



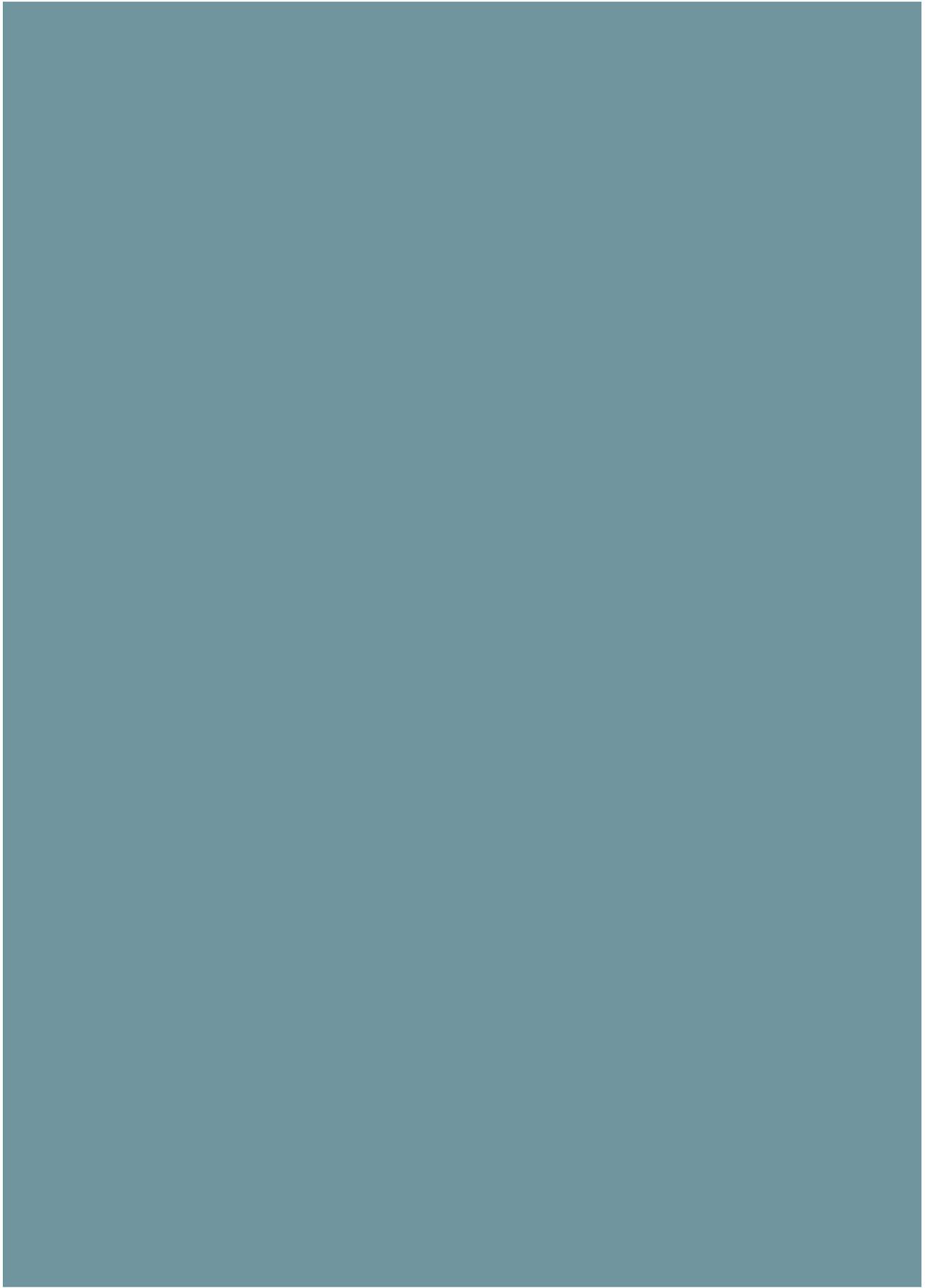
THE DANISH GOVERNMENT

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# Denmark's National Reform Programme 2018

Ministry for Economic Affairs and the Interior

APRIL 2018





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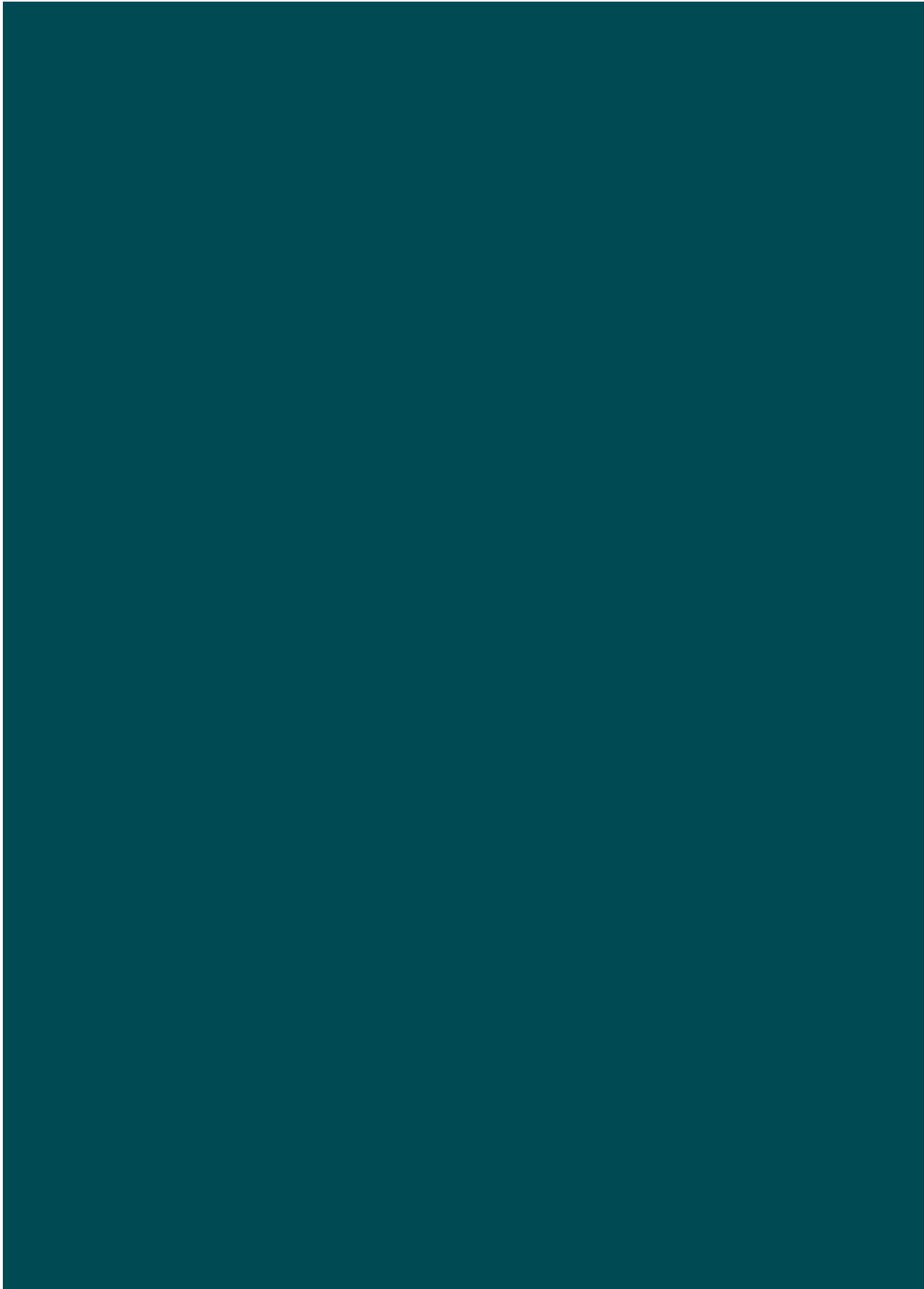
Ministry for Economic Affairs and the Interior

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# Chapter 1

## Introduction

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The Danish economy has entered a phase of stable growth and increasing employment. GDP-growth has been around 2 per cent the last two years, and is expected to continue growing in the coming years. Danish economy is thus approaching a cyclical upturn. The cyclical upturn may last for several years, but depends on a sufficient labour supply. Structural reforms will help create room for further, sustainable job growth.

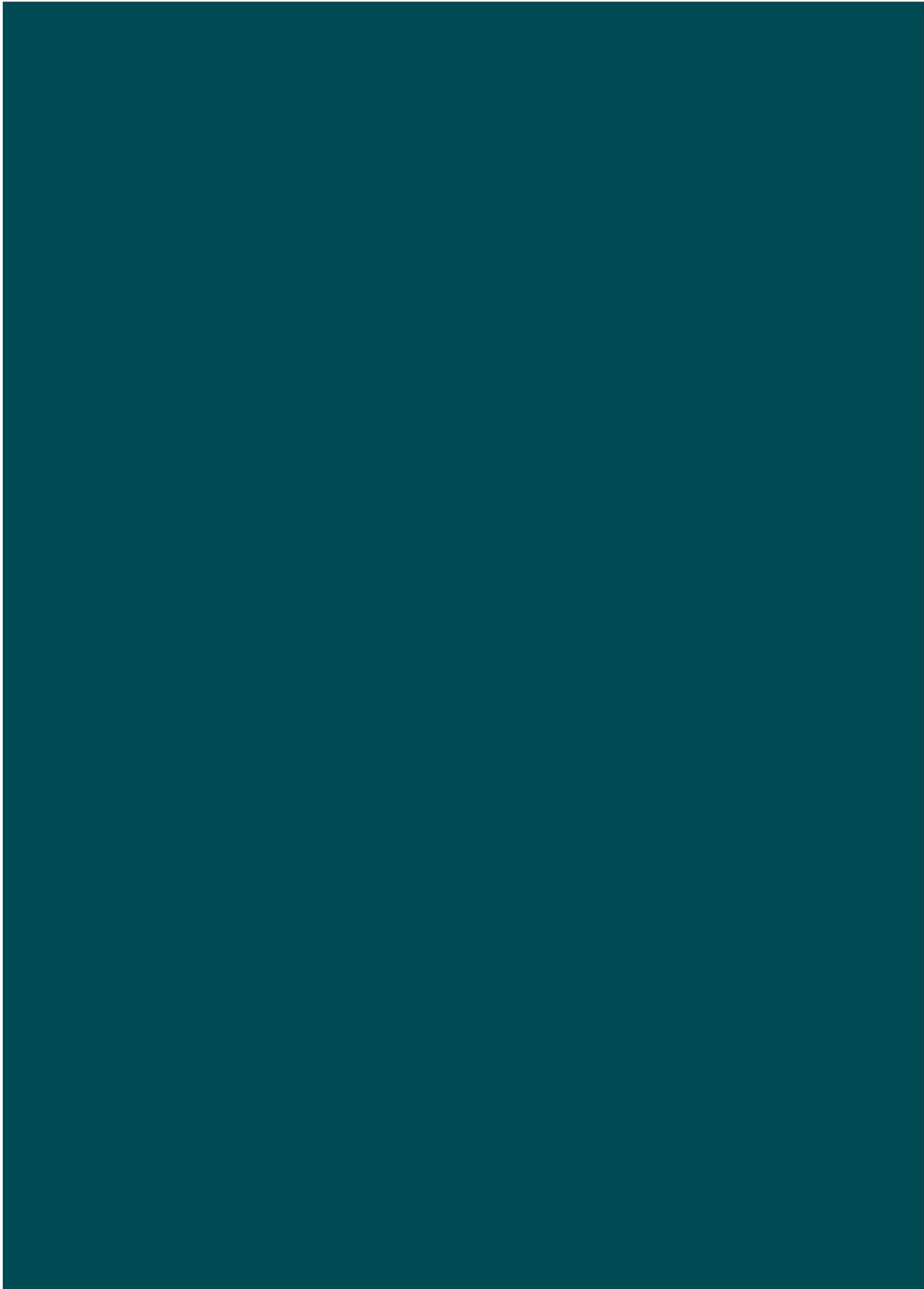
Every spring, in the context of the European Semester, the EU member states submit their national reform programmes, which describe the countries' structural reforms. Furthermore, annual stability and convergence programmes are submitted focusing on medium-term macroeconomic projections and public finances.

