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Recommendation for a

COUNCIL RECOMMENDATION

on the 2020 National Reform Programme of Denmark and delivering a Council opinion on the 2020 Convergence Programme of Denmark

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THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 9(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 17 December 2019, the Commission adopted the Annual Sustainable Growth Strategy, marking the start of the 2020 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. On 17 December 2019, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it did not identify Denmark as one of the Member States for which an in-depth review would be carried out.

(2) The 2020 country report for Denmark[2] was published on 26 February 2020. It assessed Denmark's progress in addressing the country-specific recommendations adopted by the Council on 9 July 2019[3], the follow-up given to the recommendations adopted in previous years and Denmark's progress towards its national Europe 2020 targets.

(3) On 11 March 2020, the World Health Organization officially declared the COVID-19 outbreak a global pandemic. It is a severe public health emergency for citizens, societies and economies. It is putting national health systems under severe strain,

[1] OJ L 209, 2.8.1997, p. 1.
[2] SWD(2020) 503 final.
[3] OJ C 301, 5.9.2019, p. 117.

disrupting global supply chains, causing volatility in financial markets, triggering consumer demand shocks and having negative effects across various sectors. It is threatening people's jobs, their incomes and companies' business. It has delivered a major economic shock that is already having serious repercussions in the European Union. On 13 March 2020, the Commission adopted a Communication[4] calling for a coordinated economic response to the crisis, involving all actors at national and Union level.

(4) Several Member States have declared a state of emergency or introduced emergency measures. Any emergency measures should be strictly proportionate, necessary, limited in time, and in line with European and international standards. They should be subject to democratic oversight and independent judicial review.

(5) On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact[5]. The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn. In its Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit activation of the clause. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

(6) Continued action is required to limit and control the spread of the pandemic, strengthen the resilience of the national health systems, mitigate the socio-economic consequences through supportive measures for business and households and to ensure adequate health and safety conditions at the workplace with a view to resuming economic activity. The Union should fully use the various tools at its disposal to support Member States' efforts in those areas. In parallel, Member States and the Union should work together to prepare the measures necessary to get back to a normal functioning of our societies and economies and to sustainable growth, integrating inter alia the green transition and the digital transformation, and drawing all lessons from the crisis.

(7) The COVID-19 crisis has highlighted the flexibility that the single market offers to adapt to extraordinary situations. However, in order to ensure a swift and smooth transition to the recovery phase and the free movement of goods, services and workers, exceptional measures that prevent the single market from functioning normally must be removed as soon as they are no longer indispensable. The current crisis has shown the need for crisis preparedness plans in the health sector, which include in particular improved purchasing strategies, diversified supply chains and strategic reserves of

[4] COM(2020) 112 final.
[5] COM(2020) 123 final.

essential supplies. They are key elements for developing broader crisis preparedness plans.

(8) The Union legislator has already amended the relevant legislative frameworks[6] to allow Member States to mobilise all unused resources from the European Structural and Investment Funds so they can address the exceptional effects of the COVID-19 pandemic. Those amendments will provide additional flexibility, as well as simplified and streamlined procedures. To alleviate cash flow pressures, Member States can also benefit from a 100% co-financing rate from the Union budget in the 2020-2021 accounting year. Denmark is encouraged to make full use of those possibilities to help the individuals and sectors most affected by the challenges.

(9) On 7 May 2020, Denmark submitted its 2020 National Reform Programme and, on 5 May 2020, its 2020 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(10) Denmark is currently in the preventive arm of the Stability and Growth Pact.

(11) In its 2020 Convergence Programme, the government plans the headline balance to deteriorate from a surplus of 3,7% of GDP in 2019 to a deficit of 8,0% of GDP in 2020. The deficit is projected to decline to 2,4% of GDP in 2021. After decreasing to 33,2% of GDP in 2019, the general government debt-to-GDP ratio is expected to increase to 40,7% in 2020 according to the 2020 Convergence Programme. The macroeconomic and fiscal outlook is affected by high uncertainty due to the COVID-19 pandemic.

