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Recommendation for a

**COUNCIL RECOMMENDATION**

**on the economic, social, employment, structural and budgetary policies of Denmark**

{SWD(2026) 204 final}

Recommendation for a

# COUNCIL RECOMMENDATION

## on the economic, social, employment, structural and budgetary policies of Denmark

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 ([1]), and in particular Article 3(3) 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) Regulation (EU) 2024/1263 specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, as well as preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the Treaty on the Functioning of the European Union (TFEU). The European Semester includes, in particular, the formulation and the surveillance of the implementation of country-specific recommendations.

(2) On 16 July 2025, the Commission adopted its proposal for a regulation establishing the European Fund for economic, social and territorial cohesion, agriculture and rural, fisheries and maritime, prosperity and security for the period 2028-2034 and amending Regulation (EU) 2023/955 and Regulation (EU, Euratom) 2024/2509 ([2]). The proposal aims to increase the effectiveness of Union funding by reducing the fragmentation of

[1] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj)

[2] Proposal for a Regulation of the European Parliament and of the Council establishing the European Fund for economic, social and territorial cohesion, agriculture and rural, fisheries and maritime, prosperity and security for the period 2028-2034 and amending Regulation (EU) 2023/955 and Regulation (EU, Euratom) 2024/2509 - COM(2025) 565 final. The proposed Regulation is currently the subject of negotiations with the co-legislators.

the financial architecture and to support Member States in the coordination of their economic policy in line with Article 175 TFEU.

(3) On 25 November 2025, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2026 Alert Mechanism Report, in which it did not identify Denmark as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, a recommendation for a Council recommendation on human capital in the European Union, and a proposal for the 2026 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area ([3]) on 21 April 2026 and the Joint Employment Report, and the Recommendation on human capital on 9 March 2026.

(4) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the Union's global competitiveness over the next five years. It identifies the three transformational imperatives of innovation, decarbonisation and competitiveness, and security as critical pillars for sustainable economic growth. The European Semester is aligned with the Competitiveness Compass, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

(5) In 2026, the European Semester for economic policy coordination continues to develop alongside the final stage of the Recovery and Resilience Facility (RRF) implementation ([4]). Recovery and resilience plans (RRPs), along with cohesion policy funding, have been essential for delivering on the policy priorities under the European Semester, as the plans were required to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent cycles, and programmes funded by the European cohesion policy were required to take country-specific recommendations into account. As the RRF approaches the end of its lifetime, it remains essential to sustain the reforms and investments supported and implemented under the RRF, in particular those that contribute to addressing challenges identified in the country-specific recommendations.

(6) On 3 June 2026, the Commission published the 2026 country report for Denmark. It assessed Denmark's progress in addressing the relevant country-specific recommendations and took stock of Denmark's implementation of the RRP. On the basis of that analysis, the country report identified the most pressing challenges Denmark is facing. It also assessed Denmark's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(7) On 21 January 2025, the Council, upon the assessment and recommendation of the Commission, adopted a Recommendation endorsing the national medium-term fiscal-

[3] OJ C, C/2026/2434, 28.4.2026, ELI: http://data.europa.eu/eli/C/2026/2434/oj

[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

structural plan of Denmark ([5]). The plan covers the period from 2025 until 2028 and sets a budgetary constraint in the form of a maximum net expenditure growth rate over four years. The Council recommended the following maximum growth rates of net expenditure: 5.0% in 2025, 5.7% in 2026, 3.8% in 2027 and 2.9% in 2028, which correspond to the maximum cumulative growth rates calculated by reference to the base year of 2023 of 12.6% in 2025, 18.9% in 2026, 23.5% in 2027 and 27.1% in 2028.

