presented "*Responsible growth – action plan for cooperate social responsibility*", which among other shall promote the green transition among Danish enterprises through reporting in the work with reducing the climatic consequences in the yearly statement from the largest Danish co-operations.

Box 2.6, continued**Indicators for sustainable growth**

One indicator on resource productivity for the Danish economy is a statement of the economic return per resource unit. The goal, according to the *Roadmap to a resource efficient Europe*, is that all Member States move towards an absolute decoupling between economic development and the input of natural resources. According to the roadmap the overall indicator on resource productivity should be supplemented by indicators on the use of key natural resources. The Government will develop indicators in order to provide a true and fair view of the development in relation to the Government's objectives, as part of a new sustainability strategy.

Figure a The national resource consumption and GDP per capita

As part of the roadmap Member States shall identify the most significant Environmental Harmful Subsidies and prepare plans to phase out eventual EHS. The identification of EHS should happen according to established criteria.

Note: DMC is domestic material consumption. DMC measures the total amount of materials directly used by an economy. It is defined as the annual quantity of raw materials extracted from the domestic territory of the focal economy, plus all physical imports minus all physical exports. It is important to note that the term "consumption" as used in DMC denotes apparent consumption and not final consumption. DMC does not include upstream flows related to imports and exports of raw materials and products originating outside of the focal economy.

Source: "A Denmark, that stands together", Government Platform, October 2011, Eurostat, og "Roadmap for a resource efficient Europe".

2.4 The national target for education

The Danish Government has signed up to the EU headline targets for education set out in the Europe 2020 strategy to reduce the school drop-out rate to 10 per cent for the 18-24-year-olds as well as to increase the percentage of 30-34-year-olds having completed a higher or equivalent education to at least 40 per cent. Denmark contributes to achieving the EU targets through its national targets, which are calculated according to different methods than the EU targets. With the Danish national targets a total of 95 per cent of a youth cohort must com-

plete at least an upper secondary education and 60 per cent of a youth cohort must complete a higher education and 25 per cent must complete a long-cycle higher education.

Many Danish students complete their upper secondary education and/or higher education at a relatively late age. There are two main reasons for this. First, many young people do not take up education until relatively late. Second, they spend more time than prescribed on completing their education. It is a key goal to ensure that young people complete their education faster. This will contribute to increasing the supply of labour and, at the same time, total educational expenses will be reduced.

A future-proof education system must provide flexible, relevant educational opportunities that reduce the number of changes in study programmes as well as inexpedient delays at the same time as it meets the changing needs of the labour market and supports the need for updating competencies on a continuous basis.

A high general level of education increases prosperity, both by raising the qualifications of the labour force and thereby productivity, i.e. the value that is created per working hour, and by increasing the employment frequency of the population. However, the participation in the labour market is lower during the years the young people are completing their education.

Fulfilment of the education goals can increase GDP by approximately 1½ per cent in the long run, of which barely 1 percentage point results of the previous education goals, and a further about ½ percentage point from the new goals according to the Government Platform³.

2.4.1 Implemented measures

In recent years, a number of initiatives have been launched in the area of education which contribute to realising the targets for the Danish education system, cf. *NRP2011*.

With the *Agreement on the implementation of the globalisation fund* of 2006, a total of approximately DKK 17 billion was allocated to strengthen upper secondary education, higher education as well as adult education and continuing training in the period 2007-2012, cf. *table 2.4*. More specifically, in the period 2007- 2012, approx. DKK 9.9 billion was allocated to strengthen upper secondary education, approx. DKK 4.8 billion was allocated for initiatives in higher education and approx. DKK 2.5 billion was allocated to strengthen adult education and continuing training. The objective of the allocations is to increase the proportion of young people with upper secondary education and/or higher education as well as to enhance the quality of education, cf. *NRP2011*.

³ The estimate for the effect on GDP is based on the relative wages in 2010 and is only crudely accounting for decreasing returns to education and is therefore in the upper range. The effect of the goals is presented according to current behaviour. That part of the 95/50 goal, that is already fulfilled, will therefore be included in the current educational behaviour.

Table 2.5
Overall implementation of the Globalisation Fund

DKK million (2012 prices)	2007	2008	2009	2010	2011	2012
All young people must complete an upper secondary education	345	875	1,366	1,906	2,500	2,934
More young people must complete a higher education	224	319	601	728	1,285	1,636
Strengthened adult education and continuing training	158	598	605	613	243	243
Total	727	1,792	2,573	3,247	4,028	4,814

Source: Agreement on the implementation of the Globalisation Fund, 2006, and the Ministry of Science, Innovation and Higher Education.

The Government has launched a number of initiatives in the field of education in connection with the *Budget Bill for 2012*, cf. box 2.7.

Box 2.7

Passed initiatives to promote education since NRP2011

- **Agreement on the Budget Bill for 2012.** Approx. DKK 1.2 billion has been injected into the education area in 2012, which will increase to almost DKK 2.2 billion in 2015 under the Agreement on the Budget Bill for 2012. The funds are, among other things, to enhance the quality of vocational upper secondary education and training. The funds will be targeted at the vocational colleges' basic programmes, where there is a particular need for implementing measures to improve the quality of education and reduce the drop-out rates, for example by reducing the number of classes without a teacher present.
- **Flexible class-size limit of 28 students in general upper secondary education.** As part of the *Agreement on the Budget Bill for 2012*, a flexible class-size limit of 28 students has been introduced in general upper secondary education. It means that every educational institution must comply with a maximum average class size of 28 students in the basic form units of every year group.
- **Agreement on an enhanced effort to ensure more practical training placements in 2012.** The agreement establishes the framework for concluding an additional 10,400 contracts on practical training placements in 2012 compared to the level specified in 2009, cf. *section 3.3*.
- **Temporary abolition of tuition fees for supplementary courses** with a view to ensuring that students' finances do not limit their choice of education, cf. *the Agreement on the Budget Bill for 2012*.
- **Agreement on more than DKK 1 billion to be spent on increased activity in 2012 and 2013.** The Government wants 60 per cent of a youth cohort to complete a higher education. Therefore, with the Agreement on the Budget Bill for 2012 a total of DKK 420 million has been allocated for 2012 and DKK 630 million for 2013 to be spent on increased higher education activity.
- **Increased intake of students for the Technology Management and Marine Engineering programme.** With the Agreement on the Budget Bill for 2012, funds have been made available to increase the intake of students for the Technology Management and Marine Engineering programme, which previously has had to reject applications.
- **Higher degree of freedom regarding the quota 2 intake.** For the purpose of strengthening flexibility and coherence in the education system and to achieve lower drop-out rates, the Government has given the universities greater freedom to organise the admission system, including the possibility to increase the intake of students that are admitted through quota 2.

2.4.2 Planned measures

With the Government Platform, the Danish Government has focused clearly and directly on raising the quality of upper secondary education and higher education.

A solid knowledge base, highly qualified teachers, and fruitful and relevant education are to ensure that students acquire competencies to enter the labour market with high professional qualifications to match the needs of the labour market with innovative skills and entrepreneurial drive. High quality in upper secondary education and in higher education is an important prerequisite for maintaining and increasing the attractiveness of the education programmes and for reducing the drop-out rate so that more young people complete an upper secondary education and a higher education.

In recent years, increased intake of students to higher education requires that the education programmes are planned in such a manner that a broad spectrum of students will stand a good chance of being admitted, of completing and subsequently of using the education. Education and teaching must accommodate students with different levels of knowledge, social and cultural backgrounds.

A distinct and streamlined management framework is to ensure that Danish educational institutions can operate on the basis of clear targets.

Currently, work is in progress with a view to developing and improving the education system at several levels, cf. *box 2.8*.