*Denmark's National Reform Programme 2018* presents measures that Denmark has taken in order to comply with the country-specific recommendation from EU received in July 2017. It also describes the Danish implementation of EU's growth strategy (Europe 2020). Furthermore, the overall economic framework for the Danish economy is presented based on Denmark's Convergence Programme 2018.

The structure of Denmark's National Reform Programme 2018 is as follows:

- Chapter 2 describes the overall economic framework for Denmark, including the economic outlook and the macroeconomic balances.
- Chapter 3 presents the initiatives that Denmark has undertaken and will undertake in order to comply with the country-specific recommendation received in July 2017.
- Chapter 4 regards the initiatives that Denmark has undertaken or will undertake to contribute to the fulfilment of the five main goals of the Europe 2020 strategy.
- Chapter 5 describes the involvement of the Danish Parliament (Folketinget) and non-governmental organizations.

The individual chapters also address a number of the topics and issues raised in the European Commission's country report for Denmark published in March 2018. When available, the chapters include evaluation of the impact of reform measures from recent years.



# Chapter 2

## Economic framework

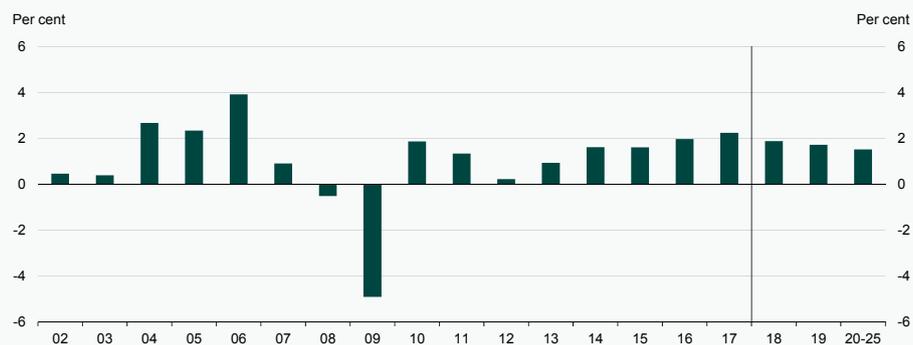
### 2.1 Outlook for the Danish economy

The Danish economy is in a period of stable and solid growth and rising employment. GDP has increased by around 2 per cent the last two years, and the economic expansion is expected to continue in the coming years. Thus, the Danish economy is entering an economic boom phase.

GDP is expected to increase by 1.9 per cent in 2018 and 1.7 per cent in 2019. In the medium-term period until 2025, the annual rate of growth is projected to be 1½ per cent on average, *cf. figure 2.1*.

**Figure 2.1**

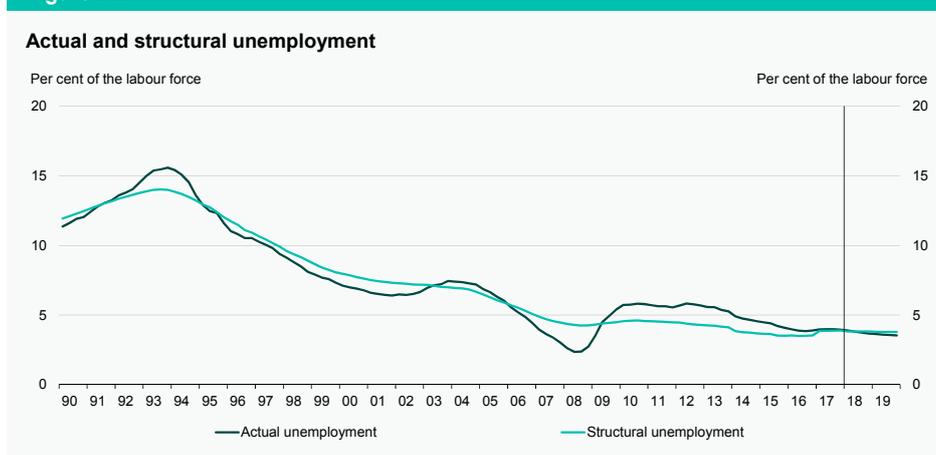
#### GDP growth



Source: Statistics Denmark and own calculations.

The economic expansion is reflected in a high pace of job creation. Since the beginning of 2013, about 180,000 more persons have gotten a job. In 2016 unemployment had fallen to the lowest level in 40 years, apart from 2007 and 2008. The level of unemployment in 2017 is affected by technical factors but according to the latest figures unemployment is declining again and is now close to or below its structural level, *cf. figure 2.2*.

Figure 2.2



Source: Statistics Denmark and own calculations.

The preconditions for further expansion are good. The low ratio of private consumption to disposable income implies that households are in a good position to increase consumption, also without necessarily taking on debt. Investment activity is also rising, and firms will need to invest in new capital stock. Finally, the economic development abroad has strengthened, thus improving export opportunities.

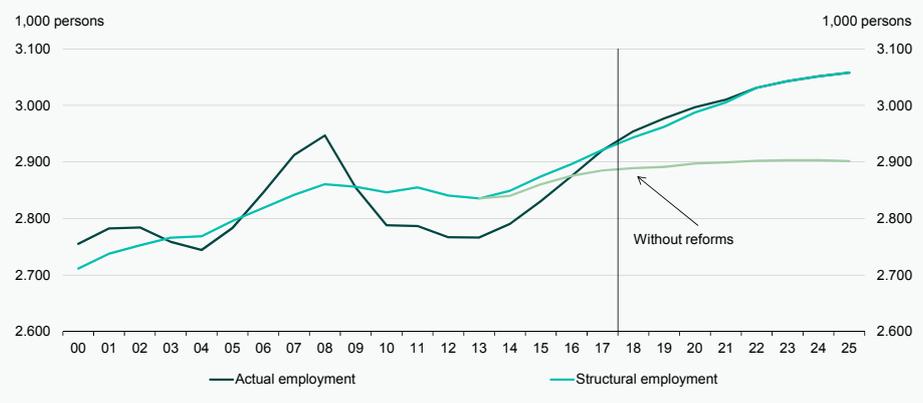
However, a continued sustainable expansion in the Danish economy is dependent on an increase in the workforce. Both the employment gap and the unemployment gap were closed in 2017. This means that in the coming years, the risk of bottlenecks is elevated. Firms, in particular in construction, are already reporting lack of labour as a production constraint.

The workforce is already historically high. This is partly reflects the large inflow of foreign labour since 2011. Most foreigners come from other EU countries. Labour shortages are also increasing in these countries and the international competition for labour is already increasing, cf. The Ministry for Economic Affairs and the Interior (2018): *Udenlandsk arbejdskraft i Danmark og andre lande*, Økonomisk Analyse nr. 31.

Reforms contribute to sustainable employment growth, cf. figure 2.3. The structural workforce has on average increased by 20,000 persons yearly in the period 2014-2017. In the period 2018-2022, the structural workforce is also expected increase by around 20,000 persons yearly. This in particular reflects a continued increase in the voluntary early retirement pension age and the increase in the retirement age from 65 to 67 years in 2019 to 2022. The Danish economy is thus better prepared than during the upswing in the '00s, where employment rose faster than now, but reforms only contributed modestly to a greater workforce

Figure 2.3

## Reforms support increasing employment



Note: Employment is including persons on leave.

Source: Statistics Denmark and own calculations.

In the projection of the Danish economy, the economic expansion and rising employment are expected to continue and hence not to be hampered by an unsustainable development due to rising capacity pressures. Growth is expected to be 1.9 per cent in 2018 and 1.7 per cent in 2019. In the medium-term period until 2025, the annual rate of growth is expected to be around 1½ per cent on average. Employment is expected to increase by around 135,000 persons towards 2025 and reach a level of around 3,050,000 persons. This largely reflects an increase in structural employment, reflecting the effects of implemented reforms.

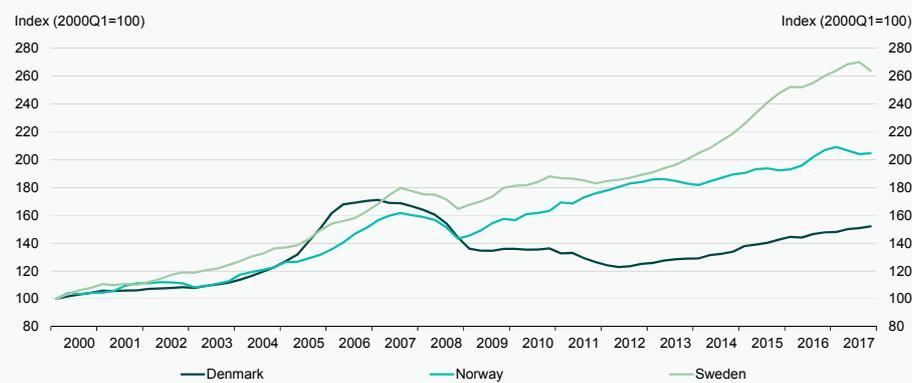
## 2.2 Macroeconomic balances

New initiatives in recent years have strengthened the structures of the Danish economy. Together with the economic expansion, this means that there are no significant imbalances in the Danish economy. This is reflected, inter alia, by the fact that households continue to reduce debt relative to their incomes and that overall credit growth continues to be subdued.

House prices have risen since 2012, *cf. figure 2.4*. Developments in the housing market fundamentally reflect the upswing in the Danish economy and rising incomes. Furthermore, the low interest rate level adds to the price development. Real house prices are still lower than during the house price bubble in the last decade, and in comparison to Sweden and Norway the increase in house prices has been smaller.

Figure 2.4

## Real house prices



Source: OECD.

In Copenhagen and Aarhus, the apartment price development gives rise to vigilance. In Copenhagen, the demographic development is of great importance for the rising prices. There has been a significant population inflow to the capital in recent years, which in isolation has put upward pressure on the housing market and contributes to explaining the large price increases in recent years.

Incomes are expected to continue to rise in the coming years, pointing to further increase in house prices. However, interest rates are also expected to increase, which is expected to have a dampening effect on house prices.

In May 2017, an agreement on a new housing tax system was reached, which implies inter alia that housing taxation from 2021 follows new and more accurate property and land assessments.

The government has introduced new guidelines from 1 January 2018 to limit the use of certain risky loan types in connection with mortgage lending. Specifically, households who wish to raise a new mortgage loan will not have access to the risky loan types if the household's total debt exceeds four times the annual income and the LTV ratio exceeds 60 per cent.

The new guidelines complement a number of other initiatives aimed at increasing the robustness of household finances. According to the Danish Financial Supervisory Authority's so-called Growth Guide from 2016, customers in growth areas wishing to take a floating rate loan will be assessed on the basis of whether the customer can service a fixed-rate loan that is 1 percentage points higher than the current fixed rate, but at least 4 per cent, with the repayment period not exceeding 30 years. Since 2015, there has also been a down payment requirement of at least 5 per cent of the value of the property in

connection with the house purchase. Thus, credit supply is now more restrictive than during the period of overheating in the '00s.

In recent years, there has been an increasing share of newly issued mortgage loans with fixed interest rates and repayments. In 2014-2016, this share was around 40 per cent of the new loans, except for the two largest cities in Denmark, against approx. 10 pct. in 2009. The trend also applies for loans in Copenhagen and Aarhus.

The government will continue to monitor developments on the housing market carefully and assess the need for further initiatives.