(8) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission has invited Member States to request the activation of the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending ([6]) and this proposal was welcomed by the European Council of 6 March 2025. Following the request of Denmark, on 8 July 2025 the Council, upon a recommendation from the Commission, adopted a Recommendation allowing Denmark to deviate from the recommended maximum growth rates of net expenditure ([7]). The period when the national escape clause is activated (2025-2028) allows Denmark to reprioritise government expenditure or increase government revenue so that lastingly higher defence expenditure would not endanger fiscal sustainability in the medium term.

(9) On 30 April 2026, Denmark submitted its 2026 Annual Progress Report ([8]) on adherence to the recommended maximum growth rates of net expenditure.

(10) Real GDP growth in 2025 was 2.9% and HICP inflation stood at 1.8%. The Commission Spring 2026 Forecast projects real GDP to grow by 1.9% in 2026 and 1.8% in 2027, and HICP inflation to stand at 1.8% in 2026 and 1.9% in 2027.

(11) Based on data provided by Eurostat ([9]), Denmark's general government surplus decreased from 4.5% of GDP in 2024 to 2.9% of GDP in 2025. The decrease in the surplus in 2025 mainly reflects increased spending on defence. Based on policy measures known by the cut-off date of the forecast, the Commission Spring 2026 Forecast projects a surplus of 0.9% of GDP in 2026 and 0.5% of GDP in 2027. The decrease in the 2026 surplus mainly reflects increased expenditure, notably on defence, as well as some revenue measures.

(12) Based on data provided by Eurostat ([10]), general government debt decreased from 30.5% of GDP at the end of 2024 to 27.9% of GDP at the end of 2025. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2026 Forecast projects the debt-to-GDP ratio to decrease to 27.0% by the end of 2026 and to further decrease to 26.2% by the end of 2027.

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[5] Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Denmark (OJ C, C/2025/654, 10 02 2025, ELI: http://data.europa.eu/eli/C/2025/654/oj).

[6] Communication from the Commission, 'Accommodating increased defence expenditure within the Stability and Growth Pact', Brussels, 19 3 2025, C(2025) 2000 final.

[7] Council Recommendation of 8 July 2025 allowing Denmark to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), (OJ C, C/2025/3963, 20.8.2025, ELI: http://data.europa.eu/eli/C/2025/3963/oj).

[8] The 2026 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en

[9] Eurostat-Euro Indicators, 22 04 2026

[10] Eurostat-Euro Indicators, 22 April 2026.

(13) Based on Eurostat data ([11]), total general government defence expenditure in Denmark amounted to 2.2% of GDP in 2025, corresponding to an increase of 1.0 percentage points of GDP compared to the reference year 2021. According to the Commission Spring 2026 Forecast, it is projected at 2.6% of GDP in 2026, corresponding to an increase of 1.4 percentage points of GDP compared to 2021.

(14) The Union continues to face risks of energy supply disruptions and elevated price volatility, exacerbated by geopolitical tensions which affect global oil and gas markets. Experience from the 2022–2023 energy crisis has shown that broad and untargeted measures entail large fiscal costs and are socially and economically inefficient. Since the outbreak of the war in the Middle East in February 2026, Denmark has not adopted new fiscal policy measures to mitigate the impact of high energy prices on households and firms ([12]).

(15) Based on the Commission's calculations, net expenditure in Denmark grew by 7.3% in 2025 and by 10.9% cumulatively over 2024 and 2025. The net expenditure growth in 2025 is above the recommended maximum growth rate, corresponding to a deviation of 1.0% of GDP in annual terms. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is below the recommended maximum growth rate ([13]).

(16) Based on the Commission's calculations, net expenditure in Denmark is projected to grow by 6.7% in 2026, and 18.3% cumulatively over 2024, 2025 and 2026. The projected net expenditure growth in 2026 is above the recommended maximum growth rate, corresponding to a deviation of 0.4% of GDP in annual terms. When considering 2024, 2025 and 2026 together, the projected cumulative growth rate of net expenditure is below the recommended maximum growth rate ([14]).