Box 2.8

Planned measures to promote education

- In the **area of special needs education**, a bill has been proposed which will strengthen the inclusion of pupils in the general teaching provided in primary and lower secondary school and give the municipalities greater freedom and responsibility to offer a better primary and lower secondary school for all pupils. At the same time, the special needs education is to be targeted at the children that are most in need of support.
- **Reform of primary and lower secondary school.** With the *Budget Bill for 2012*, a reserve of approx. DKK 1.1 billion has been set aside for initiatives in the Government's primary and lower secondary school proposal. The Government has presented a proposal for reform which is to realise the target of a professionally strong primary and lower secondary school, providing equal opportunities for all. The proposal is now to be developed and made specific in collaboration with a number of external stakeholders. The reform will, among other things, focus on initiatives to ensure that all pupils attain a professional standard in Danish and mathematics that enables them to complete an upper secondary education, to ensure continued development of an evaluation culture in primary and lower secondary school, including in relation to increased focus on results instead of micromanagement, and to ensure teachers' competencies and better use of resources. The bulk of the resources in primary and lower secondary school are related to teachers' salaries. Therefore, an increase in teaching hours will be altogether crucial in terms of making resources available which can be used to strengthen primary and lower secondary school. A key element in the proposal will also include initiatives that may contribute to strengthening management in the municipality and at the schools in order to make the evaluation culture an integral part of the head teacher's assessment of the teacher and of the municipality's assessment of the head teacher.

Box 2.8, continued**Planned measures to promote education**

- Completion of an **upper secondary education** is the best avenue towards subsequent education and the labour market. It is the Government's target that 95 per cent of a youth cohort completes at least an upper youth education by 2015, and that the quality of upper secondary education is increased. The targets in the field of upper secondary education are to be achieved by:
 - 1) The establishment of an inter-ministerial committee. The committee is to identify coherent, evidence-based and cost-effective measures to ensure that more young people complete a relevant upper secondary education, and to ensure better quality. At the same time, the committee is to present proposals for an expedient distribution of pupils among the various upper secondary education programmes to ensure that as many as possible complete an upper secondary education that is relevant in terms of paid employment or subsequent education. The committee focuses its work on three themes:
 - Vocational upper secondary education and training
 - The challenge of ensuring that everybody completes an upper secondary education
 - General upper secondary education
 All themes are to be reported on by the end of 2012.
 - 2) The implementation of a service check of the content and framework of the general upper secondary education programmes. The initiative is to be seen in continuation of the agreement on the flexible class-size limit, cf. *box 2.6*.
 - 3) The establishment of a committee, which is to draw up proposals for a reform of the taximeter system with a view to a fairer distribution of resources for the upper secondary education programmes and with a view to supporting the Government's wish to enhance the quality of upper secondary education. The taximeter system is, among other things, to take into account the education establishments' different geographical and social challenges. This will for example improve the education coverage in peripheral areas.
- The Government has set up a **ministerial committee on higher education**, which is to contribute to a concerted effort to realise the Government's target that 60 per cent of a youth cohort must have a higher education and 25 per cent of a youth cohort must have a long-cycle higher education up to 2020, and the quality and relevance of higher education must be strengthened at the same time. To the highest extent possible, the committee's work must take its point of departure in national and international knowledge in the field of education. The committee focuses its work on three themes:
 - Increased intake to higher education
 - Quality and relevance in higher education
 - Reduced drop-out rates in higher education
 Furthermore, the committee is to identify how public investments in higher education contribute to growth and increased employment, including whether the funds that are spent on higher education may be spent in a more targeted and effective manner than is the case today. The committee's recommendations are, consequently, to support the Government's target to increase the supply of labour and strengthen public finances.
- For the higher education, the Government has recently presented a **coherence report**, which will create more coherent settings for all higher education and establish an educational landscape where the students to a higher degree can adjust their education to the reality they meet when finished.
- On the background of the evaluation of the teacher education, the Government has presented a reform of the **teacher education** with a view to strengthening standards in primary and lower secondary school. The target is legislation in the autumn of 2012 and intake to a new teacher education in 2013.
- The Government has established an inter-ministerial committee with focus on **how to speed up education completion and a review of the Danish State Educational Grant and Loan Scheme**. The committee is to present proposals for ways to organise the education system and the Grant and Loan Scheme so that young people complete their education faster and get a job. The proposals are to contribute to realising the Government's target to strengthen public finances and increase the supply of labour.

Box 2.8, continued**Planned measures to promote education**

- **Innovation strategy**, cf. *section 2.2*. A key element of the strategy is to analyse how the education programmes can create more innovation in society, for example promote entrepreneurship and strengthen innovative competencies among students.

2.5 The national target for social inclusion

The Danish Government finds it important that Denmark is a society where all have equal opportunities and where inequality is limited. Denmark continues to be one of the European countries with least inequality and the lowest number of people at risk of poverty. But development has been heading in the wrong direction in recent years. Hence, the Government works resolutely to improve efforts for people who are at risk of poverty and social exclusion.

The Danish Government focuses on reducing poverty, and disadvantaged children are given special priority. Social, financial, and health limitations continue to pass from one generation to the next in Denmark. Hence, attention focuses on the work to ensure that all have equal opportunities, and initiatives to prevent social problems, especially in relation to socially disadvantaged children and young people.

In relation to the EU2020 strategy, the Danish Government has committed itself to reducing the number of people in households with low employment by 22,000 people towards 2020.

The number of people in households with low employment increased from 347,000 to 433,000 from 2008 to 2010, one explanation being that the economic crisis has increased the pressure on individual households. When people lose their jobs or never gain a foothold in the labour market, the implications are significant for both the individual and society at large. It is essential that all citizens have the possibility of contributing actively to society. Consequently, the Danish Government follows the development closely.

The Government has already launched and plans a broad range of initiatives in the employment and educational areas; see *sections 2.1 and 2.4*. Some of these initiatives will also have a positive effect as more people will be self-supporting and the number of people in jobless households will be reduced. The Government's planned measures and the new reforms will together with the work of the expert committee provide a more adequate view of the target group in Denmark. The Danish objective of a reduction of 22,000 persons is extended for the moment.

2.5.1 Implemented measures

The Government has already launched several initiatives to underpin social inclusion; see *box 2.9*. As appears from the box, the Government has abolished the lowest social assistance benefits, i.e. start help, introductory benefit, the ceiling on social assistance benefits and the so-called "hour rule" restricting people to qualify for social assistance. The ceiling on the allowance to children and young people is also abolished. The changes in the social assistance system should be viewed in conjunction with how the rate adjustment pool funds

(satspuljen) are prioritised, i.e. giving higher priority to closer and hand-held efforts for previous recipients of low benefits and socially disadvantaged benefit claimants.

Box 2.9

Passed initiatives to underpin social inclusion since NRP2011

- **Combating poverty (2011).** As part of the 2012 Budget Bill, it was decided to abolish the low benefits in the social assistance system from 1 January 2012. These benefits include start help, introductory benefit, the ceiling on social assistance benefits, the so-called 500-kroner reduction and the 225-hour rule. The change is estimated to involve an increase in benefits for just under 16,000 whole-year benefit recipients. The Government has also abolished the ceiling on the allowance to children and young people, so that families can obtain full allowance for all children, irrespective of how many children they have. In total, the improvements involve additional public expenditure of DKK 350 million in 2012, increasing to DKK 412 million in 2015.
- **Agreement on implementation of the rate adjustment pool (satspuljen) for 2012 (2011).** The agreement means that from 2012 to 2015, a total of approximately DKK 3.6 billion will be earmarked for 90 initiatives to improve the conditions of vulnerable and socially disadvantaged groups, etc. The strategic focus areas include holistic employment efforts, initiatives aimed at socially disadvantaged children and young people, prevention and health for the socially most disadvantaged groups and improved integration. In the health area, the rate adjustment pool agreement also means that in the 2012-2015 period, a total amount of more than DKK 1 billion will be earmarked for improving the psychiatric system and enhancing prevention and health for the socially most disadvantaged groups.

2.5.2 Planned measures

Currently, too many citizens receive passive income support. The Government will launch more initiatives with special focus on young people who are going into education or employment. Moreover, the Government plans reforms of the disability pension, the flex-job scheme and social assistance systems; see *section 2.1*.