The balance of payments surplus amounted to 7.8 per cent of GDP in 2017, but has fallen relatively to the record high surplus of almost 9 per cent of GDP in 2014 and 2015, *cf. figure 2.5*. The current surplus of almost DKK 180 billion reflects a relatively large surplus on goods and services balance as well as net income from abroad, while current transfers to and from abroad decrease the balance.

**Figure 2.5**



Source: Statistics Denmark and own calculations.

The large balance of payments surpluses in recent years largely reflect an increase in the saving propensity of households and firms as well as weak investments in the wake of the backlog after the financial crisis, which caused significant excess capacity.

Over the past 20 years, household savings have risen significantly, which especially should be seen in connection with rising payments to occupational pension schemes and the reduction in interest rates deductibility. In recent years, the cyclical situation has brought household savings to a historically high level, which is reflected in a low consumption ratio. Consumption is expected to return to a normal level in the coming years, which will reduce the savings. Rising housing investments are also expected to decrease household savings. The tendency to increased savings will also be dampened in

the coming years by the fact that there will be relatively more elderly persons who retire and start dissaving.

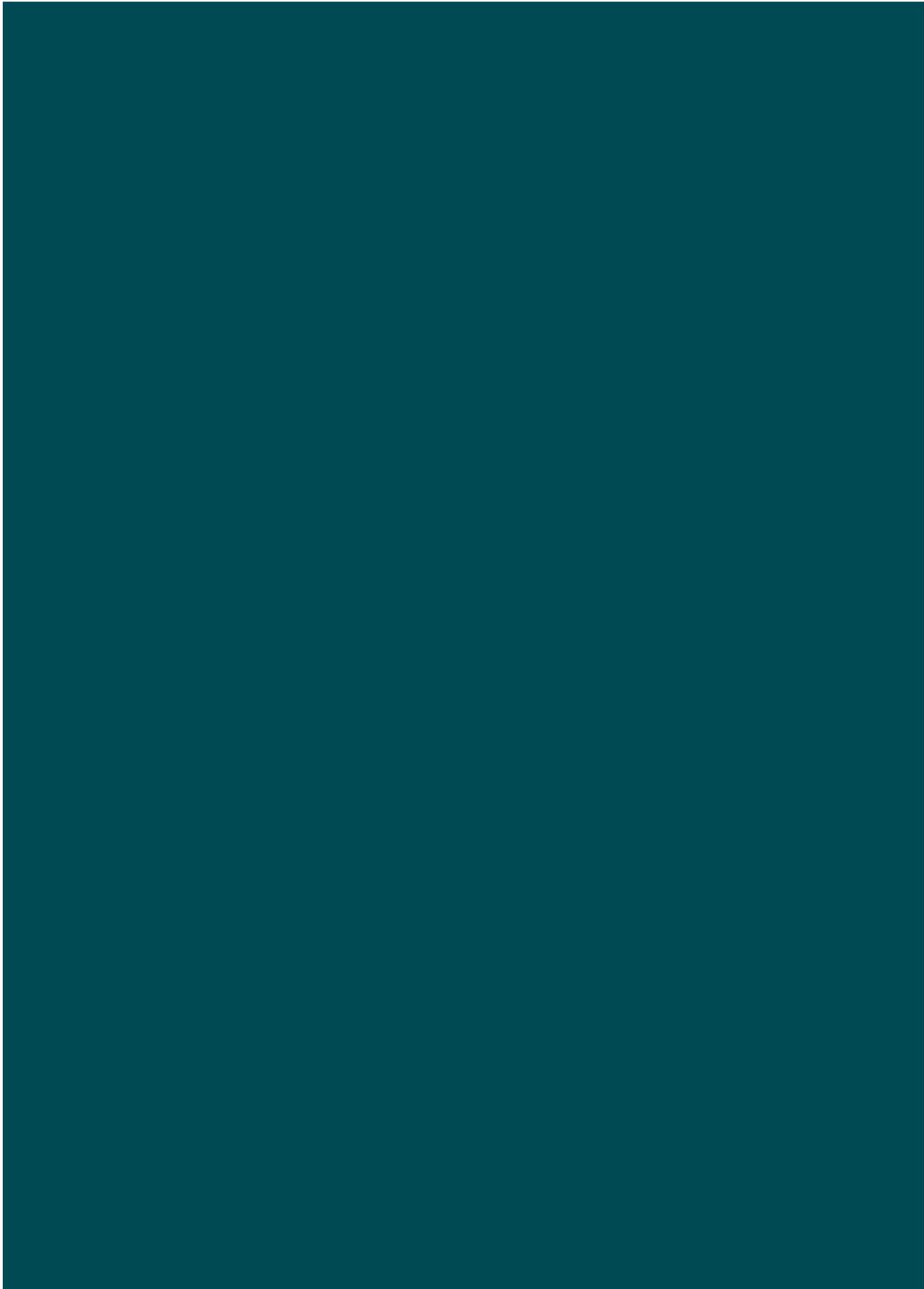
Regarding firms, both a lower level of investments volume and larger savings have contributed to large financial savings. In the coming years, firms are expected to increase their investments. This will in itself reduce the surplus on the balance of payments

The surplus on the goods and services balance should also be seen in connection with the continuous the terms of trade improvement. The price of imported goods has risen significantly less than the price of Danish exports, which in isolation has increased the surplus.

Finally, wage and wealth income from abroad (net) has significantly contributed to the surplus. Denmark has built up large net foreign assets as a result of sustained balance of payments surpluses, also helped by capital gains. At the same time, the composition of the private and public sector assets and liabilities has played a role. A large proportion of foreign assets is thus invested in direct investments, which have historically yielded a relatively high return, while a large part of the liabilities consists of bonds where interest rates have been very low.

Thus, there are a number of factors that will contribute to reducing the balance of payments surplus in the coming years.





# Chapter 3

## The country specific recommendation

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As part of the European semester, Denmark received the Council's opinion on Denmark's economic policy on 11 July 2017. The opinion was based on Denmark's 2017 Convergence Programme and National Reform Programme. Denmark received one recommendation, *cf. box 3.1*.

### Box 3.1

#### The country specific recommendation for Denmark

The Council recommends that Denmark take action in 2016 and 2017 to:

1. Foster competition in the domestically oriented services sector

In early March 2018, the Commission published the annual country report for Denmark. In the report, the Commission assesses Denmark's progress with regards to the country specific recommendation on increasing competition in the domestically orientated service sector.

The Commission recognises that Denmark in recent years has made some progress in increasing productivity and competition in the domestically orientated service sector. This is the case in e.g. retail, transport and construction.

However, the Commission also notes, that there has only been limited progress on following up on the country specific recommendation from 2017, which was broadly aimed at the service sector, and not specific sub sectors. The Commission thus finds that there are still branches of the service sector which are characterised by weak competition.

In 2017 the chairmanship of the Danish Economic Councils was appointed as the national productivity board in Denmark. The productivity board will monitor the productivity developments in the Danish Economy, analyse the drivers of productivity and international competitiveness and advise on productivity enhancing policies.

### 3.1 Increased competition in the domestically oriented services sector

Increased productivity is the primary driver of economic growth in the long run. There is however a trend of declining productivity growth among developed countries, including Denmark.

Initiatives which increase productivity are therefore an important part of the government's reform agenda. The government has set an ambitious target, that economic growth should be increased by DKK 35 bn. through initiatives supporting companies' productivity. Ensuring a continued healthy business environment, including strong competition, is key in reaching this target.

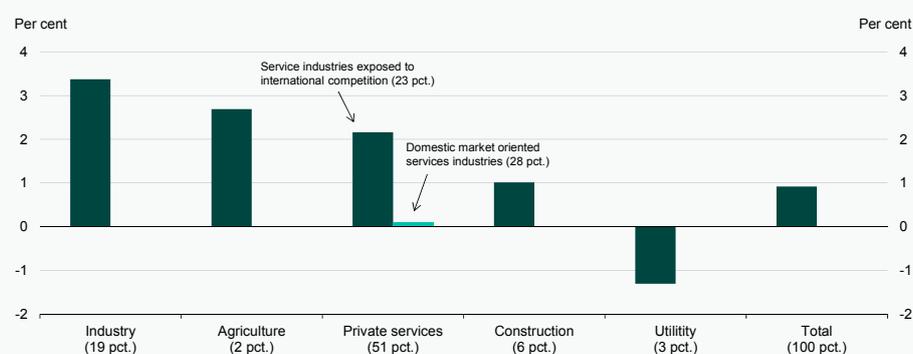
In November 2017, the Government reached an agreement on 37 initiatives that will support Danish businesses through a strengthened entrepreneurial and equity culture, a strategy for Denmark's digital growth, a simplification of the administration of exercise duties including a lowering of the tax on electric heating, an abolition of the tax on nuts and on beverages packaging etc. The initiatives will strengthen the foundation for Denmark's future growth.

The economic growth in Denmark is particularly challenged by a weak productivity growth in the domestically oriented services sector, which at the same time makes up a relatively large share of the total value added, *cf. figure 3.1*. In the utility sector, productivity growth has also been relatively low, while it has been stronger in industry and agriculture.

Service sector businesses exposed to international competition are performing better than the domestically oriented part of the sector. The domestically oriented service sector, including retail, hotels etc. are expected to become more exposed to competition in the future, due to new technologies such as e-commerce and the platform economy.

**Figure 3.1**

**Productivity growth in private industries, annual average, 2002-2016**



Notes: Productivity is measured as GVA in real terms per working hour. The number in brackets indicates the industry's share of total GVA for the private sector in 2016. Productivity calculations for the construction sector are subject to significant uncertainty, *cf.* The Productivity Commission. For private services, the following sectors are omitted: financing and insurance, real estate, and housing but are included in "Total".

Kilde: Statistics Denmark and own calculations

## Retail

On 1 June 2017 the Danish Parliament adopted a modernised Planning Act, which took effect on 15 June 2017. The modernised Planning Act aims to create growth and better opportunities in the retail sector. The rules regarding shop sizes and locations have been eased and municipalities have been given greater flexibility to take local issues into consideration in the planning process for the retail sector and the increasing use of e-commerce. The Planning Act's new retail possibilities are expected to improve competition in the retail sector.

The new retail possibilities in the Planning Act are in line with the recommendations from the European Commission on increased competition and productivity. The new possibilities give the municipalities scope to plan for bigger stores, new shop concepts, combinations with e-commerce, new location opportunities etc., which contributes to support an efficient retail structure, higher productivity, better service, a more diverse selection of goods and lower prices. In effect, the eased rules on shop size and location are expected to lead to increased competition.

On 29 September 2017 the Danish Business Authority adopted guidelines to the municipalities on how to implement the new retail possibilities. As a supplement, the Danish Competition and Consumer Authority developed a tool to evaluate the increased competition. In cooperation with Local Government Denmark (KL), the Business Authority has participated in meetings across the country in order to inform about the new retail possibilities in the modernised Planning Act.

In 2017 the majority of municipalities adopted new local plans including plans for the retail structure. Many municipalities have therefore not yet incorporated the new possibilities for secondary centres and shop sizes. Over the next years it is expected that municipalities will gradually implement the new opportunities. Local Government Denmark has given positive feedback on the new retail possibilities. Parts of the new regulation is based on proposals from Local Government Denmark, this includes the abolishment of the statistical definition of city centres and a less strict definition of goods requiring large quantities of floor space.

The Ministry of Industry, Business and Financial Affairs will monitor the effects of the new regulations with an annual report to the parliament and an overall evaluation of the Planning Act in 2020.

## The utilities sector

The utilities sector provides electricity, gas, drinking water and telecommunication services and takes care of garbage disposal and wastewater treatment. Thus, the sector is of great importance to households and businesses. An average Danish household spends around DKK 35,000 annually on utilities. This is equivalent to what an average Danish household also spends on food. Furthermore the purchases of utility services represent a large share of costs within the manufacturing sector – this applies in particular to the energy intensive production companies.