(17) The systematic, meaningful and timely involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the Union's funding instruments, as well as in the context of the European Semester.

(18) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF) and the European Social Fund Plus (ESF+) in Denmark, is above the average pace at EU level, both in terms of project selection and payments. It is important to keep current momentum, while maximising the impact of investments on the ground. Denmark is already taking action under its cohesion policy programmes to boost competitiveness and growth. It is essential to ensure that the new investments identified by Denmark in its mid-term review of the cohesion policy funds, notably those linked to the five priorities identified in the Mid-Term Review Regulation ([15]), are deployed rapidly and effectively.

[11] Eurostat, government expenditure by classification of functions of government (COFOG).
[12] This reflects the situation at the cut-off date of the Commission Spring 2026 Forecast (4 May 2026).
[13] As Denmark benefits from flexibility under the national escape clause, the assessment of compliance focusses on the latter comparison.
[14] As Denmark benefits from flexibility under the national escape clause, the assessment of compliance focusses on the latter comparison.
[15] Regulation (EU) 2025/1914 of the European Parliament and of the Council of 18 September 2025 amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review.

(19) Denmark faces several challenges related to innovation and productivity, energy transition, sustainable agriculture, circular economy and waste management, skills and housing.

(20) Productivity growth remains concentrated in a small number of large firms, while small and medium-sized enterprises (SMEs) continue to face barriers to innovate and adopt new technologies, especially in regions outside of the Capital Region, highlighting a limited diffusion of innovation among SMEs. Denmark has made progress in fostering innovation with political agreements on multiannual research and innovation funding and on strengthening knowledge and technology transfers from universities to businesses. However, while recent policy measures are positive, they are not fully tackling specific weaknesses of the innovation system. Strengthening access to more targeted and streamlined innovation support instruments, reducing fragmentation and administrative burden, improving knowledge diffusion between research institutions and firms, and enhancing the national innovation procurement framework would help SMEs integrate cutting-edge solutions and participate more actively in research and innovation ecosystems.

(21) Access to scale-up financing is critical for supporting the growth of innovative businesses and their contribution to productivity and economic dynamism. Despite a sizeable equity market, the number of initial public offerings is low, with the market being dominated by a small number of large companies. At the same time, venture capital activity has remained broadly stable in recent years while some Danish companies have been seeking scale-up capital through relocation to larger international markets with deeper capital pools and more supporting frameworks to scale. These indicate that there is scope for further development of growth-stage equity and improving conditions for initial public offerings in Denmark to secure capital for expansion, internationalisation and innovation of local dynamic firms. A greater mobilisation of household and institutional savings into equity investments, including by addressing shortcomings related to Danish investment and savings accounts, would help deepen domestic capital markets even further and increase the supply of long-term financing.

(22) In 2025, 92.4% of Denmark's net electricity generation came from renewable sources, which was the highest percentage in the EU that year, as well as the highest in Denmark's history. After facing setbacks in its offshore wind development plan, new tenders for offshore wind farms were announced at the end of 2025, offering state support to potential developers under a two-way contract-for-difference model. Denmark made use of the Clean Industrial Deal State Aid Framework (CISAF). Further measures to accelerate the deployment of home-grown renewable energy have been either adopted or credibly announced in 2025, including in response to the recommendations by the National Energy Crisis Team (NEKST).

(23) The high proportion of renewables in Denmark's electricity generation mix means that further electrification across sectors could be a powerful decarbonisation and energy affordability lever, particularly in a context of volatile fossil fuel markets. A significant step was taken on 1 January 2026, when the electricity tax for households was cut from 72.7 øre to just 0.8 øre per kilowatt-hour. This is a welcome development also from an energy affordability perspective, considering that the electricity bill for Danish households in 2025 was amongst the highest in the EU, largely due to taxation. However, the reduction of the electricity tax for households is only temporary (for two years). For industrial consumers, electricity taxes are already

largely recoverable. To realise its full potential, Denmark would benefit from promoting further electrification, including by adopting a comprehensive electrification strategy setting out more structural measures and time-bound sectoral targets.