The Danish Government has set a number of new social policy objectives to ensure that all Danes have the possibility of participating in society. One of the objectives is to reduce poverty and ensure equal opportunities for all, including the most vulnerable and socially disadvantaged groups.

The Government will increase focus on poverty in Denmark. Denmark has no official definition of poverty or a poverty line. Hence, the Government will set up an expert committee to analyse various methods to calculate poverty and prepare suggestions for an official poverty line.

The initiatives planned appear in *box 2.10*.

Box 2.10**Initiatives planned to underpin equal opportunities for all**

- **Reform of the disability pension and flex-job schemes (2012)**; see 2.1.
- The Government will set up an **expert committee** that will analyse various methods to calculate poverty and prepare suggestions for an official poverty line. A special need exists to follow the trend in the number of children who live in poverty and people who live in long-term poverty.

3. Country-specific Recommendations

In June 2011, 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 2011. Denmark received a total of five recommendations, cf. *table 3.1*.

Table 3.1
Country-specific recommendations

The Council recommends that Denmark take action within the period 2011-2012 in order to:

- 1 Implement fiscal consolidation measures in 2011, 2012 and 2013 and ensure an average annual fiscal effort of 0.5 per cent of GDP over the period 2011-2013 as planned and correct the excessive deficit by 2013 in line with the Council recommendation under the EDP. Thereafter ensure, as planned, an appropriate adjustment path towards the medium-term objective. Accelerate the reduction of the general government deficit if economic conditions turn out better than currently expected. Strengthen expenditure control by adopting binding multiannual spending ceilings for local, regional and central government which are consistent with the overall medium-term general budget targets.
- 2 In order to strengthen employment and the sustainability of public finances, take further steps to increase long-term labour supply, by implementing the recently concluded reform on the voluntary early retirement pension (VERP) scheme, reforming the disability pension and better targeting subsidised employment schemes (the "flex-job" system) towards the most vulnerable groups.
- 3 Speed up the implementation of reforms to improve the quality of the education system. Reduce drop-out rates, particularly in the vocational education sector, and increase the number of apprenticeship places available.
- 4 Take steps to remove obstacles to competition, in particular in local services and the retail sector, by reviewing legislation on land use and opening up procurement in municipalities and regions.
- 5 While supporting the ongoing stabilisation of the real-estate market following the recent price correction, consider preventive action to strengthen the medium-term stability of the housing market and the financial system including reviewing the functioning of the mortgage and property tax systems.

The recommendations are to a large extent in accordance with the Government's policy, cf. *the Government Platform*. Denmark has already initiated several measures, and more 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 and an increased labour supply.

3.1 Fiscal consolidation towards 2013 and stronger spending control

The current situation with large public deficits is a result of weak economic conditions following the economic crisis that hit Denmark in 2008 with employment under the structural level and fiscal policy easing in 2009 and 2010. In the coming years it is important that economic policy consolidate public finances. Economic policy is based on a reform agenda that ensures sustainable and credible public finances. Confidence in Danish fiscal policy implies that Danish Government bonds are currently considered as safe assets, and it is essential to maintain confidence in fiscal policy.

In the Council opinion on Denmark's National Reform Programme 2011 and the updated Convergence Programme for 2011-2015 it is recommended that Denmark take action in order to consolidate public finances, cf. *table 3.1*.

The Council has stated that Denmark has taken measures that ensure sufficient progress towards correcting the excessive deficit within the time frame set by the Council in the recommendation¹. Based on recent public finance estimates in *Convergence Programme for 2012*, public consolidation in 2011-13 is estimated to reduce the actual deficit to around 1.9 per cent of GDP in 2013, which is below the reference value in the Stability and Growth Pact of 3 per cent of GDP. The structural balance is estimated to improve from a deficit of 1.5 per cent of GDP in 2010 to balance in 2013, cf. *table 3.2*. Thus, the structural balance is improved by 1½ per cent of GDP from 2010 to 2013 in line with the EU recommendation.

The actual deficit is adjusted downwards to 1.9 pct. of GDP in 2011, which is primarily due to the development in financial markets that turned out more positively than expected in December 2011. Against this backdrop the pension tax is adjusted upwards with DKK 25 billion. At the same time the estimate for personal taxes is revised upwards by approximately DKK 5 billion primarily due to higher revenue from share taxes. Additionally, public consumption is about DKK 4 billion lower than expected primarily because of lower running expenditures in municipalities. In addition, the economic assessment underpinning the NRP has been updated, reflecting changes in oil prices etc. which influence public finances in 2012 and 2013. Public consumption is expected to follow budgets in 2012. See also *table 3.2* and *CP2012*.

Table 3.2
Public finances 2010-13

	2010	2011	2012	2013
Per cent of GDP				
Actual balance	-2.7	-1.9	-4.1	-1.9
Structural balance	-1.5	-0.4	-0.9	0.0

Source: Convergence Programme for 2012.

¹ Cf. Council press announcement 6514/11, February 14th 2011.

A central element in consolidating public finances is to reduce the historical growth in public expenditures. In this context it is essential that expenditure control is improved and that expenditures are kept within the agreed levels.

3.1.1 Implemented measures

Towards 2013, public finances are consolidated mainly due to the financing elements from the tax reform in *Spring Package 2.0* (February 2009) and the measures in the *Consolidation Agreement* (May 2010) and *Budget Bill for 2012*, cf. table 3.3. The kick start in the *Budget Bill for 2012* brings forward public investments in particular to 2012, and the consolidation element from normalisation of public investments thus appears in 2013, cf. *CP2012*.

Table 3.3
Consolidation measures, direct revenues etc. 2011-13

	2011	2012	2013	2011-13
Per cent of GDP				
Direct revenues, total	1.0	-0.1	1.6	2.5
Expenditure				
- public consumption	0.6	-0.2	0.2	0.7
- public investment	0.0	-0.1	0.5	0.3
- income transfers	0.2	-0.1	0.2	0.2
Revenues				
- <i>Spring Package 2.0</i>	0.1	0.0	0.4	0.5
- <i>Consolidation Agreement</i>	0.3	0.1	0.1	0.5
- <i>Budget Bill for 2012</i>		0.2	0.1	0.4
Additional revenues and expenditures (net)	-0.1	-0.1	0.0	-0.1
Other factors affecting public finances structurally	-0.2	-0.2	-0.3	-0.7
Underlying change in public finances	0.8	-0.3	1.3	1.8

Source: Own calculations based on *Economic Survey*, December 2011.

The Spring Package 2.0 contributes to the consolidation of public finances through the phasing in of financing elements, including higher energy taxes, auctioning of CO₂-allowances and an increased tax base for taxation of corporations.

The *Consolidation Agreement* includes among other things a reduction of public consumption growth in 2011-13, a suspension of the automatic §20-regulation of thresholds in the tax system, a postponement of the agreed increase in the top tax threshold in 2011 by three years

(to 2014) and a shortening of the unemployment benefit period. In addition to this, mechanisms to strengthen spending control and management were introduced, cf. *box 3.1*.

With the *Budget Bill for 2012* revenues from taxes and duties in 2012 and 2013 are increased permanently by DKK 5 billion. The increases in taxes and duties mainly reflect higher indirect taxes on unhealthy food, beer, wine and air pollution through nitrogen oxides (NOx) and a lower ceiling for pension payments in 2012 and 2013.

However, a number of other factors weaken public finances structurally towards 2013. E.g. lower revenues from the North Sea due to decreasing oil prices and gas production, increasing net interest payments on higher debt etc. and low structural productivity growth reduce the structural balance from 2010 to 2013.

The overall fiscal policy strengthens public finances by approx. 2.5 per cent of GDP in 2011-13 (measured by direct revenues), cf. *table 3.3*. Consolidation of public revenues amounts to approx. 1.4 per cent of GDP over the three years, while public expenditures are consolidated by approx. 1.2 per cent of GDP. As regards public expenditure, especially the low real growth in public consumption of -1.0 per cent in 2011 contributes to consolidation of public finances towards 2013.