For a number of years, productivity growth has been weak in the utilities sector despite a great potential for increased efficiency and productivity. This is emphasised by the large price difference depending on the location of the consumer or the business.

Due to these challenges, Denmark's first utilities strategy was launched in September 2016. The strategy provides a framework for the future regulation of the utilities sector. This framework is based on five principles: 1. Exposing non-monopoly tasks to competition, 2. Incentive-based economic regulation of natural monopolies, 3. Good corporate governance, 4. Robust regulation of security of supply, environmental protection and health, and 5. An effective and transparent regulatory authority.

The strategy includes a range of initiatives that will pave the way for annual efficiency gains worth DKK 5.9 billion by 2025.

Since the announcement of the strategy the government has reached political agreements on several of the initiatives in the utilities strategy. These agreements are expected to meet approximately half of the efficiency potential in the utilities sector. The agreements have laid the groundwork for more efficient operations within the electric distribution and the district heating sectors and the Danish Energy Regulatory Authority has been strengthened. Thus, the regulatory authority will contribute more actively to the future development of the sector regulation sector.

Additionally, the government is working towards a unification of the Danish natural gas distribution. This unification will make a consistent distribution tariff possible, regardless of geography. Thus, the competitiveness of the companies within the sectors will not be affected by differentiated gas distribution tariffs.

### Revision of the taxi regulation

On 1 January 2018, the revised taxi regulation entered into force. The revision implements the political agreement of 9 February 2017 on the modernisation of the taxi regulation.

The revised taxi regulation provides a liberalisation of market access and access to the profession. The former regulation distinguished between 4 types of licenses – taxi, limousine, transport as part of caretaking and public service. The revised regulation streamlines the licenses to a single universal license, valid for all types of commercial transport by passenger car.

Following a three year transition period, from 2021 anyone, who fulfils the criteria for access to the profession, can obtain a license. Current license holders will be offered to substitute existing licenses for universal licenses during the transition period.

Licenses will be issued with no geographical restrictions and without limitations on the number of licenses a taxi service provider can obtain. Licenses issued under the current regulation will be valid until the date of expiry. In 2018, 650 new universal licenses will

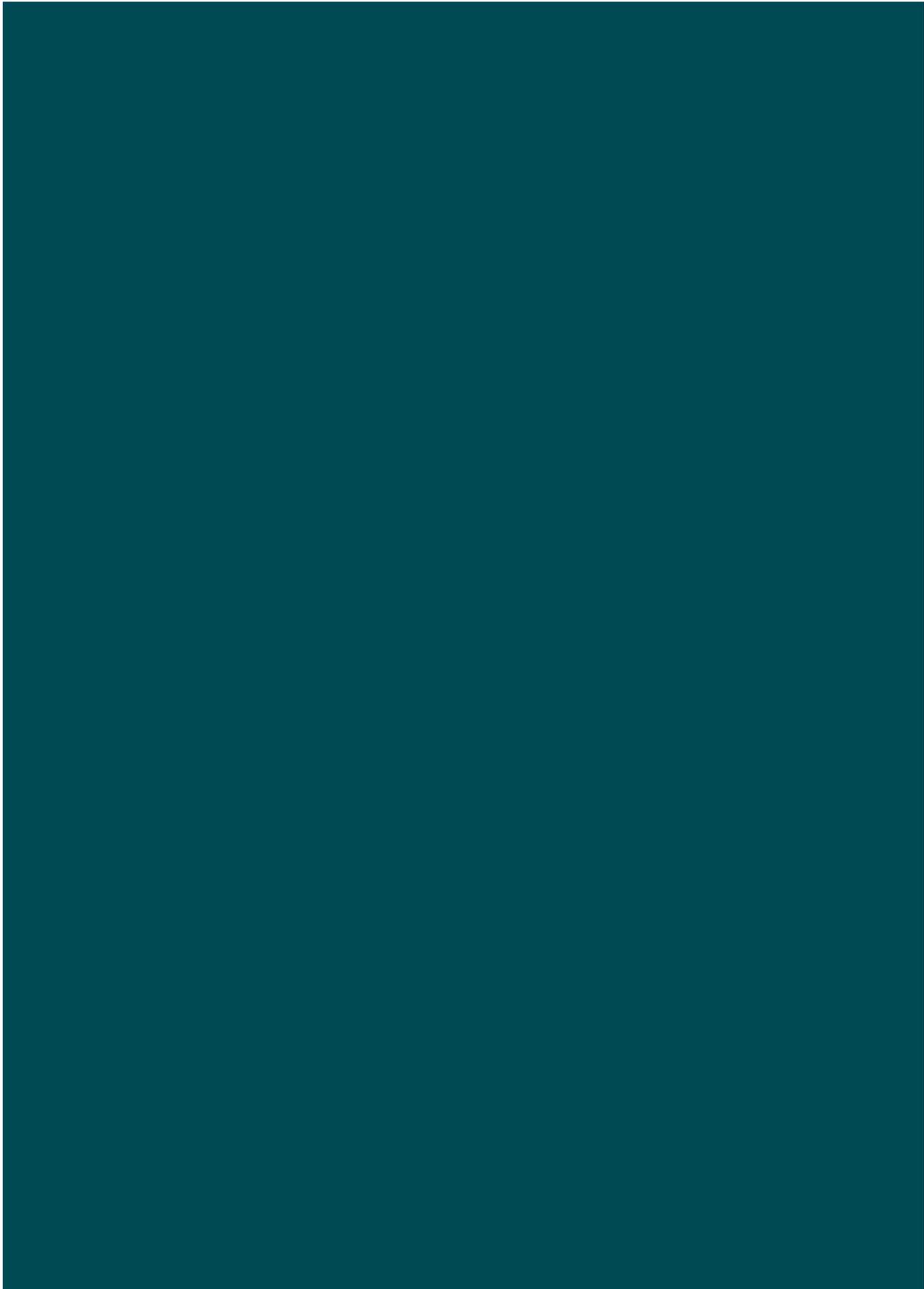
be issued while in 2019 and 2020 500 new licenses will be issued each year. If the demand exceeds the fixed quotas, the licenses will be issued by allotment.

In accordance with the taxi regulation, the provision of taxi services is restricted to designated dispatch centrals. Dispatch centrals are licensed and required to meet a number of requirements, most importantly, with a view to consumer protection and revenue taxation. Dispatch centrals set the level of service and price of the taxis they operate.

Dispatch centrals can hold universal licenses. In the revised taxi regulation, holders of a taxi license are no longer required to establish an office within a given geographical location. Dispatch centrals can be established independently of any affiliated taxi cab owner.

Dispatch centrals can be organised as a company, offering other services besides taxi services. To obtain a dispatch central license, the company must demonstrate professional qualifications, good repute and a company capital of DKK 500.000. In addition, the company should be in possession of digital data collection and storage devices that enable records to be kept of taxi trips carried out incl. GPS information.

The revision of the taxi regulation is expected to increase the supply of taxis while offering differentiated taxi services.



# Chapter 4

## National targets in the Europe 2020 strategy

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

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

**Tabel 4.1**

### Danske nationale mål

	Mål i 2020
The national target for employment	Structural employment rate of 80 per cent amount the 20- 64 year-olds
The national target for research and development	Investments in R&D amount to 3 per cent of GDP
The national target for climate and energy	Renewable energy must account for at least 30 per cent of the final energy consumption. 10 per cent of energy consumption transport must stem from renewable energy. Emissions in non ETS sectors should gradually be reduced by up to 20 per cent compared to 2005
The national target for education	Reduce school dropout to less than 10 per cent for 18-24 year-olds and increase the share of 30-34 year-olds who have completed tertiary education to at least 40 per cent
The national target for social inclusion	Reduce the number of persons in households with low work intensity by 22,000 persons.

### 4.1 The national target for employment

The labour market situation continues to improve and employment is increasing. From late 2012 until third quarter of 2017, an additional 186,000 persons have been employed in the private sector and unemployment has been reduced to a historically low level. In the last quarter of 2017 the waged employment reached a historically high level by exceeding the employment level before the global financial crisis in mid-2008. Employment is expected to increase further in the following years, as already decided reforms

are continuously phased in and the upturn in the Danish economy is expected to continue.

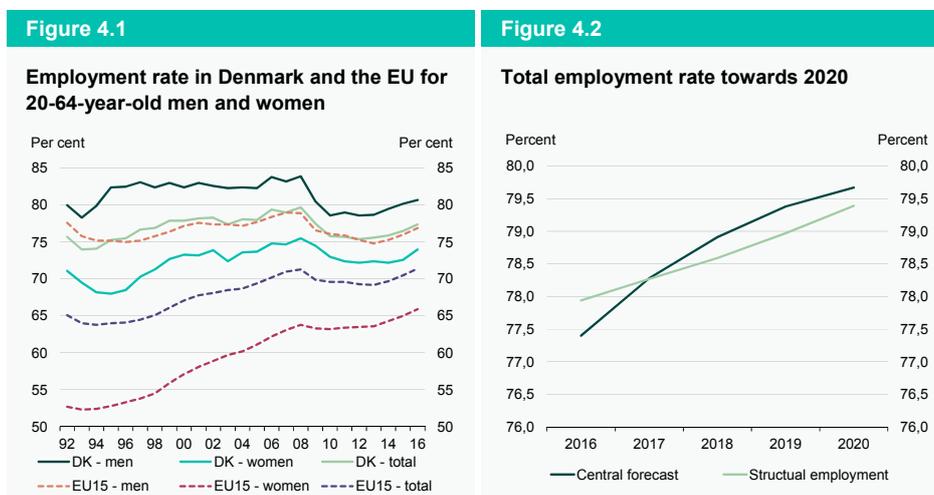
In Denmark's National Reform Programme 2017, the employment gap, i.e. the difference between actual and structural employment, was expected to close in 2018. Due to the increase in employment in recent years employment already reached its structural level in 2017 according to the latest estimate. With the continued increase in labour demand, employment is expected to exceed its structural level by some 15,000 persons in 2019. The labour market is thus close to a situation with full structural capacity utilisation and some sectors are experiencing labour shortages.

From 2016 to 2020 employment is expected to increase by 115,000 persons. About 69,000 of this increase can be attributed to an increase in structural employment which to some extent reflects both previous and more recent reforms and approximately 31,000 persons reflect the cyclical improvement. In the years to come already agreed reforms provide a sound basis for a further increase in employment. From 2020 towards 2025 employment is expected to increase further by 67,000 persons.

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

The Danish employment target is a structural employment rate of 80 per cent in 2020 for 20-64-year olds. The employment rate for 20-64-year olds was 77.4 per cent in 2016 which is about 6 percentage points above the EU average. This difference can to a large extent be explained by the higher employment rate among Danish women, *cf. figure 4.1*.

Employment is estimated to increase from 2016 to 2020, corresponding to an increase in the employment rate of about 2.3 percentage points for 20-64-year olds. The central forecast estimates a 79.7 per cent employment rate in 2020 and a 79.4 per cent structural employment rate in the absence of further initiatives *cf. figure 4.2*. The central forecast of the employment rate is 1 percentage point higher than estimated in Denmark's National Reform Programme 2017. This primarily reflects stronger cyclical developments.



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

Source: Eurostat, Statistics Denmark and own calculations

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

The Government aims to increase employment, especially in the private sector, and to reduce the number of social benefit recipients. Therefore the Government wishes to increase the benefit from employment relative to receiving public transfers. In order to increase employment, a range of initiatives have been implemented since the publication of The National Reform Programme 2017. These include the continuation of *Jobreform* phase 1 and 2 as well as *the Tripartite Agreement On Labour Market Integration*.