(24) Despite substantial investments in the electricity grid in recent years, Denmark’s network is under severe strain due to unprecedented demand for new connections, particularly from data centres, Power-to-X projects and battery energy storage systems. This has forced the national electricity transmission system operator to temporarily suspend the conclusion of new grid connection agreements and extend processing times for projects in the screening and maturity phases. Although some measures have been implemented or credibly announced to address this situation and accelerate the network expansion, grid capacity is likely to remain scarce in the medium term. Against this context, Denmark could act to reduce average processing times for environmental approvals by competent agencies, including by ensuring adequate staffing levels. Denmark could also consider measures to further improve grid queue management and grid flexibility, in a view to optimise the use of the existing grid infrastructure. Furthermore, Denmark’s electricity consumers remain exposed to volatile prices, with spikes during periods of low renewable output when costly fossil-fuel generation is more likely to set marginal prices, highlighting the continued importance of non-fossil flexibility solutions, such as energy storage and demand-response tools, to balance supply and demand across all relevant timescales and improve overall system flexibility.

(25) The agricultural sector is the main source of Denmark's greenhouse gas emissions that are covered by the Effort Sharing Regulation ([16]). Intensive agricultural practices are also causing excessive nutrient leaching and runoff from fields, with serious repercussions on soil health, nature, and aquatic and marine ecosystems. Making the agri-food sector more sustainable is key to achieving climate objectives and ensuring sustainable prosperity. The political agreement on a ‘Green Denmark’, reached on 18 November 2024, remains the key national policy framework guiding efforts in this area. In 2025, each of the 23 local tripartite configurations established under the agreement adopted a plan to convert agricultural areas into nature. Furthermore, an agreement has been reached on a new nitrogen regulation, which stipulates that, from 2027 onwards, capped nitrogen discharge quotas will be allocated to farmers nationwide. This new model is expected to reduce nitrogen emissions by 7 900 tonnes. Building on these positive steps, swift implementation of the agreed measures remains crucial to ensure that the climate and environmental targets set out in the ‘Green Denmark’ agreement are met by 2030. Denmark would also benefit from exploring synergies with the actions to be included in the national nature and biodiversity act and several obligations in the nature restoration plan.

(26) Despite recent efforts, Denmark continues to face challenges in transitioning to a stronger circular economy and improving its waste management policies. The Danish economy remains heavily reliant on primary resources and imported materials. According to the latest Eurostat data, Denmark has some of the highest per capita volumes of food waste (2023), municipal waste (2024), and packaging waste (2023) in

[16] Regulation (EU) 2023/857 of the European Parliament and of the Council of 19 April 2023 amending Regulation (EU) 2018/842 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement, and Regulation (EU) 2018/1999 (OJ L 111, 26.4.2023, p. 1−14), ELI: http://data.europa.eu/eli/reg/2023/857/oj).

the EU ([17]). Also, Denmark incinerates (energy recovery) the highest per capita volume of municipal waste in the EU, the circular material use rate remains below the EU average, and there is no clear upward trend in the share of recycled municipal waste. The establishment of separate collection system for all waste streams in most municipalities, stricter commercial waste management rules, reforms to liberalise the waste incineration market, and a new Extender Producer Responsibility scheme for packaging are positive steps but additional action is needed to prevent municipal and packaging waste, increase the reuse and recycling of municipal waste, and shift reusable and recyclable municipal waste away from incineration. The upcoming reassessment and revision of the national action plan for the circular economy provides an opportunity to identify new initiatives. This could include incentives for more circular packaging and product design and for increased use of secondary materials.

(27) In light of the crucial role of human capital in enhancing the Union's competitiveness and strategic autonomy, in 2026 the Council recommended that Member States take action to urgently address human capital-related structural challenges in the areas of skills and education, which hamper competitiveness. The 2026 country-specific recommendations addressed to Denmark can contribute to the implementation of the Council Recommendation on human capital in the Union.