A responsible economic policy is key to maintain confidence in fiscal policy and to support balance and growth in Denmark in the future. The Government has set clear medium term targets for fiscal policy and introduced a principle of caution implying that new expenditures cannot be held before a majority in the Parliament has agreed on concrete initiatives to ensure the necessary financing.

To strengthen public spending control further and to fulfil the targets for fiscal policy and expenditure towards 2020, the Government has entered an agreement on a Budget Law and a new system to control expenditure in March 2012, see also *box 3.1*.

The proposal includes three expenditure ceilings, which set binding limits for expenditures in central government, municipalities and regions. The expenditure ceilings that must be adopted in the Parliament and cover a continuing 4-year period, place a clear responsibility for spending control in the three sectors. Economic sanctions underpin compliance with the expenditure ceilings. This applies for central government, municipalities and regions.

The proposal also implies that the Economic Council is given a more prevalent role in the assessment and discussion of expenditure policy and fiscal policy. The Economic Council shall annually assess the sustainability of public finances in the long run, the medium term development in the public balance and evaluate whether the adopted expenditure ceilings are consistent with the fiscal targets for public finances.

Moreover, the Danish Government has decided that Denmark joins the central fiscal policy rules in the Fiscal Pact. This implies that a budgetary rule to ensure budget balance must be introduced in national legislation – operationalized as a limit on the structural budget deficit of ½ per cent of GDP (calculated on the basis of Denmark's own estimates for the structural budget balance) – and a correction mechanism that is automatically triggered in case of sig-

nificant deviations from the budgetary rule. The obligations that Denmark has undertaken in the Fiscal Pact will be implemented in the Budget Law, cf. *CP2012*.

Box 3.1

Stronger expenditure management

The budgetary framework for the agreements on the economy in municipalities are from the budget 2011 adjusted as follows:

- Budgetary control is strengthened in the municipalities (for instance by preparation of financial accounting twice a year)
- A reduction in the block grant by up to DKK 3 billion if expenditures increase above the agreed level.
- Strengthening of the individual deduction in the block grant if taxes rise above the agreed level. The first year the individual deduction amounts to 75 per cent., 50 per cent in the second and third year and 25 per cent in the fourth year.

Since the strengthening of the budgetary framework the municipal budgets are in line with the agreements, latest in the agreements and the budget for 2012, which are within the frames of the Economic Agreement. Thus, it is the impression that the new sanctions have strengthened the municipalities' compliance with the agreed economic frames.

Public spending and public employment have also showed a downward adjustment since 2nd quarter of 2010, cf. *figure a and b*.

Figure a
Public employment, 2002-2011

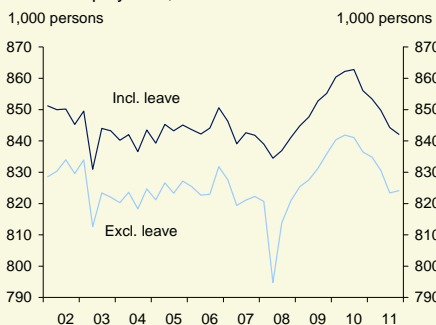
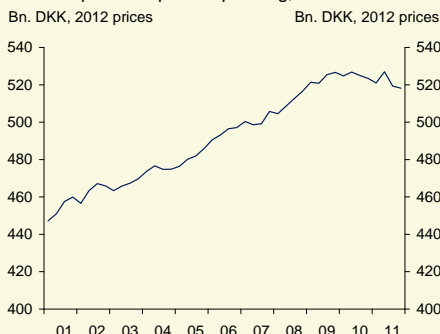


Figure b
Development in public spending, 2001-2011



Note: Seasonally adjusted.

Source: Statistics Denmark.

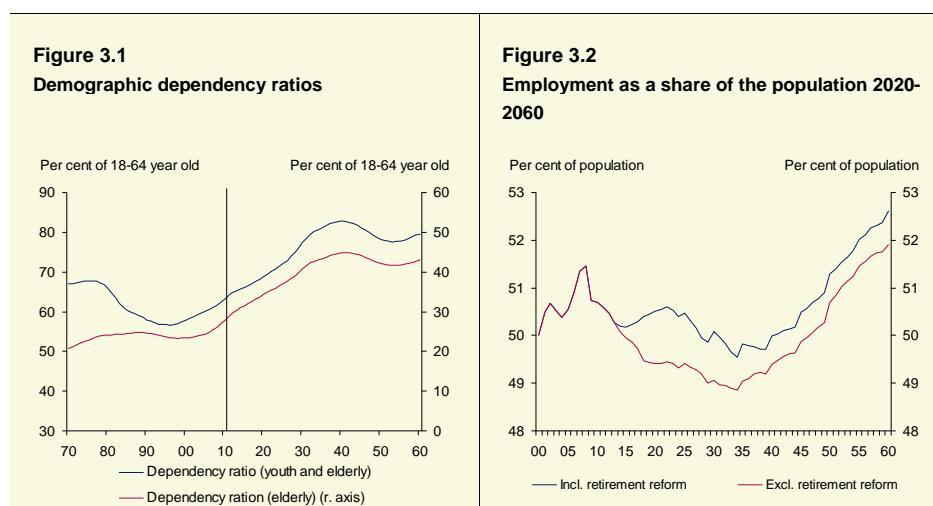
3.1.2 Planned measures

Fiscal policy is planned by the central target of at least structural balance in 2020. A new 2020 Plan and concrete reform proposals to fulfil the targets will be presented in 2012.

3.2 Increase long-term labour supply

In the coming years, the cohorts retiring will be greater in size than the cohorts entering the labour market. The population forecast thus implies that the number of young and elderly will increase in proportion to the number of people in the working age groups, see *figure 3.1*. This primarily reflects increasing longevity and the fact that the relatively large post war generations retire from the labour market.

The Welfare Agreement of 2006 ensures that the statutory ages for voluntary early retirement and old age pension follow the increase in life expectancy, so the decline in employment as a share of population is kept at bay.



Source: Statistics Denmark, DREAM population projection and own calculations.

Towards 2020, the demographic development reduces employment by approx. 1 per cent of the population, equivalent to around 30,000 people, see *table 3.4*. In a scenario excluding reforms, employment is estimated to fall by 5,000. When including the decline in working hours as a result of demographics etc., labour supply is weakened with approximately 40,000 full-time jobs up to 2020. This reflects an increasing proportion of elderly in the workforce, who on average work fewer hours than an average person in the workforce.

As comparison, the total population grows by around 185,000 persons towards 2020 and from 2010 to 2020 the number of people on old age pension will increase by approx. 225,000 persons.

Table 3.4
Change in labour supply from 2011 to 2020 measured by structural employment

1,000 persons	Structural employment, persons	Structural employment, incl. working hours
Demographic developments (age, gender, origin)	-27	-48
Other non-reform contributions	17	16
New short term forecast since Convergence Program 2011	5	-7
2020 projection excl. Reforms	-5	-39
Estimated contribution from reforms ¹⁾	82	109
Overall change in structural employment	78	70
Memorandum items:		
Population 15-64 years	-23	-
Total population	185	-

Note: Effect on working hours are measured as number of employed persons with average working hours.

1) Incl. retirement reform, realization of the educational targets, tax agreement of 2007 and 2009, Unemployment benefit reform, Fiscal Consolidation Agreement, The Job plan, The Housing Job plan (BoligJobplan), the Budget Bill for 2012 and retirees on private pensions.

Source: Own calculations.

In the Council's statement on Denmark's National Reform Programme for 2011, it is recommended that Denmark will take action in order to:

"strengthen employment and the sustainability of public finances, take further steps to increase long-term labour supply, by implementing the recently concluded reform on the voluntary early retirement pension (VERP) scheme, reforming the disability pension and better targeting subsidised employment schemes (the "flex-job" system) towards the most vulnerable groups."