The pension agreement from June 2017 (*Aftale om flere år på arbejdsmarkedet*) strengthens incentives for older workers to stay in the labour market. Moreover, steps are being taken in order to improve a wide group of people's limited financial incentive to contribute to private pension schemes (the so-called *samspilsproblem*). At its highest the initiative is expected to increase full-time employment with 2,000 persons in 2035.

In the fall of 2017 the Government reached agreements on reduced car registration tax as well as a package of initiatives targeted businesses and entrepreneurs (*Aftale om erhvervs- og iværksætterinitiativer*). *Reduced car registration taxes* increases the incentives to purchase environmentally friendly and safe cars. *The business and entrepreneurial package* aims to improve the business environment by removing or reducing a range of direct and indirect taxes. The agreements are estimated to increase employment by 1,000 persons in 2020.

Furthermore the agreement on a new holiday legislation (*Aftale om ny ferielov*) implicates a negative contribution of 1,400 full-time workers in 2020. The revision of the legislation reflect a reasoned opinion from the European Commission concerning the former Danish holiday act (*ferielov*) indicating lack of compliance with EU-legislation. However, the agreement includes the right for disbursement of the 5<sup>th</sup> week of vacation, which may partly offset the negative effect on labour supply.

In the agreement on the fiscal bill for 2018 (*Aftale om finansloven for 2018*), rules concerning bereavement leave in the case of infant death have been revised, equating parents by granting fathers/co-mothers the right to 14 weeks of bereavement leave, corresponding to what mothers are currently entitled to. This agreement is estimated to reduce labour supply by 100 full-time employees.

The 2018 tax agreement (*Aftale om lavere skat på arbejdsindkomst og større fradrag for pensionsindbetalinger*) tackles the limited financial incentive (the so called *samspil-problem*) for the wide group of full-time employees with ordinary occupational pension schemes (arbejdsmarkedspension) and strengthens the incentive to continue on the labour market. Meanwhile the reform implies that the incentive to be in full-time employment increases, which provides people who are either unemployed or part-time workers with greater incentive to obtain full-time employment. This agreement is estimated to increase employment of full-time workers by 1,350.

## A simpler and more future-proof employment system

The essence of the Danish labour market model is a flexible, efficient and competitive labour market. In order for the labour market to handle future requirements, the Government has introduced a range of initiatives designed to provide an employment system that is simple and up to date.

### *Streamlining the rules applied to the unemployed*

In November 2017, the Government launched an initiative to ensure a simpler and more efficient active labour market policy system by harmonising rules across target groups, providing online solutions for companies and fewer and simpler process requirements, thus allowing local authorities greater freedom to plan the measures to be offered to the particular citizen. In addition, the simplified rules will give local authorities scope for reducing administrative costs substantially. The Government will continue to monitor how local authorities handle their freedom and comply with the rules.

The initiative is currently the subject of political negotiations, expected to be concluded mid-2018.

### *A new unemployment benefit system for self-employed and atypical workers*

In May 2017, the Government introduced new and more transparent benefit rules that enable workers to combine different types of occupation when determining their right to benefit and calculating their benefit rate. Under the new rules, a person who operates a

self-employed business and is also employed by another business as a wage earner may now include both types of occupation when accumulating benefit rights and calculating the benefit rate.

### *Think tank on retention for seniors*

In 2018, the Government is expected to establish a think tank that will focus on retention and improved conditions for seniors on the labour market. The think tank will give recommendations on how to make seniors stay longer on the labour market, how to improve the quality of seniors' work life and how to get unemployed seniors back to work.

### *The Disruption Council – Partnership for Denmark's Future*

In May 2017, the Government established the Disruption Council – Partnership for Denmark's Future, which will contribute to ensure that Denmark can optimally seize the opportunities of technological developments. The Council has a broad composition of representatives from the social partners, business executives, entrepreneurs, academia and representatives from society in general.

The Disruption Council will conduct its work until the end of 2018, discussing how companies, citizens and the labour market can be equipped to take advantage of the potential from technological and digital development. The Government is expected to launch a strategy based on the Council's work.

## **Initiatives for persons on the margin of the labour market**

The Government's goal is to get everyone on board. It has therefore implemented a range of initiatives aimed to move more people from welfare benefits to employment.

### *Changed rules regarding flexi-job and disability pension*

In February 2018, the political parties behind the disability pension and flexi-job reform agreed to clarify the rules for who may be awarded a disability pension without having been through a so-called resource-building programme first.

### *Skills upgrading for unemployed persons*

In autumn 2017, a programme of skill upgrading initiatives was implemented particularly at job centres and unemployment funds. This was accompanied by an information campaign focusing on encouraging more unskilled benefit claimants to take up vocational training.

### *Project: Moving people affected by illness closer to the labour market*

In 2018, a municipal project will target the group of approx. 27,000 people classified as ready for activity (*aktivitetsparate*) who have remained longest in the social assistance system. Many in the target group are affected by health challenges, which have prevented them from taking part in active programmes, which is why they need support and help with tackling these health challenges on their way to a job. An allocation of DKK 87.5 million has been earmarked for the project from 2018 to 2021.

### ***Promoting the labour market participation of refugees etc.***

In the spring of 2016, the Government entered into two agreements with Local Government Denmark (KL) and the social partners to achieve a more job oriented and enterprise focused integration effort.

The agreements aim to reinforce local authorities' enterprise focused programmes and to deploy them earlier in order to obtain faster integration of refugees through the labour market. In addition, a basic integration training programme (IGU) was introduced. Over a period of two years it offers practical work experience and upskilling to refugees whose qualifications cannot yet sustain a job on ordinary Danish pay and employment conditions. By the end of March 2018, a total of 1,386 IGU programmes have been registered.

Furthermore, funds have been allocated to municipalities in 2018, enabling them to take on local integration and employment ambassadors, who will help match refugees and companies, ensuring a better understanding of the employers' requirements.

### **Denmark's implementation of the EU youth guarantee**

In Denmark, individuals below the age of 30 and without any job-qualifying training or education must be given an active offer no later than after one month of unemployment. The offer must be focused on training and education and continue without interferences until the young person can begin and complete a training programme on regular terms. The training-oriented measures may for instance consist of courses in reading, writing and mathematics, bridge-building programmes at vocational schools, apprenticeships, subsidised jobs and mentorships.

#### ***Controlled trial: Job-bridge to training or education***

In the autumn of 2017, a new initiative was introduced: A controlled trial of bridge-building measures for the most vulnerable young people. The purpose of the controlled trial is to encourage a larger number of vulnerable young persons to begin and complete regular training or education and develop and test an intervention model for local authority work in the area of training or education initiatives for these young people. The project has been earmarked DKK 69 million and will run until end-March 2020 in 11 local authorities.

### **Integration of long-term unemployed persons in the labour market**

The Government puts strong emphasis on labour market integration of the long-term unemployed and the 2016 recommendations from the EPSCO Council. The effects of early and active employment promotion and focus on initiatives to counteract long-term unemployment are reflected in a low number of long-term unemployed people in Denmark compared to other European countries. Thus, the long-term unemployment rate in Denmark is 1.4 per cent versus 4 per cent in EU28 (data for 2016 from Eurostat).

A systemic approach in screening for long-term unemployment contributes to early and increased attention to newly unemployed who may need special support in order to improve their job prospects and to avoid long-term unemployment.

***Project: Retention – a shared objective***

A project was introduced in October 2017 to test a new model for retaining workplace attachment for persons on sick leave. The objective is to create commitment from employers to retain employees on sick leave and maintain their ties to their workplace, thereby assisting those on sick leave to return to their own jobs as soon as possible. 14 local authorities take part in the project. Upon its conclusion the project will be subjected to external evaluation.

**Effects of completed employment reforms**

Denmark has introduced a number of important reforms of employment policy programmes in recent years. The most significant impact analyses published by the Minister for Employment since the last reform programme are described below.

***Benchmarking of local authority employment programmes***

A benchmarking analysis has been carried out to illustrate the ranking of all municipalities (from no. 1 to no. 98) based on their results in the employment area. The municipalities are ranked according to the total number social security recipients in the municipality compared to the expected rate taking into account the local conditions. The ranking also shows the impact on the municipality's finances, if it had had the expected rate of social security recipients.

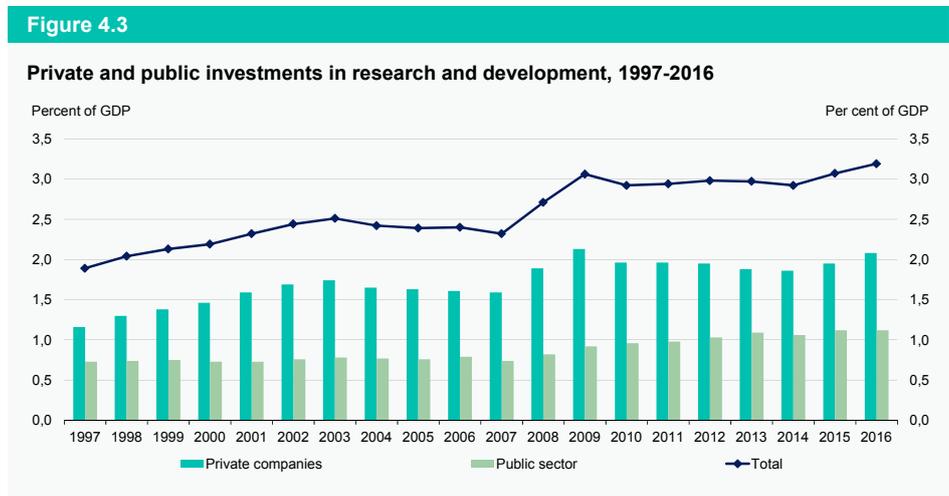
The benchmarking analysis and ranking table are expected to be published in the first quarter of 2018, after which the table will be updated twice a year, making it possible to follow developments in the municipalities' performance.

## 4.2 The national target for research and development

The Danish Government aims to use at least 1 per cent of GDP on public investment in research and development. Moreover, Denmark shares the EU objective of the total public and private sector investment in research and development accounting for 3 per cent of GDP.

The overall Danish research effort is considerably higher today than it was 10 years ago, and Denmark is among the highest-ranked countries in international assessments for investment in research and development.

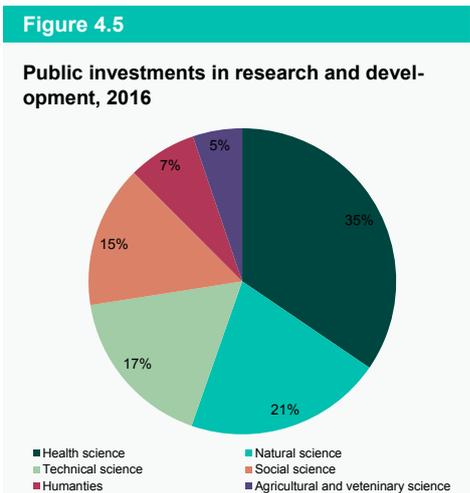
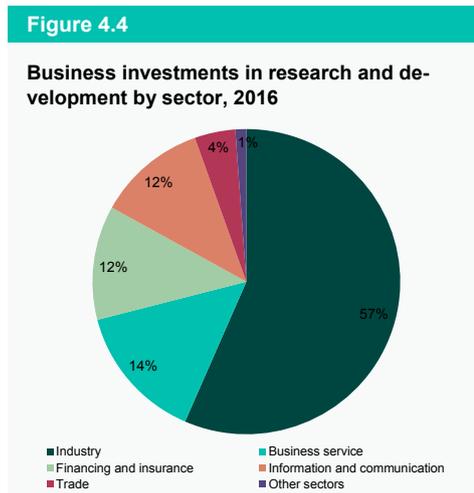
The total research and development (R&D) expenditure in 2016 is calculated to be DKK 66.0 billion, of which public research comprised DKK 23.1 billion, corresponding to 1.12 per cent of GDP in 2016. The private sector carried out DKK 42.0 bn. worth of R&D in 2016, corresponding to 2.08 per cent of GDP, *cf. figure 4.3*.