(28) The Danish labour market remains tight, with low unemployment figures and a growing labour force; however, a tendency towards slightly increasing unemployment can be noted. The growing number of workers is mainly supplied by foreign labour, older, and very young workers; at the same time skills shortages and mismatches could hold back employment and growth. Skills shortages are widespread in certain health and care professions, but more prominently in sectors that support the green and digital transitions. For the digital transition, this concerns in particular ICT professionals, but also digital skills required across most sectors. For the green transition, it concerns the construction and civil engineering industry at large including skills needed for building and renovating houses i.e. heating, insulation etc but also in relation to building large-scale energy projects. While some action has been taken with reforms to ensure a relevant uptake of new students to vocational schools, the high and rising number of early school leavers augments the number of people who are likely to lack basic skills. Skills shortages are further aggravated by persistent attainment inequalities in education and training at regional level as evidenced by results obtained in final exams completing compulsory schooling, notably for literacy and numeracy. To address these challenges, Denmark should furthermore aim to attract a larger number of qualified teachers to municipal primary and lower secondary schools *(folkeskole)*.

(29) While Denmark has taken steps to foster affordability through non-profit housing, overall housing construction needs to be scaled up to meet the high demand, in particular in the Capital area. High prices for owner-occupied housing, lengthy waiting times for non-profit housing and complicated planning procedures and land-use rules for new constructions have led to persistent shortages in dwellings that are affordable to households with lower incomes. Partly as a result, low-income households, single earners and many young people living alone, face a housing cost overburden. With a

[17] Seven Member States have not reported 2024 data on municipal waste and four Member States have not reported 2023 data on packaging waste.

view to increasing housing supply at the lower price range and thus to ensure affordability for lower income households, it will be important that steps already taken to better align the price ceilings for construction of non-profit housing with market prices be supplemented with action to foster construction of housing more generally, notably through simplifying planning procedures and reviewing land-use planning rules.

HEREBY RECOMMENDS that Denmark take action in 2026 and 2027 to:

1. Continue adhering to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025, while making use of the flexibility under the national escape clause for higher defence expenditure. Reinforce defence spending and readiness while ensuring spending efficiency and gradually adapting the budget to sustain structurally higher defence spending. Ensure that any measures taken to mitigate the impact of the hike in energy prices are temporary, targeted at protecting vulnerable households or at addressing the needs of energy-intensive firms, preserve incentives for energy savings while ensuring that their fiscal cost is compatible with the commitments under the EU fiscal framework.

2. Ensure continuity of reforms and investments implemented under the Recovery and Resilience Facility. Sustain implementation momentum under cohesion policy programmes building, where appropriate, on the reallocation to strategic priorities and flexibilities in the mid-term review of the cohesion policy framework.

3. Support SMEs to innovate and adopt new technologies by improving access to innovation financing instruments, promoting knowledge diffusion and strengthening the national innovation procurement framework. Improve access to scale-up financing through growth equity and public equity markets, and further mobilise domestic savings through household and institutional equity investment.

4. Accelerate the pace of electrification. Support the electricity network upgrades needed at transmission and distribution level and the optimisation of existing infrastructure. Promote demand response, energy storage, and other non-fossil flexibility solutions. Continue to implement measures to reduce the intensity of agricultural and farming activities. Strengthen the circular economy and waste management policies by further promoting prevention, reuse and recycling of municipal and other waste.

5. Address the skills shortages to meet labour market needs. Step up action to improve basic skills, address attainment inequalities in education and training, tackle shortages of qualified teachers, and address early school leaving.

6. Increase housing supply, particularly in major cities, by simplifying planning procedures and reviewing land-use planning rules to facilitate the construction of new dwellings.

Done at Brussels,

*For the Council*
*The President*