The Government will implement reforms to increase labour supply, in order to increase growth in the Danish economy and to ensure sustainable public finances. Important reforms have already been implemented, including the retirement reform and the reform of the unemployment benefit system in the *Consolidation Agreement*.

3.2.1 Implemented measures

The retirement reform, which was adopted by Parliament in December 2011, counters the demographic pressure on the workforce towards 2020. The reform brings forward the increase in the statutory ages of voluntary early retirement and old age pension age in the Welfare Agreement with 5 years from 2019 to 2014 and changes the voluntary early retirement scheme to a three-year scheme. The reform is estimated to increase employment by about 65,000 persons in 2020, and implies that employment as a share of the population rises

slightly until 2020, see *figure 3.2*. In the absence of the retirement reform, employment as a share of the population would gradually decline for several years until around 2035.

The unemployment benefit reform in Fiscal Consolidation Agreement from 2010 implies an increase in employment by 13,000 persons in the coming years. The retirement and unemployment benefit reforms increase the overall structural labour supply with up to 80,000 people. The effect of the tax agreements in 2007 and 2009 on working hours also contributes to increase employment. Overall, structural employment measured in full-time persons is estimated to rise by 70,000 persons by 2020, see *table 3.4*.

3.2.2 Planned measures

To fulfil the objectives of the Government Platform, proposals for new reforms which will increase the structural labour supply by further 60,000 persons towards 2020 should be presented. Thus, overall reform contribution to labour supply will be up to 135,000 persons in 2020.

The reforms will include a fully funded tax reform that lowers taxes on labour income significantly, and a tripartite agreement, which are expected to increase labour supply by approx. 7,000 persons and 20,000 persons respectively towards 2020. Also, reforms of activation, cash benefit system, disability pension and flex jobs, will increase labour supply by a total of 28,000 persons by 2020, see *section 4.1.1*.

3.3 Education

More and better education is the best way towards ensuring future progress and prosperity. The pupil intake to upper secondary education and the number of students admitted to higher education have never been higher. However, the education system remains faced with a number of challenges which the Government wishes to take on.

In the opinion of The European Council on Denmark's National Reform Programme for 2011 and the updated Convergence Programme for 2011-2015 it is recommended that Denmark take action in order to:

"Speed up the implementation of reforms to improve the quality of the education system. Reduce drop-out rates, particularly in the vocational education sector, and increase the number of apprenticeship places available."

3.3.1 Implemented measures

With the *Budget Bill for 2012*, a number of new initiatives have been taken to improve the quality of the education system, especially in relation to primary and lower secondary school, vocational upper secondary education and training, and general upper secondary education, cf. *section 2.4.1*.

High quality in upper secondary education and higher education is an important prerequisite for reducing drop-out rates. The Government's target that 95 per cent of all young people complete at least an upper secondary education and that 60 per cent complete a higher edu-

cation must be reached at the same time as the quality of the education is maintained or enhanced.

The educational institutions are making a targeted effort to reduce drop-out rates in Danish education programmes. Among other things, work is in progress on targeted efforts to provide guidance, good study environments and various ways of planning the instruction and teaching methods, including how to use IT as a supportive tool to target different learning behaviour among pupils and students. In the field of vocational upper secondary education and training, all schools are to draw up an action plan for increased completion. In 2011, the initiatives were in particular targeted at achieving more practical training placements, teaching development, guidance, mentor/contact teacher schemes, personal and social initiatives and the upgrading of teachers' skills and qualifications.

Practical training placements

The completion of a vocational upper secondary education and training programme may depend on the possibility of getting a practical training placement in order to complete the main course. Agreement on an enhanced effort to ensure more practical training placements in 2012 (*Aftale om en forstærket indsats for flere praktikpladser i 2012*) was concluded in connection with the Agreement on the Budget Bill for 2012. The agreement establishes the framework for the creation of an additional 10,400 practical training placements compared to the level specified in 2009, cf. section 2.4.1. Approx. DKK 2.6 billion will be set aside for this purpose, of which almost DKK 2.3 billion will be funded by private and public employers through the employers' reimbursement scheme for apprentices and trainees (AER). It is primarily a matter of ordinary practical training placements, but also the number of school-based practical training placements will be increased, and the quality will be improved at the same time.

In order to create more education and training opportunities for young people and in order to meet the future demand for qualified labour, the Government will increase the pupil intake to school-based practical training in upper secondary education and training programmes with restricted admission to school-based practical training. With the agreement, an additional 3,000 school-based practical training placements will be established in 2012 in programmes with restricted admission to school-based practical training. This is twice as many as in 2010 and 2011.

There is a need for ensuring higher quality in school-based practical training. With the agreement, therefore, practical training placement centres have been set up at vocational colleges on an experimental basis. The centres are, among other things, to establish communities of approved companies that can give the students the opportunity to receive practical training in several companies according to a predetermined plan. It will be assessed, on an experimental basis, if the vocational colleges are able to take responsibility for the student's entire education.

Government expenditure related to the proposals will total approx. DKK 350 million over the years 2012-2015.

Table 3.5
Overview of the number of placements and target figures in the area of practical training placements, 2009-2012

	2009	2010	2011	2012
Number of placements excluding extraordinary practical training placement effort	39,721	41,642	41,730	41,730
New placements according to the extraordinary practical training placement effort:				
Quotas for school-related practical training placements	1,500	1,500	1,500	3,000
Target figures for more training contracts (including basic vocational education and training (EGU)) – private sector	-	1,650	5,200	5,200
Target figures for more training contracts (including basic vocational education and training (EGU)) – municipalities/regions	-	1,650	1,950	1,950
Target figures for more training contracts (including basic vocational education and training (EGU)) – state sector	-	200	250	250
Total number of new placements according to the extraordinary practical training effort	1,500	5,000	8,900	10,400

Source: Agreement on an enhanced effort to ensure more practical training placements in 2012.

The *Agreement on an enhanced effort to ensure more practical training placements in 2012* includes both a continuation of the present extraordinary practical training placement effort and a number of new initiatives.

The following elements will be carried forward in 2012:

- A premium and bonus scheme of up to DKK 70,000 for private and public employers that conclude a training contract with a trainee. The scheme is funded through the employers' reimbursement scheme for apprentices and trainees (AER) and is cost-neutral for employers in the aggregate. It underlines the employers' co-responsibility for ensuring the education and training of future labour.
- Basic vocational education and training students (EGU students) entitle companies to an hourly wage subsidy of DKK 30 during the first seven months of the practical training period.
- 1,500 additional school-related practical training placements in vocational upper secondary education and training programmes with restricted admission to school-based practical training. These 1,500 together with the continued 1,500 school-related practical training placements from 2011 amount to a total of 3,000 school-related practical training placements in vocational upper secondary education and training programmes with restricted admission.
- The Government will endeavour to carry forward the agreement with Local Government Denmark (KL) and Danish Regions to ensure that both the municipalities and the regions commit themselves to providing 1,950 additional practical training placements compared to the 2009 level.

- The state sector also undertakes to establish another 250 practical training placements in 2012 compared to 2009 through the announcement of minister-allocated quotas.
- Enhanced education and training guarantees so that all students that embark on school-based practical training level 1 in 2012 will have access to school-based practical training at the other levels of the programme.
- The possibility that students who, through no fault of their own, lose their training contract can complete their vocational education and training programme with a minimum loss of time. This will be organised through wage subsidies and admission to the school-based parts of the programme without a training contract.
- Continuation of the campaign for more practical training placements which since 2009 has given companies better and easier access to information about employing trainees.

Furthermore, the Government has set up an inter-ministerial working group to describe ways to ensure increased, streamlined and cost-effective use of social clauses about practical training placements in public procurement.

The agreement should, moreover, be seen in the light of the Government's wish to strengthen education and training guarantees and ensure practical training placements so that everybody can complete his/her vocational upper secondary education and training. This will be discussed, among other things, in connection with the forthcoming tripartite negotiations.