Note: 2016 is a preliminary figure  
 Source: Statistics Denmark

Total public and private sector investments in research and development have increased from 1.89 per cent of GDP in 1997 to 3.19 per cent of GDP in 2016. Denmark’s R&D investments are thus above the Europe 2020 objective of 3 per cent.

From a historical perspective, the business sector’s share of total R&D expenditures remains high. Danish businesses thereby contribute with the largest share in Denmark’s total R&D investments.



Note: 2016 is a preliminary figure  
 Source: Statistics Denmark and own calculations

The largest share of overall business R&D investments takes place within the industrial sector, which has intensified its R&D efforts significantly since 2008, *cf. figure 4.4*. The second largest share is found among businesses in the service sector, which together with the information and communication sector, account for at least 25 per cent of total investments. However, R&D investments have declined in both sectors in recent years.

At 35 per cent of total public investments, health science R&D accounts for the largest share. Natural science, social science, and technical science, accounts for 21 per cent, 15 per cent, and 17 per cent respectively, *cf. figure 4.5*. Denmark tops the rankings of OECD countries measured by investment in health sciences as share of GDP, and ranks fourth with regard to investment in social science as share of GDP, *cf. Research Barometer 2017*.

Danish research has a strong impact and performs well in international assessments. There is a high level of Danish research production, given that Danish researchers published at least 20,000 scientific publications per capita (*million*) during the period 2012-2016. Denmark ranks third among the OECD countries measured by scientific publication per capita, *cf. Research Barometer 2017*. Danish researchers are also among the most cited. Denmark is ranked fourth measured by number of citation per scientific publication and is ranked second for the share of publications among the 10 per cent most cited publications, only surpassed by Switzerland. Furthermore, Denmark is among the OECD countries with the highest percentage of publications produced as co-publications with the private sector, *cf. Research Barometer 2017*.

Denmark also performs well in the innovation area. According to the European Innovation Scoreboard 2017, which compares the innovative strengths of EU countries, Denmark ranks second in the EU, only surpassed by Sweden. Overall, Denmark performs above average within a number of parameters, including public-private co-publication and international co-publication.

### The Government's research and innovation strategy

In December 2017, the Government published its research and innovation strategy, Denmark – ready to seize the future opportunities, outlining a framework for future research and innovation. The Government put forward two overall objectives for research and innovation policy: Danish research must be of the highest international quality and must provide the best possible benefit for society.

The strategy consists of 28 initiatives. Some initiatives will have an effect here and now in 2018, and some initiatives will support the objectives in the long term. Furthermore, many of the initiatives will be carried out in the coming years in cooperation with stakeholders in the Danish research and innovation system.

Among the strategy's 28 initiatives, two can be highlighted that are relevant to Denmark's Europe 2020 target for research and development of R&D investments comprising 3 per cent of GDP.

**Greater tax relief for research and development**

- The Government wants to strengthen the incentive for businesses to invest in research and development. Investment in research and development is expected to have a positive spillover on the productivity of other businesses. Therefore there will be an increase in deductions for private businesses' R&D investment from the current 100 per cent, to 101.5 per cent in 2019, 103 per cent in 2020, 105 per cent in 2021-2022, 108 per cent during the period 2023-2025, and 110 per cent from 2026. The initiative is part of the Government's political agreement on business and entrepreneurial initiatives from November 2017.

**Better knowledge about Danish businesses' investment in research and development**

- The Government will carry out an analysis of the drivers behind the increased concentration of R&D investment in a small number of large businesses, and the consequences of this for the Danish private sector at large. The analysis should provide better knowledge of Danish businesses' investment in research and development.

### 4.3 The national target for climate and energy

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

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

**The Government's energy and climate policy**

The Danish Government wants Denmark to remain a pioneer in green transition and energy efficiency. The green transition must continue in a sustainable and cost-effective manner and at the same time focus on both employment and competitiveness on the one hand, and environmental and climate concerns on the other. The Government will therefore pursue a target of at least 50 per cent of Denmark's energy needs to come from renewable sources by 2030. Furthermore the Government has committed itself to a reduction target for the non-ETS sectors of 39 per cent in 2030 compared with the level in

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<sup>1</sup> The non-ETS greenhouse gas emissions primarily include emissions from transportation, agriculture and individual heating.

2005. The Government's long-term goal for Denmark in 2050 is to be a low-emission society independent of fossil fuels.

### The energy sector

The transition of the energy sector is essential in the Danish climate action policy. With the Energy Agreement from 2012 a broad majority in the Danish parliament adopted multiple initiatives to support and extend the Danish position in the climate and energy area and additionally support the EU targets, *cf. The Danish National Reform Programme 2013*. The agreement entails large investments in renewable energy and energy efficiency.

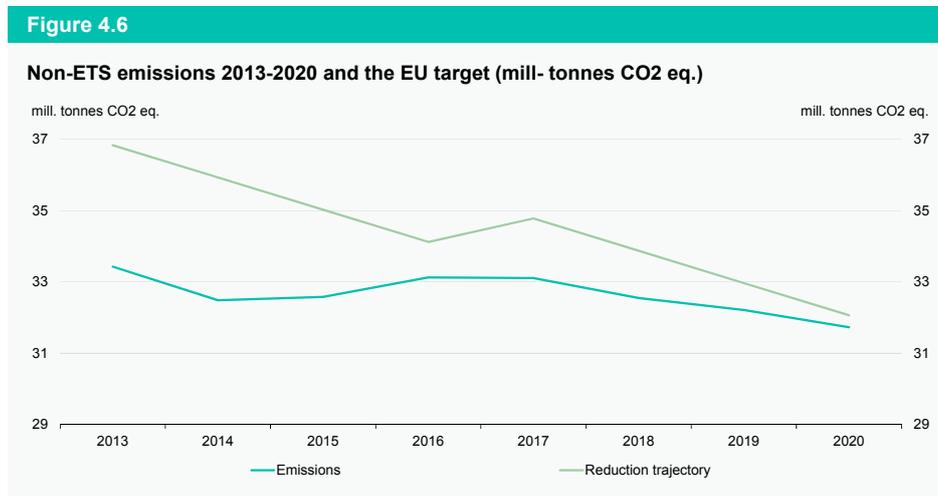
In 2018, the Government will make a proposal for a new energy agreement for the years beyond 2020. The main objective will be to secure a continued transition of the energy sector

### Status for climate and energy policy targets

The latest baseline projection from the Danish Energy Agency was published in March 2017. The projection takes stock of the progress towards the Danish national 2020 targets set by the EU for the climate and energy area.

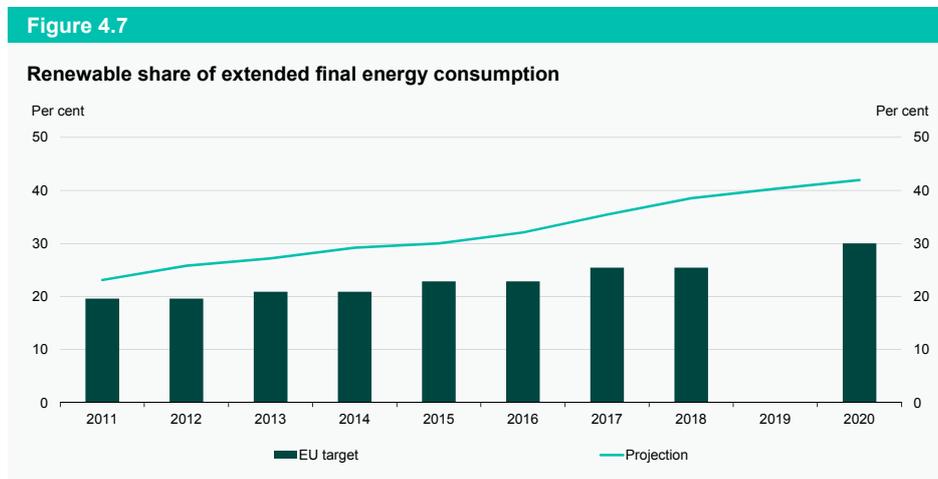
As part of the 2008 EU Climate and Energy Package, Denmark is obliged to reduce emissions from the non-ETS sectors by 20 per cent in 2020 compared with the 2005 level, and to achieve sub-targets in the years from 2013-2020. The sub-targets increase gradually up to the end-target in 2020. Due to natural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

Currently, the projection implies significant over-compliance throughout the period 2013-2019, while a small shortfall is expected in the single year 2020, *cf. figure 4.6*. As previous years' over-compliance may be carried over and used for target performance in 2020, overall Denmark is expected to comply with the reduction obligations. The accumulated over-compliance is expected to be about 9 million tons CO<sub>2</sub> equivalents in total for the whole commitment period.



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

Under the EU Climate and Energy Package from 2008, Denmark has committed to increase its share of gross final energy consumption stemming from renewable sources to 30 per cent in 2020, an increase from approximately 16 per cent in 2005. According to the latest projection, this target is expected to be exceeded with a share of final energy consumption of about 40 per cent in 2020, *cf. figure 4.7*.



Note.: The shown projection of RE-share is from Danish Energy Outlook 2018. The share of RE in the expanded final energy consumption lies above the EU-target throughout the period.

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

The EU Climate and Energy Package also includes a separate renewable share target for the transport sector, by which Denmark is obliged to reach a renewable share in land-based transport of at least 10 per cent by 2020. This target only applies in 2020, with no sub-targets towards 2020. The Danish Energy Agency has prepared an analysis (*VE-analysen*) that describes different examples of how the EU target of 10 per cent renewable energy in the transport sector can be met. In general, with the most recent changes in the EU regulations for target compliance, it has become easier to meet this target. .

In December 2016 the Danish Parliament adopted a blending obligation for advanced biofuels of 0.9 per cent, applicable from 2020. This is higher than the EU's obligation on 0.5 per cent advanced biofuels by 2020. This requirement will contribute to meet the overall 10 per cent requirements for the transport sector.

### EU targets for 2030

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

The EU's heads of state and government have additionally decided that 27 per cent of energy consumption in 2030 is to come from renewables. This target is binding for the EU, but it will not be allocated to individual countries. In addition, an indicative target was set for energy efficiency at EU level of 27 per cent compared with a business-as-usual projection.

In November 2016, the European Commission submitted a proposal for revision of both the Renewable Energy Directive and the Energy Efficiency Directive. The European Commission suggested, among other, a target of 30 per cent improvement in energy efficiency by 2030. The Commission suggests that the target is reached through binding instruments in the secondary regulation. A final agreement will be negotiated between the Council and the European Parliament in 2018.

In 2017, agreements were made regarding legislation for revision of EU's Emissions Trading System and of the effort sharing in the non-ETS sectors were decided. This creates the framework for EU and Denmark's climate action policy in the period 2021-2030. The agreements are expected to be officially accepted in the Council and the Parliament in the beginning of 2018. In the revision of the Emissions Trading Directive it was accomplished to secure structural reforms of the Emissions Trading System, which is expected to minimise the surplus of allowances. This is expected to contribute to a higher price of emitting CO<sub>2</sub> and a more market-based green transition.

In the effort sharing agreement for the non-ETS sectors, Denmark has received a national binding reduction target of 39 per cent by 2030 compared to 2005. However, Denmark has simultaneously been allowed significant flexibility in order to reach the target, partly through the possibility to include improvements in the uptake and emissions from soils and forests and partly through the possibility to utilise restricted amounts of allowances from the EU's Emission Trading System to reach the target.

In 2018, the Government will prepare a cost-effective strategy for the compliance of Denmark's reduction in the non-ETS sectors in 2030.

#### 4.4 The national target for education

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

In 2016, the drop-out rate among 18-24-year-olds was 7.2 per cent, while 47.7 per cent of 30-34-year-olds had completed a higher education programme. Thus the EU headline targets have been achieved.