(12) In response to the COVID-19 pandemic, and as part of a coordinated Union approach, Denmark has adopted budgetary measures to increase the capacity of its health system, contain the pandemic, and provide relief to those individuals and sectors that have been particularly affected. According to the 2020 Convergence Programme, those budgetary measures amounted to 4,9% of GDP. The measures include strengthening health care services, temporary compensation for fixed costs of businesses, temporary wage compensation scheme and emergency aid for distressed sectors. In addition, Denmark has announced measures that, while not having a direct budgetary impact, will contribute to support liquidity to businesses, which the 2020 Convergence Programmes estimates at approximately 15% of GDP. Those measures include tax deferrals for personal and corporate income taxes and loan guarantees (3,7% of GDP). Compared to the Commission 2020 spring forecast, the main difference is that the Convergence Programme includes expected future losses stemming from COVID-19-related State guarantees (0.5% of GDP). Overall, the measures taken by Denmark are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak. The full implementation of those measures, followed by a refocusing of fiscal policies towards achieving prudent medium-term fiscal positions when economic conditions allow, will contribute to preserving fiscal sustainability in the medium term.

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[6] Regulation (EU) 2020/460 of the European Parliament and of the Council of 30 March 2020 amending Regulations (EU) No 1301/2013, (EU) No 1303/2013 and (EU) No 508/2014 as regards specific measures to mobilise investments in the healthcare systems of Member States and in other sectors of their economies in response to the COVID-19 outbreak (Coronavirus Response Investment Initiative) (OJ L 99, 31.3.2020, p. 5) and Regulation (EU) 2020/558 of the European Parliament and of the Council of 23 April 2020 amending Regulations (EU) No 1301/2013 and (EU) No 1303/2013 as regards specific measures to provide exceptional flexibility for the use of the European Structural and Investments Funds in response to the COVID-19 outbreak (OJ L 130, 24.4.2020, p. 1).

(13) Based on the Commission 2020 spring forecast under unchanged policies, Denmark's general government balance is forecast at -7,2% of GDP in 2020 and -2,3% in 2021. The general government debt ratio is projected to remain below 60% of GDP in 2020 and 2021.

(14) On 20 May 2020, the Commission issued a report prepared in accordance with Article 126(3) of the Treaty due to Denmark's planned breach of the 3% of GDP deficit threshold in 2020. Overall, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.

(15) The COVID-19 pandemic affected Denmark heavily in the first half of 2020, putting the health system under pressure and markedly reducing economic activity in certain sectors. Denmark implemented timely measures to stem the pandemic and to strengthen the health system, including far-ranging initiatives to mitigate its economic consequences. The resulting economic downturn was addressed by a series of strong economic and financial measures by the government and the Central Bank, including direct support to partly cover businesses' fixed costs and wage expenditures, tax deferrals and liquidity provision for banks and firms, credit schemes and other monetary policy measures. In the process of designing and implementing these measures the resilience of the banking sector needs to be taken into account. These measures effectively reduced the economic shock of the pandemic, but did not prevent a significant loss of output, a large number of bankruptcies and insolvencies and marked increases in unemployment and persons at risk of poverty, including among those in vulnerable situations (e.g. persons with disabilities). According to the Commission forecast, unemployment is expected to moderately increase to around 6½% in 2020 before recovering to below 6% in 2021.

(16) The ongoing COVID-19 crisis underlines the need for Denmark to continuously work to strengthen the resilience of its health system. One issue of particular concern is the shortage of health workers, and the lack of specialised doctors and nurses in e.g. intensive care (in particular nurse anaesthetists). Continuous efforts to address these labour shortages is key. In the short term, Denmark should work to ensure the availability of critical medical products, including personal protective equipment for health workers. Research is ongoing to find not only an antiviral treatment and a vaccine, but also better and faster testing.

(17) To foster the economic recovery, it will be important to front-load mature public investment projects and promote private investment, including through relevant reforms. Denmark is performing well in the field of digitisation, as evidenced by the European Commission's Digital Scoreboard. However, to maintain this strong position in the long term and to ensure its competitiveness and benefit from the digital transformation, Denmark would need investment in digital infrastructure as well in education, training and upskilling. Denmark's National Energy and Climate Plan reports important investment needs to tackle successfully the climate and energy transition. The largest investments are required for the installation of new renewable energy capacity, while significant investment needs are also identified in households (energy efficiency and conversion of heat supply), sustainable transport, industry as well as biogas and district heating. Denmark's climate policy objectives aim to reduce greenhouse gas emissions by 70% by 2030, compared with 1990, and achieve climate neutrality by 2050 at the latest. To reflect this, energy consumption would need to be put on a downward trend, requiring investments that follow a comprehensive approach and focus on sectors where energy savings are particularly promising. The economic recovery from the COVID-19 crisis could be fostered by front-loading planned green