3.3.2 Planned measures

The Government Platform places special focus on the importance of education for future growth and prosperity in Denmark. The intention is that more of the planned reforms to increase the supply of labour are to contain elements of education. This applies for example to a tripartite agreement with wage earners and employers, which is to contribute to making education the driving force for growth. Initiatives will be launched to give young people an incentive to start their studies earlier and to complete their education faster.

The Government has a number of targets for the education area, including:

- A better primary and lower secondary school that provide all children with the opportunity to learn as much as possible and benefit academically from the teaching, and that provide children with the wish and the qualifications to complete an upper secondary education.
- Improvements of upper secondary education – a special effort must be made to address the high drop-out rates in vocational upper secondary education and training.
- Maintaining the quality of higher education with a view to enabling students to complete their studies faster and reducing drop-out rates. This is to be achieved, among other things, by better coherence, greater flexibility, better guidance, merit opportunities and flexible admission rules.

The targets have not been made specific yet, but they indicate the direction for the work in the field of education for the years ahead, cf. also *section 2.4.2*.

3.4 Removing obstacles to competition

Competition among Danish enterprises is not sufficiently strong. This is particularly true of the many enterprises directed towards the domestic market, e.g. in the construction and service sectors. Efficient competition enhances business efficiency and promotes high productivity and innovation. Consequently, it is the Danish Government's ambition to strengthen competition across the business sector.

The European Council has recommended that Denmark take action to:

"Take steps to remove obstacles to competition, in particular in local services and the retail sector, by reviewing legislation on land use and opening up procurement in municipalities and regions."

It is also pointed out that the Competition Package of April 2011 does not sufficiently address the liberalisation of pharmacies and retail trade and that liberalisation of other sectors such as taxis, public transportation and health care has been postponed awaiting further analysis².

3.4.1 Implemented measures

A number of the initiatives comprised by the *Agreement on the Competition Package* (2011) have already been implemented or are being implemented. For example, the German Schuko standard for power sockets and plugs has been permitted in the Danish market, the requirement for a permanent place of business for the sale of goods has been abolished, and the monopoly of attorneys in terms of entitlement to plead has been relaxed.

In the retail sector, the ongoing liberalisation of shop opening hours that was launched in 2010 will be fully implemented by October 2012. As a consequence, certain shops are allowed to be open every day except on public holidays. Furthermore, as from 1 April 2012, the Government has allowed municipal authorities to apply for dispensation to be open for retail trade on public holidays on special occasions.

In addition, the proposal to establish hypermarkets was submitted for consideration by the broadly composed Retail Trade Forum under the Ministry of Business and Growth. On 1 March, the Retail Trade Forum submitted its recommendations to the Minister. The majority of the Retail Trade Forum members do not recommend relaxing the Danish Planning Act to allow the establishment of more hypermarkets. The Government will discuss the recommendations in the spring of 2012.

3.4.2 Planned measures

The previous Danish Government appointed a legislation committee, which has presented its recommendations to strengthen the compliance and enforcement of the Danish competition law. A majority of the committee recommends that the current level of fines should be raised significantly, and that imprisonment should be introduced in cartel cases. In addition, the Committee has agreed, that the information and guidance provided by the Competition and

² Source: SEC(2011) 713 final. Accompanying the document Recommendation for a Council Recommendation on the National Reform Programme 2011 of Denmark and delivering a Council Opinion on the updated convergence programme of Denmark, 2011-2014.

Consumer Authority should be strengthened, and that the dialogue between authorities and enterprises must be increased.

The Government wishes to extend and develop public-private cooperation. Accordingly, the Government will seek to enter into an agreement with Local Government Denmark (KL) on promoting public-private cooperation and innovation through increased use of exposure to competition. The specific drafting of such an agreement will be subject to detailed negotiations with Local Government Denmark (KL), including during the negotiations on the municipal economy for 2013, scheduled to take place in the summer of 2012.

The Government has appointed an inter-ministerial task force which is to propose a strategy for intelligent public procurement across ministries and authority levels. The strategy is to support more efficient procurement and procurement savings and contribute to public demand being used to a greater extent to promote innovation and support welfare technology and green restructuring. The inter-ministerial task force is to report its findings by the end of 2012.

The Government is working to ensure rules that are simpler and more flexible, thereby promoting exposure to competition of relevant public services without imposing unduly high transaction costs on enterprises and orderers.

In addition, a number of specific projects have been launched for which the findings will be reported within the next year. They include the following:

- The Government has appointed a task force to look into the possibilities of modernising the pharmacy sector. The task force is to present its recommendations by the end of 2012.
- The analysis of opportunities to modernise the tax sector is expected to continue with a view to possibly proposing new legislation in the spring of 2013.
- In the spring of 2012, the Danish Competition and Consumer Authority will present its recommendations for increased competition exposure in connection with the administration of estates of deceased persons.
- The Government intends to, among other things on the background of the recommendations of the legislative committee on the introduction of imprisonment in cartel cases and a general increase in fines in competition cases, present a competition policy package in 2012.

3.5 The mortgage and property tax systems

The Commission and the Council have pointed out that the high level of household gross debt in Denmark constitutes a challenge. The high level of gross debt should be seen in the context of the relatively large wealth held by Danish households in the form of net housing assets and, especially, private pension assets compared with other countries. Although household net worth has decreased sharply in the wake of the financial crisis, the average Danish household appears to be fairly well-consolidated. The households' sound net worth reflects positive savings ratios of 5 to 10 per cent in the last decades (including pension sav-

ings). At the end of 2011, the average net worth of Danish households was approximately DKK 900,000, excluding pension assets. If pension assets (after tax) are included, the figure is DKK 1.3 million. The net worth of Danish households is thus relatively high, even in a long-term historical perspective.

Therefore, the relatively high level of household gross debt is not deemed by the Danish Government to be a threat to financial stability in Denmark. But due to differences between individual households, the risk associated with the homeowners' gross debt may be unevenly distributed. The combination of high (partially short-term) gross debt financed through adjustable-rate and deferred-amortisation mortgage loans and large illiquid assets can be a challenge that may make the net worth of some households vulnerable to changes in interest rates. The Government agrees that it is relevant to analyse any challenge in this area, e.g. risks related to interest-rate increases.

In the National Reform Programme 2011, Denmark received the following recommendation in connection with the mortgage and property tax systems:

The European Council recommends that Denmark take action within the period 2011-2012 in order to:

“While supporting the ongoing stabilisation of the real-estate market following the recent price correction, consider preventive action to strengthen the medium-term stability of the housing market and the financial system including reviewing the functioning of the mortgage and property tax systems.”

Furthermore, in light of the high level of gross private debt, the Commission identified Denmark as a country whose macroeconomic situation needs to be analysed in more depth to determine whether the imbalance is significant, as part of the new macroeconomic imbalances procedure.

3.5.1 Planned measures

The Danish Government is addressing a number of priority areas aiming to increase stability in the housing market, but which have not yet resulted in the implementation of specific initiatives. Accordingly, the Government has announced three initiatives designed to further strengthen the countercyclical properties of housing finance:

Stable housing finance and good customer advisory services

Firstly, the Danish Ministry of Business and Growth, in collaboration with the mortgage sector, has initiated a project to analyse the households' mortgage borrowing and housing debt with a view to assessing whether such borrowing and debt entail risks to financial stability.

This analysis will focus on identifying any risks related to Danish homeowners' relatively high housing debt and form the basis for deliberations on new regulation of the mortgage sector and the related framework conditions. In addition, the analysis will aim to form the basis for renewed dialogue with the mortgage sector on how it manages its advisory responsibilities.

Specifically, the descriptive part of the analysis will contribute with detailed knowledge on the socio-economic circumstances etc. of those who take out mortgages, and on development trends at a macroeconomic level. The analysis will also include calculations based on actual micro data of the effects on homeowner finance resulting from changes in e.g. interest rates and regulation concerning borrowing, etc.