##### Primary and lower secondary education (*Folkeskolen*)

The reform of primary and lower secondary education (*Folkeskolereformen*) took effect from the beginning of the school year in August 2014. The objective of the reform is to ensure that all pupils reach their full potential, that primary and lower secondary education reduces the significance of social background in relation to academic results, and to strengthen the trust in the school system and the pupils' well-being. The implementation of the reform remains a task that requires a persistent focus for the municipalities and the individual schools.

Evaluations of the implementation of the reform based on feedback from pupils, parents and teachers show that classrooms in 2017 have become more calm and disciplined compared to 2015. Meanwhile, an increased share of teachers find that pupils have become more ready to learn, as exercise and movement has been integrated in the teaching. Another element of the reform was the introduction of the concept open school, where the primary and lower secondary school opens up to its surrounding society, and thereby creates greater variation in the school day and more differentiated teaching. For example, a school could collaborate with local organisations such as sporting associations, music and art schools, after-school activities or local companies. Evaluations show that teachers only used elements of the open school concept to a certain extent, although positive trends were identified in 2017.

Furthermore, one of the objectives of the *Folkeskolereform* is that by 2020, pupils should be taught by teachers with subject-specific educational competence. DKK 1 bn. has been allocated to achieve this target. In the 2016/2017 school year, 85.1 per cent of

teaching within an individual subject, was taught by teachers with competences in the subject in question. This is an increase of 1.9 percentage points compared to the previous year.

In 2017, the extent to which certain rules were binding in the national Common Objectives (objectives for subjects) was relaxed. Fewer objectives are now binding. The overall objectives for what pupils should learn in the individual subjects, and thereby the ambition for academic levels, will remain unchanged. But there will be increased freedom on a local level on how to organise the teaching.

In 2016, in order to ensure a better framework for the integration of newly-arrived refugees, the previous government made initiatives to improve the knowledge regarding reception classes. Screening material was developed to help municipalities and schools in their assessment of the newly arrived pupils' competences. Guidance and inspirational material has also been developed for working with the new pupils.

The academic results for pupils with a foreign background remain below those of pupils with a Danish background. However the gap has decreased in recent years. 76 per cent of pupils with a foreign background obtained a grade of 2 or more in the compulsory core subjects of Danish and mathematics in the 9th grade school-leaving exam in 2017. For students with a Danish background the corresponding figure is 89 per cent. In 2011, the figures were 72 per cent and 87 per cent respectively.

### The preparatory education area

The Danish parliament adopted a reform of the preparatory education area in 2017. Initiatives in the reform will prepare and equip young people currently not in education or employment, for future opportunities after compulsory primary education. A number of the current preparatory options will be merged in a new two-year Preparatory Basic Education (FGU).

The new Preparatory Basic Education will prepare young people under 25 with professional, personal and social skills to pursue a vocational education or other youth education, or gain a lasting foothold in the labour market. The reform includes a requirement for municipalities to set up a cohesive, coordinated youth initiative.

### Vocational education and training

The reform on better and more attractive vocational education and training programmes took effect from the beginning of the school year in August 2015. One of the objectives is to ensure more young people pursue a vocational education and training programme immediately after the 9th or 10th grade. The target is that by 2020, 25 per cent will choose a vocational education and training programme, increasing to 30 per cent by 2025.

After almost a year and a half, the reform is showing a number of positive trends. Far more young people are pursuing a vocational education and training programme with an *EUX* programme, which combines vocational education and training with an upper

secondary school leaving certificate. There is generally a positive image associated with the well-being of students. However, it remains difficult to encourage more pupils to choose a vocational education and training programme directly after 9th or 10th grade, as the figure today is 19.4 per cent.

The Government and the social partners concluded a tripartite agreement in August 2016 on the sufficient and qualified labour in Denmark and apprenticeships for young people. With the agreement, the employers commit to create 8,000-10,000 extra apprenticeships. It was decided to establish a number of advantage education programmes. The programmes ensure that students can complete their vocational education and training programme with a work placement. The first reports show that more young people are applying to these advantage programmes than to other vocational education and training programmes.

### General upper secondary education programmes

The reform of the general upper secondary education area took effect from the 2017/2018 school year. The reform is continuously followed-up, with close involvement from relevant stakeholders.

Preliminary feedback on the reform indicates that fewer students are leaving the education programmes. There are also indications that the new introductory course, where students are challenged on their choice of specialised study programme (stx, htx and hhx) seems to be working as intended.

Following the political agreement to strengthen general upper secondary education programmes, the Government has launched its national language strategy. The strategy will boost students' language skills across the entire education system, and meet the demand from the labour market for more employees with multiple language skills. The strategy's aim is to ensure more pupils and students are inspired from an early age with high quality language teaching, and that language education programmes should be strong academic programmes that attract and retain the most talented students.

### Adult education and continuing training

The Government and the social partners concluded a tripartite agreement in October 2017, which will significantly strengthen the adult, continuing and further education and training system. Employees and companies will thereby have access to a strong, focused, transparent, and more flexible education system.

Around DKK 400 million has been allocated to a fund aimed at upgrading the competencies of both skilled and unskilled workers in Denmark. This way the workers will gain the skills and competencies that is in demand by companies as the labor market changes.

The tripartite agreement includes initiatives of DKK 2.5 billion in total over a four year period. There will be an evaluation by the end of the period.

## Higher education programmes

In June 2017, an amendment to strengthen the management framework at Danish universities was adopted in the University Act. The amendment clarifies the university board's role and responsibility, changes the procedure for appointing external members to the board, and strengthens the dialogue between boards and the Minister for Higher Education and Science. Moreover, the former development contracts are replaced with strategic framework contracts. In 2018, the Danish Government will also look at the management framework for university colleges and academies of professional higher education.

In November 2017, the Government entered into a broad political agreement on a new funding system for higher education programmes. The fundamental objective of the new funding system is to increase the quality in programmes and boost the managerial focus on good teaching and education, and a better transition to work after study completion.

The same month, a legislative bill was adopted giving relevant educational institutions the opportunity to offer Master's vocational education programmes part-time over a period of four years with a full taximeter grant, and without participant fees or student grants (SU).

As part of the Government's decision to relocate government jobs and create a better balance in Denmark, ten new educational stations across the country were created. Academies of professional higher education and university colleges can arrange education programmes so that students can complete parts of the programme at a "station" in areas where there are few existing education programmes and a demand for workers.

The Government aims to improve the quality of higher education programmes and the link between higher education programmes and the labour market. To this end, the Government has established an expert group to outline concrete models for better university education programmes. The expert group will examine the length, content and structure of the programmes. The group reported in March 2018.

In March 2018, the Government published new targets for higher education programmes. The targets support the Government's overall ambition that higher education programmes should be of high quality and promote growth and employment. A number of measurable indicators are introduced as part of the targets.

With regards to ensuring a more robust students' grant (SU) system, the Government will present a proposal for reorganising the system. The Government propose that during the period 2019-2025, all of the direct proceeds from the reorganisation be placed in a competence pool, which will be used to strengthen Danes' competences and prepare the workforce for the future labour market.

Finally, the Government will announce an elite initiative in early 2018. The initiative will be aimed at the most talented students in higher education programmes. And to a greater extent, ensuring they are challenged and developed even more via greater and a more systematic distribution of efforts focused on this group of students.

## 4.5 The national target for social inclusion

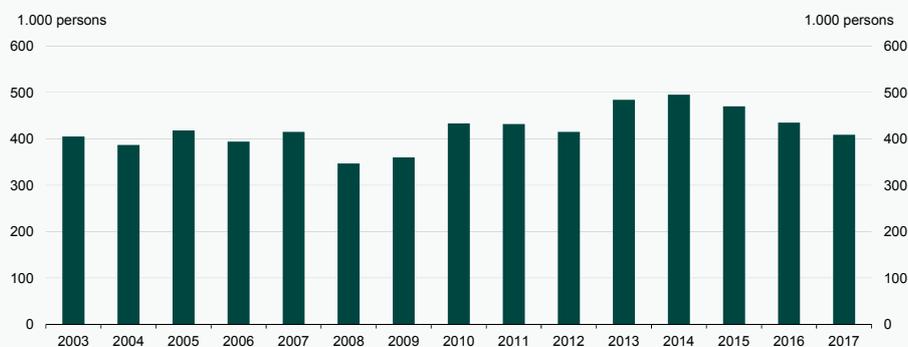
Under the Europe 2020 Strategy, the Danish government set the national target that more people should be lifted out of social exclusion and included in the working community. Over the recent years, the government has strengthened the economic incentives for active participation on the labour market. In parallel, the course for the social policy is set by 10 specific Goals for Social Mobility.

### The development of the Danish 2020 target

As a part of the Europe 2020 Strategy's target of lifting 20 million Europeans out of poverty and social exclusion, the Danish government's target is to reduce the number of people living in low work-intensity households (LWI) with 22.000 by 2020. According to Eurostat, 409.000 persons are living in low work intensity households in Denmark in 2017. This represents a decrease of 26.000 persons since 2016. The decrease from previous years thus continues and the number of persons in LWI-households has fallen by 86.000 persons since 2014, *cf. figure 4.8*.

**Figure 4.8**

#### People in households with low employment (LWI)



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

Source: Eurostat

The decrease is due to the high level of job-creation. Since the spring of 2013, employment has increased with close to 167.000 persons (1<sup>st</sup> quarter 2013 to 3<sup>rd</sup> quarter of 2017). Even if employment growth is expected to slow down, employment is still expected to increase with 33.000 and 23.000 persons in 2018 and 2019. This year, employment is expected to reach a historic high, *cf. Economic Survey, December 2017*.

2008 is the baseline year for all EU-countries 2020-target for social inclusion. In Denmark the number of persons in LWI-households was 347,000 persons, making it a historically low level, *cf. figure 4.8*. Between 2008 and 2014 the number of persons living in LWI-households increased due to the 2008-2009 economic recession and the following period of subdued growth and lower employment.

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

Since 2008 there has been a significant increase of students in higher education, these are often included in the LWI, because students in Denmark typically live in independent households. In 2017, there was close to 14.000 more students between 25-29 years in higher education compared to 2008. Thus, the 2017 number of LWI-households is still approximately 62.000 persons above the level from 2008 in spite of significant improvements over the last years. The reforms in recent years of disability pension, social assistance, sickness benefit and unemployment benefit set the framework for more people becoming an active part of the labour market. Therefore, the reforms and initiatives described in chapter 4.1 also to a great extent influence the number of persons in LWI-households.

In parallel with the reinforced economic incentives to work, focus is on assisting those who are vulnerable and socially excluded in getting on the right track in life and into the labour market. For example there is a continued focus on municipalities' cross-sectorial and holistic approach during the resource-building programme (*ressourceforløb*).

### Development of the 10 Goals for Social Mobility

While more people are included on the labour market, the government also aims for fewer marginalised people. The individual ought to have the best possible basis for achieving as much as possible with the resources they have. Likewise, efficient support has to be provided for persons and families, who are in need of assistance. To achieve this, socially excluded and vulnerable people have to be met with a more efficient social policy. The Government's 10 Goals for Social Mobility from May 2016 sets the course for the social policy and underpin evidence-based approaches that on basis of documented efficient methods improve the life-situation of the individual.

**Box 4.1****The Government's 10 Goals for Social Mobility****More people in the labour force**

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

**Fewer marginalised people**

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

Since 2016, the Government has monitored the development of the 10 Goals for Social Mobility in the annual Social Policy Report. This gives information on who the socially excluded and people with disabilities are, and how they are best assisted. The latest 2017 report shows that there is progress for most of the Goals for Social Mobility. The development thus seems to be going in the right direction, even if it is only small steps from year to year.