investments and advancing ambitious environmental, climate, energy and infrastructure investment projects, such as in housing, offshore wind, energy connectivity and railway electrification. Transport is Denmark's largest source of greenhouse gas emission, making further policy action in this area particularly pertinent. The government's "Green Transport Policy", which aims to allocate EUR 15 billion (DKK 112,7 billion) mainly to transport infrastructure projects in 2021-2030, is currently under negotiation to give greater considerations to climate and environmental objectives. The programming of the Just Transition Fund for the period 2021-2027 could help Denmark to address some of the challenges posed by the transition to a climate neutral economy, in particular in the territories covered by Annex D to the country report. This would allow Denmark to make the best use of that fund.

(18) Overall research and development (R&D) spending has not translated into higher productivity growth in Denmark. An integrated innovation strategy, which clearly spells out what Denmark wants to achieve within the global innovation landscape, is missing. Research and innovation activity remains concentrated in a small number of large firms and foundations and mostly in the pharmaceutical and biotechnology sectors. The eight largest companies account for almost 40% of total private R&D expenditure (vs. worldwide average of 19%). Overall R&D spending remains high, but the absolute number of companies active in R&D has declined since 2009, largely because smaller firms are not engaging in R&D. Only 33% of SMEs introduced product or process innovations. Therefore further policy efforts could be needed to broaden the innovation base with the objective to include more companies. Responding to changing skill needs after COVID-19, also in light of future technological changes, requires sustained investment in upskilling and reskilling schemes, including through adult learning

(19) Denmark has taken steps to strengthen its anti-money laundering (AML) framework. In 2019, new legislation was adopted and national authorities and regulators started to implement a range of measures to strengthen Denmark's preventive AML framework. The Financial Supervisory Authority has been granted sanctioning powers and a higher budget to enhance its AML supervisory capacity. The Financial Intelligence Unit has also received additional staffing and funding. It is crucial that the enhanced AML framework is translated into effective supervision and enforcement. In particular, the AML supervisor will need to fully implement the risk-based approach. The enhanced capacity of the Financial Intelligence Unit will need to show that weaknesses, highlighted by the Danish Court of Auditors report, have been adequately addressed.

(20) While the present recommendations focus on tackling the socio-economic impacts of the pandemic and facilitating the economic recovery, the 2019 country-specific recommendations adopted by the Council on 9 July 2019 also covered reforms that are essential to address medium- to long-term structural challenges. Those recommendations remain pertinent and will continue to be monitored throughout next year’s European Semester annual cycle. That also applies to recommendations regarding investment-related economic policies. The latter recommendations should be taken into account for the strategic programming of cohesion policy funding post-2020, including for mitigating measures and exit strategies with regard to the current crisis.

(21) The European Semester provides the framework for continuous economic and employment policy coordination in the Union, which can contribute to a sustainable

economy. Member States have taken stock of progress regarding United Nations' Sustainable Development Goals (SDGs) implementation in their 2020 National Reform Programmes. By ensuring the full implementation of the recommendations below, Denmark will contribute to the progress towards the SDGs and to the common effort of ensuring competitive sustainability in the Union.

(22) In the context of the 2020 European Semester, the Commission has carried out a comprehensive analysis of Denmark's economic policy and published it in the 2020 country report. It has also assessed the 2020 Convergence Programme and the 2020 National Reform Programme and the follow-up given to the recommendations addressed to Denmark in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Denmark, but also their compliance with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.

(23) In the light of that assessment, the Council has examined the 2020 Convergence Programme and its opinion[7] is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that Denmark take action in 2020 and 2021 to:

1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Enhance the resilience of the health system, including by ensuring sufficient critical medical products and addressing the shortage of health workers.

2. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, sustainable transport as well as research and innovation. Support an integrated innovation strategy with a broader investment base.

3. Improve the effectiveness of anti-money laundering supervision and effectively enforce the anti-money laundering framework.

Done at Brussels,

For the Council
The President

[7] Under Article 9(2) of Council Regulation (EC) No 1466/97.