Danish mortgage institutions' need for supplementary collateral

Secondly, a task force was appointed in 2010 to address Danish mortgage institutions' needs for supplementary collateral. The task force is examining the consequences of the requirements for supplementary collateral as a result of the EU Capital Requirements Directive (CRD). The directive was implemented in Danish legislation at 1 July 2007, introducing the so-called special covered bonds and special covered mortgage bonds.

Many of the bonds on which Danish housing finance is based are special covered bonds. This means that Danish mortgage institutions must provide supplementary collateral if the value of the assets provided as collateral is insufficient. The task force on supplementary collateral identifies the short-term and long-term risks to credit institutions and bondholders, the cyclical effects, and how complying with the requirement for supplementary collateral may affect borrowers with different loan types.

The task force is made up of representatives of relevant industry associations, the Central Bank of Denmark, the Danish Financial Supervisory Authority and the Ministry of Business and Growth. The task force expects to report its findings at the end of 2012.

Spreading of refinancing auctions for adjustable-rate loans

Thirdly, in the spring of 2011, the mortgage sector, at the request of the former Danish Minister for Economic and Business Affairs and the Central Bank of Denmark, appointed a task force working to spread the high concentration of refinancing auctions for adjustable-rate loans in December throughout the rest of the year. The reason for appointing the task force was that a high concentration of refinancing auctions in one month implies a risk that negative market conditions at the time of refinancing will have an inappropriate impact on Danish homeowners and mortgage institutions.

The task force is made up of the sector, the Danish Financial Supervisory Authority, the Central Bank of Denmark, and the Ministry of Business and Growth. All mortgage institutions have currently stopped issuing adjustable-rate loans for refinancing in December. New loans are thus issued for refinancing during the other quarters of the year. Provided that the mortgage institutions continue to issue adjustable-rate loans according to this pattern, refinancing auctions will be distributed evenly over the year by 2017.

In continuation of the efforts of the task force to achieve faster spreading, the Ministry of Business and Growth has initiated discussions with the Ministry of Taxation on the possibilities of introducing a model for tax-exempt registration of loans for which the time of refinancing is moved.

4. Denmark's Announcements according to the Competitiveness Pact

Denmark announced participation in the Competitiveness Pact in March 2011 on the basis of a broad majority in the Danish Parliament. All euro-countries and six non-euro-countries participate in the pact. The pact will develop and supplement the strengthened economic collaboration in the EU, including the strengthened fiscal policy rules in the Stability and Growth Pact, the new collaboration on handling macroeconomic imbalances, the Europe-2020 Strategy etc.

The pact is based on an agreement between the participating countries on common overall objectives in four areas: 1) Strengthened competitiveness; 2) Increased employment; 3) Fiscal sustainability; and 4) Financial stability. The pact contains a political, but not legal obligation to implement initiatives within the mentioned areas. Each country chooses how to handle its challenges within the four areas, and chooses its specific measures. An open catalogue of ideas has been developed covering the four areas, with measures and principles which are generally perceived as being effective in order to reach the overall objectives. The participating countries can choose measures on these lists or choose other initiatives depending on their specific challenges.

4.1 The Government's announcements according to the Competitiveness Pact

In the Government Platform "A Denmark that stands together" (the Government, October 2011), the Government established a general fiscal goal of structural balance on the public finances in 2020. In light of Denmark's commitment to the fiscal pact it is planned that the structural balance can exhibit a maximum deficit of ½ per cent of GDP over the period 2013-2020.

Achieving the goal of at least structural balance in 2020 and the structural deficit of maximum ½ per cent of GDP in the period 2013-2020 will ensure (at least) fiscal sustainability. This

means that the policies planned until 2020 can be maintained in the years after, given the assumptions of the long-term projection, while the public debt maintains a stable share of the economy in the very long term.

4.1.1 Strengthening of labour supply, employment and public finances

A retirement reform was adopted in December 2011 as a result of the political agreement reached in May 2011. The retirement reform frontloads by 5 years the increases in the eligibility-age of voluntary early retirement and public pension already agreed in the Welfare Agreement from 2006, and shortens the maximum period of voluntary early retirement from 5 to 3 years. The public pension age will thus increase from 65 to 67 years from 2019 to 2022. The voluntary early retirement age is similarly increased from 60 to 62 years from 2014 to 2017, and the shortening of the maximum period of voluntary early retirement from 5 to 3 years is gradually phased in from 2018 to 2023. The agreement maintains the core principle of the Welfare Agreement from 2006 where a longer life expectancy and more years with good health imply more years on the labour market. The voluntary early retirement age and the public pension age are thus indexed by longevity as already agreed in the 2006 Welfare Agreement. New eligibility ages following the indexation mechanism will be decided by Parliament, the first time being in 2015 and then every five years. The voluntary early retirement age may be raised through longevity indexation for the first time in 2027 and the public pension age for the first time in 2030. Details of the retirement reform can be found in "Agreement on Later Retirement".

The retirement reform will increase employment by 2.3 per cent of the labour force (equivalent to an increase of more than 65,000 people) and improve public finances by 1 per cent of GDP (equivalently to DKK 18 billion) and improve long term sustainability of public finances by 0.5 per cent of GDP (equivalent to DKK 10 billion). The retirement reform thus plays a key role in the fulfilment of the objective of reaching structural balance in 2020.

It is also the Government's goal to implement new reforms which could further increase the structural labour supply with approx. 60,000 people towards 2020 in order to provide leeway in the public economy and improve the public finances in the long run with 14 billion DKK (equivalent to approx. ¾ per cent. of GDP), cf. *section 3.2*.

The Government proposes in this context, three major initiatives/reforms:

- A tripartite agreement to increase the labour supply
- Reforms of the activation programme, the cash benefits scheme, the flexjob scheme, disability pensions, international recruitment, education and training, prevention, integration, etc.
- A fully financed tax reform that significantly reduces tax on earned income.

Firstly, as part of tripartite negotiations with employees and employers, the Government will reach agreement on ways to increase the total labour supply. The point of departure for the negotiations is that the Government, the Parliament and the labour market parties have a shared responsibility to enhance Danish competitiveness, turn education and training into an engine for growth, increase employment and modernise the Danish model. The objective is to reach a tripartite agreement that increases labour supply, leading to lower public expendi-

tures on transfer payments and more tax revenue, thereby improving the public finances in net terms by approx. DKK 4 billion annually.

Secondly, the Government will implement a series of reforms with the aim of increasing the labour supply. This concerns, for example, reforms of the activation programme and the cash benefits scheme; reforms of disability pension and the flexjob schemes; incentives to encourage young people to start their education or training programme earlier and to complete their education more quickly; and reforms designed to help reduce sickness absence.

In addition, more effective integration should contribute to getting more immigrants into employment at institutions and in companies. And it should be easier for companies to attract foreign labour to Denmark, by simplifying regulations and administration in this area.

The intention behind this series of reforms is to increase the labour supply by a total of 28,000 persons by 2020 and improve the public finances by approx. DKK 7 billion. This is an ambitious goal, which will require a very targeted reform effort.

Thirdly, the Government will implement a fully financed tax reform that significantly reduces tax on earned income, so as to increase the labour supply and thus strengthening the public finances permanently. This is in addition to the effects resulting from the initiatives adopted in Spring Package 2.0.

4.1.2 Strengthened public expenditure management

In addition to the above mentioned initiatives it is also necessary to strengthen public expenditure management and control in order to reach the objective of structural budget balance in 2020 and structural deficits of ½ per cent of GDP or below in 2013-2020. Through strengthened expenditure control actual expenditures should be kept in line with budgets, see *section 3.1*.

In this context, the Government has entered an agreement on a budget law which introduces a new spending control system with politically binding four-year expenditure ceilings for the state, regions and municipalities, respectively, as well as sanctions for non-compliance with the agreed spending limits. The budget law will also implement Denmark's obligations due to the Fiscal Compact i.e. structural budget deficits of maximally ½ per cent of GDP calculated according to the Danish method and an automatic correction mechanism, which is activated in case of significant deviations from the budget balance requirement), cf. *section 3.1*.