More people with disabilities seem to be entering into education and employment. The same trend is seen among people with mental and social challenges. From 2014 to 2015 the employment and education rate for both groups increased by 1 percentage point. Furthermore, there are indications that drug and alcohol abuse treatments are improving. In 2015, 46 per cent concluded their treatments as either clean or with a reduced and stabilized level of abuse. This represents an increase by 3 percentage points in comparison to 2014.

Crime-rates among disadvantaged young people also seem to be declining. In 2015, 8 per cent of disadvantaged 15-17 year-olds received a criminal conviction, in comparison to 9 per cent in 2014. However, there has been a little decrease, from 51 per cent in 2014 to 48 per cent in 2015, in the share of young people (aged 18 to 21) who are in or have completed upper-secondary education. The Government's objective is for more young people to complete a youth-education. Since the last publication of 10 Goal for Social Mobility in 2017 a new survey indicates that the number of homeless people have increased from approx. 6,100 persons in 2015 to approx. 6,600 persons in 2017.

The 98 Danish municipalities are the main implementer of social policies. Under the legislative framework, they have a relatively large degree of freedom in adjusting choice of methods to local circumstances. Thus, social progress is fostered by underpinning and supporting development and dissemination of social methods with a documented effect (see Development and Investment Programme in Denmark's National Reform Programme 2017).

The National Social Board under the Ministry for Children and Social Affairs provide documented methods for municipalities and institutions on a knowledge portal (Videnportalen.dk) as well as instruments to identify promising practices that are expected to result in positive changes for the citizens.

## Reforms for better social protection and services

In 2017, the government has taken steps to improve services such as Early Childhood Education and Care (ECEC) and social interventions for homeless and socially excluded, likewise voluntary work has been strengthened. This is achieved through reforms, action plans and projects financed under the national social funds (satspuljen, or the 'Rate Adjustment Funds').

### *Better quality in ECEC*

In 2017 the Government reached a political agreement on ECEC. The Government allocated DKK 580 million for 2017-2020. The agreement includes 24 initiatives, of which several can contribute to prevent inter-generational transmission of social exclusion. The agreement focus on three central issues:

- **Increased flexibility and freedom of choice for families.** The Government aims to improve parents' freedom of choice, strengthening existing flexible services and improving the framework for a good work-life balance for families.
- **Improvement of learning and well-being for all children and a cohesive child life.** The Government focus on key development and learning environments in ECEC, in order to ensure learning, development and well-being of all children, and that they are well on in their way in life.
- **Focus on high quality through professionalism and leadership.** A number of initiatives aim at strengthening knowledge and maintaining experience in both education and the professional dialogue. Other initiatives focus on dissemination of pedagogical research and other knowledge through online portals, consultancies and network.

Parallel to the ECEC-agreement, a research project on better transition between ECEC and schools has been allocated DKK 10.8 million for 2016-2018. The purpose is to examine effectualness of pedagogical methods and interventions in order to strengthen cognitive and social competences among marginalized children at the age of 4 to 6. The interventions are tested in three municipalities with deprived housing.

### *Action Plan on fighting Homelessness*

The Danish Centre for Social Science Research (VIVE) makes a biannual mapping of homelessness on behalf of the Government. The latest shows an increase in the number

of homeless persons from 6.138 in 2015 to 6.638 in 2017<sup>2</sup>. There are especially increases in the number of young and female homeless.

In October 2017 the Government initiated a comprehensive Action Plan with 14 initiatives focusing on national dissemination of effective measures, strengthening of preventive measures and an easier way out of homelessness. The initiatives include establishing social investment funds for homelessness, developing national guidelines for fighting homelessness, developing a Housing First for Youth method and improved support of user-organisations on homelessness. DKK 154 million been allocated for 2018-2021 with the agreement on Rate Adjustment Funds<sup>3</sup> (*Satspuljeaftale*) for 2018.

### *A Strategy for a stronger Civil Society*

With a new 2017 strategy for the civil society, the Government aims to fight loneliness and foster participation in societal communities, so that socially excluded children, adults, elderly and people with disabilities who are not a part of the labour market community to a higher degree becomes a part of the voluntary work communities.

The strategy contributes to strengthen voluntary work in all parts of the country. Initiatives include a fund for cooperation between municipalities, civil society organisations and centres for voluntary work aiming for fewer persons to be outside the local communities and create new innovative local social solutions. Furthermore, an analysis is conducted on how a state level structure and funds administration on civil society can support the sector without resulting in unnecessary bureaucracy. With the agreement on Rate Adjustment Funds for 2018 there is allocated DKK 120.6 million for 2018-2021.

### *Initiatives targeting socially excluded children and young*

The agreement on Rate Adjustment Funds for 2018 also allocates close to DKK 74 million for the foster care sector. The initiative aims to secure a better and more stable life for foster care children by strengthening the quality of foster care families, providing more intensive support at the beginning of a foster care and creating network activities.

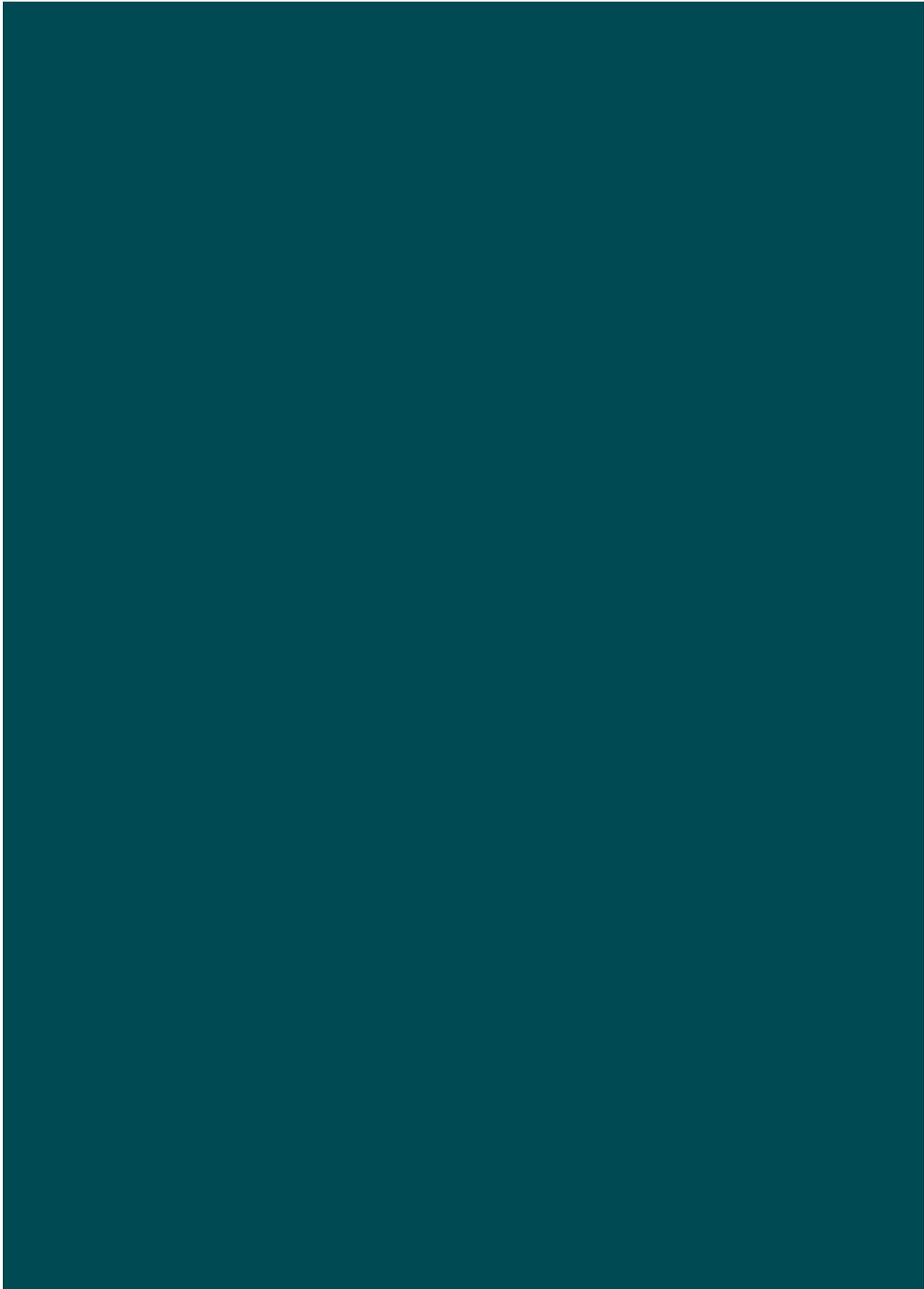
With the Development and Investment Programme for adults, DKK 79 million was allocated for municipalities who wish to reorganise their 'after care' (*efterværn*) this includes special focus on motivational skills for socially excluded young giving them a better transition into an independent adult life. A partnerships with 2 municipalities has already been agreed and further 4-5 municipalities are expected to join the initiative.

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<sup>2</sup> The number represents a 'snapshot' of the number of homeless in one particular week in February 2015 and 2015, it does not correspond to the accumulated number of homeless in Denmark throughout the year.)

<sup>3</sup> The Rate Adjustment Fund is a public fund related to the annual adjustment of the income transfer rates, which is earmarked for the most disadvantaged groups in society.





# Chapter 5

## Institutional issues and stakeholder involvement

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

The Government and the Danish Parliament have agreed on an extended involvement of the European Affairs Committee and the Finance Committee in relation to discussions on the European Semester and the National Reform Programme. This implies that the Government (in addition to current discussions of the European growth and employment agenda) will brief the European Affairs Committee and the Finance Committee of the Danish Parliament and discuss the most important questions in those committees. Overall three annual joint briefings are held during the European Semester. The procedure is as follows:

In autumn, following the publication of the Commission's Annual Growth Survey, the Government will in joint consultation inform the European Affairs Committee and the Finance Committee of the content of the Annual Growth Survey. During spring, the Government will in joint consultation inform the two parliamentary committees of the expected contents of the Danish National Reform Programme and Convergence Programme 2018 and the Commission's country report for Denmark.

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

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

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

The Contact Committee does not replace the various special EU committees within the framework of the Danish EU decision-making procedure, but acts as a parallel consultation forum in the growth and employment area. The Committee is an important forum for dialogue between decision-makers and interest organisations on the European growth and employment agenda and is of key importance in terms of achieving a consensus on Danish priorities in the growth and employment area.

The members of the Contact Committee meet typically three times a year at respectively official and ministerial level. In the first half of the year, the Contact Committee is kept informed of the development of the European Semester, the current European growth and employment agenda as well as the preparation of the National Reform Programme.

In the second half of the year, the Contact Committee is informed about the Annual Growth Survey and thematic meetings are held with a focus on elements of the growth and employment agenda, e.g. a meeting was held in October 2017 chaired by the Minister for Foreign Affairs with focus on the current discussions regarding the future of the EU and the consequences of the British referendum on their withdrawal from the European Union.

The draft of the Danish National Reform Programme 2018 was sent for consultation to the Contact Committee and discussed at a meeting of the Committee on 6 March 2018. The Committee members subsequently had the opportunity to submit comments in writing. To the extent possible, the comments submitted by the Committee are reflected and incorporated in the National Reform Programme.

#### Box 5.1

##### **The Government's orientation of the Danish Parliament on the European Semester and the NRP ("the national semester")**

8 December 2017: Joint consultation of the European Affairs Committee and the Finance Committee on the Commission's Annual Growth Survey of 2018 and the Commission's early warning report in 2018 under the macroeconomic imbalances' procedure.

15 March 2018: Joint consultation of the European Affairs Committee and the Finance Committee on the expected contents of the Danish National Reform Programme and Convergence Programme 2018 and the Commission's country report for Denmark etc.

June 2018: Joint consultation of the European Affairs Committee and the Finance Committee on the draft country-specific recommendations.

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