4.1.3 Strengthening of competitiveness and productivity

The Government has a strong focus on strengthening the long-term growth potential i.e. through a focus on increased competition and productivity, see *section 3.4*. Over the past decade, Denmark has dropped down the list of the world's richest countries. This is primarily due to weak productivity growth. Therefore, it is a key task for the Government to ensure that the foundation is laid for strong productivity growth in all parts of the Danish economy: in the exporting companies, in the domestic market sectors and in the public sector. Denmark should once again move up in the rankings being close to the OECD countries that have the highest productivity.

The Government has therefore set up a productivity commission which will identify the causes of the low productivity since the mid-1990s, and on this basis set out specific recommendations that can enhance productivity in Denmark.

The Government has also initiated a pro-active business and growth policies which aim at strengthening the general conditions and at the same time focus on the growth conditions in areas, where Danish businesses have special strengths and potentials. As part of this work various growth-teams have been established and they will present concrete recommendations. Through this the Government is among other things focusing on strengthening Denmark as a production country.

In addition, the Government aims to increase competition. In many areas, competition is not sufficiently strong in Denmark. Competition enhances business efficiency and promotes high productivity and innovation. Increased competition leads to lower prices and a more varied supply of goods and services. Therefore, competition between businesses should be increased, and the Government plans to, among other things, look at whether competition can be increased through more efficient and applicable competition laws.

4.1.4 Financial stability

A 'dowry' scheme was introduced in 2011 in connection with Bank Package III, enabling the Guarantee Fund for Depositors and Investors to provide a dowry when an ailing bank is taken over by another bank. This makes it easier to find private-sector solutions for the management of ailing banks as an alternative to winding-up via the Financial Stability Company. The dowry scheme was strengthened in Bank Package IV, which provides greater incentives for healthy banks to take over ailing banks completely or partially. The dowry scheme was extended in two ways enabling the central government to contribute an amount corresponding to the expected loss on the bank's individual government guarantee if the bank was to be wound up under Bank Package III. The scheme was adopted under Document No. 181 of 7 September 2011.

In March 2012, the Danish Government agreed on a number of initiatives to promote the funding of small and medium-sized enterprises in particular, known as the Development Package.

With the development package it is agreed that the export loan facility scheme under the Danish Export Credit Fund (EKF) will be increased by the infusion of an additional DKK 15 billion, thus increasing the total to DKK 35 billion, and EKF's current capital-adequacy band will be extended until the end of 2015. This will enable the EKF to grant export guarantees worth at least an additional DKK 20 billion in the years ahead. In order to improve access to growth capital the credit facility of "Vaekstkaution" loan guarantees is increased by more than DKK 550 million. In addition "Vaekstfonden" will be given the option of granting subordinated loans in the amount of DKK 500 million. This is expected to increase enterprises' access to bank financing by an additional DKK 1 billion. In addition, alternative sources of financing for SMEs, eg through the involvement of pension funds are being studied. Finally FIH Bank will be reestablished as a specialized commercial bank, and the possibility of establishing a specialized agricultural finance institute is being explored. The government is continuously moni-

toring developments in access to financing, for the purposes of assessing the potential need for additional initiatives.

Box 4.1**The Government's announcements according to the Competitiveness Pact**

The Government has an overall fiscal target of structural balance on the public finances in 2020. In the light of Denmark's accession to the Fiscal Compact, fiscal policy is also planned according to the target for the structural balance to reach a maximum deficit of ½ per cent of GDP in the period 2013-2020. Fulfilment of these goals will ensure (at least) fiscal sustainability.

The Government's initiatives directed towards compliance with the Competitiveness Pact are the following:

Strengthening of labour supply, employment and public finances

- The retirement reform
- Tripartite agreement on increased labour supply
- Reforms of the activation programme, the cash benefits scheme, the flexjob scheme, disability pensions, international recruitment, education and training, prevention, integration, etc.
- A fully financed tax reform that significantly reduces taxation of income

Strengthened public expenditure management

- Agreement on the Budget Law

Strengthening of competitiveness and productivity

- Establishment of the productivity commission
- Assessment of the competition law
- A pro-active business and growth policy, including the establishment of growth teams

Financial Stability

- Development package to promote the funding of small and medium-sized businesses.

5. Participation, Communication and Identification of Good Practice

In Denmark, a contact committee has been set up with representatives of relevant ministries, local and regional authorities as well as interest organisations. The Contact Committee is regularly informed about European policy questions of relevance to the Europe 2020 strategy and is consulted in connection with the formulation of the National Reform Programmes. The Danish Parliament has also been regularly involved and informed about discussions concerning the Europe 2020 strategy. At regional level, regional growth fora are responsible for regional efforts for growth and business development.

Local and regional authorities as well as interest organisations are of great importance to the implementation of specific initiatives and actions benefiting growth and employment in Denmark (cf. *box 5.1.*). For many years it has therefore been an important priority for the Danish Government to involve local and regional authorities as well as interest organisations in the European growth and employment agenda.

In 2001, a contact committee was set up for the Lisbon Strategy. It was the intention to create a platform for close dialogue between relevant ministries, regional and local authorities as well as interest organisations regarding the EU's overall growth and employment agenda. The transition to the Europe 2020 strategy has placed increased focus on the social dimension of the growth agenda. Against this background, the Contact Committee was enlarged in 2011 with a number of organisations representing the social dimension.

The Contact Committee ensures national anchorage of the Europe 2020 strategy among its members. The Contact Committee provides its members with a direct channel to the national decision-making process and strengthens the Government's basis for decision-making regarding the national work on the Europe 2020 strategy and the National Reform Programme. Thus, the Contact Committee plays an overarching role in relation to the area-specific discussions that take place in the special EU committees within the framework of the Danish EU decision-making procedure.

The Contact Committee is briefed at regular meetings about the current European policy agenda of relevance to the Europe 2020 strategy. In the first six months, the Contact Com-

mittee is kept closely informed of the cycle of the European Semester as well as the preparation of the National Reform Programme. During the next six months, thematic events focusing on elements of the Europe 2020 strategy have been introduced as a novelty. In the autumn of 2011, the Contact Committee held a meeting on the industrial policy flagship initiative at the Confederation of Danish Industry.

Denmark's draft National Reform Programme 2012 has been submitted to the Contact Committee for consultation, giving the Contact Committee the opportunity to comment on the draft. To the extent possible, the comments of the Contact Committee are reflected and incorporated in the National Reform Programme.

As part of the Danish EU decision-making procedure, the Danish Parliament is involved on a regular basis in the discussions of the Europe 2020 strategy 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. Similarly, Denmark's National Reform Programme 2012 has been submitted to a number of committees in the Danish Parliament prior to being forwarded to the Commission.

Box 5.1
Regional efforts for growth and business development

With the local government reform that came into force on 1 January 2007, the public sector in Denmark was restructured. A new map of local and regional Denmark was established together with a new distribution of tasks among central government, regions and municipalities – also in the business area. Regional growth fora were established charged with the responsibility for regional efforts for growth and business development. It is the task of the growth fora to monitor regional and local growth conditions and draw up a regional business development strategy on the basis of the region's business specialisation and framework conditions. Against the background of the strategy, the growth fora will present recommendations to the regional council regarding the application of the funds the region has earmarked for business purposes, and the growth fora will make recommendations to central government regarding the application of EU structural funds. The regional growth fora have the latest years recommended projects for around DKK 1 billion., of which DKK ½ billion. from the EU structural funds for business development activities within the areas of innovation, entrepreneurship, education, tourism and development of the outlying areas. The measures are supporting the implementation of the Europe 2020 strategy. The Government will conduct a service check of the local government reform and the current distribution of tasks among municipalities, regions and central government. This comprises, among other things, the regions' tasks regarding regional development, including the regional efforts for growth and business development.

The National Reform Programme

Denmark 2012

2011/2012

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

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