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## **EUROPEAN SOCIAL CHARTER**

Ad hoc report on the cost-of-living crisis

submitted by

**THE GOVERNMENT OF DENMARK**

Report registered by the Secretariat

on 21 December 2023

**CYCLE 2024**

# Ad hoc report to the Council of Europe on the cost-of-living crisis

Submitted by the Government of Denmark  
December 2023

**In pursuance to article 23 of the Charter, copies of this report have been communicated to:**

The Confederation of Danish Employers (DA)

Danish Trade Union Confederation (FH)

Local Government Denmark (KL)

Danish Regions (DR)

The Danish Confederation of Professional Associations (AC)

Danish Employee and Competence Agency (MEDST)

## Questions:

- 1) Please provide information as to whether and how the statutory minimum wage is regularly adjusted/indexed to the cost of living. Please indicate when this last happened, specifically whether it has been adjusted /indexed since the end of 2021.**

There is no statutory minimum wage in Denmark.

- 2) Please provide information on any supplementary measures taken to preserve the purchasing power of the minimum wage since the end of 2021**

There is no statutory minimum wage in Denmark.

- 3) For States Parties with no statutory minimum wage, please describe any measures taken to preserve the purchasing power of the lowest wages since the end of 2021.**

Denmark has a strong and longstanding tradition, where wage and employment conditions are primarily regulated by collective bargaining between trade unions and employers' organizations without interference from the government or the parliament. This approach ensures flexibility and adaptability to labour market developments, a fair wage growth, and a balance of interests between both parties.

In Denmark, wage conditions are primarily regulated by the collective agreements, which are negotiated separately for the private and public sectors. Denmark does not have a statutory minimum wage, nor are there universally applicable collective agreements (*erga omnes*). The collective agreements are binding for the parties that have entered into them or have joined them, and they also have a spill-over effect on the part of the labour market not covered by collective agreements.

In a collective agreement, the parties involved on the employee side are typically trade unions, while on the employer side, it can be individual employers/companies or employer organizations. An employer covered by a collective agreement is obligated to provide all employees working within the agreement's scope with terms and conditions specified in the agreement. If a company hires a person who is not a member of the union with which the company has a collective agreement, that person should receive the same salary and employment terms as the other employees in the same field within the company.

If an employer is not a member of an employers' organization, a trade union can seek to negotiate a collective agreement with the individual employer. In doing so, the employer commits to adhering to the applicable collective agreement in the relevant professional field.

The state does not set guidelines to promote collective bargaining, but the state does fund the Conciliation Board and the Danish Labour Court, which support the negotiation and review of collective agreements. It is the parties to the agreements who are responsible for ensuring compliance, which ensures stability, trust, and efficiency.

This means that the parties to the agreements have the right to bring cases before the Labour Court or industrial arbitration boards when there is a disagreement regarding agreement

compliance. The organizations that have entered into the respective agreements have the right to make complaints because the matter pertains to a breach of the agreement they have entered into.

If an organization does not intend to pursue a case, organized or unorganized employees can initiate a lawsuit in the civil courts for violation of the individual employment contract, as the collective agreement is an integral part of the employment contract. However, individual employees can only bring a case before the Labour Court or labour arbitration boards in specific cases that involve interpretation of the collective agreement.

As the collective agreements are renegotiated each time they expire, wage levels are adjusted to match the ongoing price developments in society, thus ensuring the purchasing power of wage earners. Typically, the agreements are renegotiated every two to four years. The duration of the agreements is determined by the parties involved as part of the negotiation process.

As an example, a central theme for the most recent private sector collective bargaining in spring 2023 was to increase wages in response to general price increases. The parties agreed on a wage increase of 4.50 Danish kroner per hour per year during the agreement period from 2023 to 2025. Additionally, the parties adjusted the pension distribution from an 8% employer contribution and 4% employee contribution to a 10% employer contribution and a 2% employee contribution. This change results in employees receiving higher net wages and a higher employer-funded pension contribution.

The Danish model for collective bargaining continuously safeguards the purchasing power of employees in the Danish labour market. These agreements are continuously negotiated and reflect societal developments, and their spillover effect on the rest of the labour market ensures wage development for non-covered employees as well.

**4) Please provide information as whether the cost of living crisis has led to the extension of in work benefits.**

Benefits such as child allowance, housing benefit or similar supplements meant to support low income workers, have not been subject to any changes due to the cost of living crisis. All initiatives related to the cost of living crisis have been aimed towards helping low income families and the elderly, ensuring that they can meet their energy costs and minimizing the impact of inflation. These initiatives are described in detail under questions 5 and 7.

**5) Please provide information on changes to social security and social assistance systems since the end of 2021. This should include information on benefits and assistance levels and the allocation of benefits**

The Danish Government has continued to adjust the amount that a person receives from various benefits in accordance with a set percentage in the relevant period. This adjustment happens annually and ensures that the value of the regulated benefits follow the normal annual increase in employment wages. The adjustment of benefits has no direct connection to the cost of living crisis. Reference is made to Denmark's regular reporting on the application of the European Code of Social Security.

**6) Please provide information as to whether social security benefits and assistance are indexed to the cost of living, as well as information in particular on how income-**

**replacing benefits such as pensions are indexed. Please indicate when benefits and assistance were last adjusted/indexed.**

Generally, social security benefits in Denmark are adjusted annually based on the wage development two years earlier. More specifically, social security benefits and assistance are adjusted every year based on three separate rates determined for each fiscal year, the so-called 1) adaption percentage, 2) rate adjustment percentage and 3) rate adaption percentage. The rates are based on the wage development two years earlier, as per the Act on a Rate Adjustment Percentage:

1. The adaptation percentage (*'tilpasningsprocent'*) is determined from the general wage development in the private labor market two years earlier.
2. The rate adjustment percentage (*'satsreguleringsprocent'*) is 2.0 percentage points plus the rate adaptation percentage.
3. The rate adaptation percentage (*'satsstilpasningsprocent'*) equals the adaptation percentage if the wage increase two years earlier was below 2.0 percent; otherwise it equals the adaptation percentage minus 0.3, however at least 0.0.

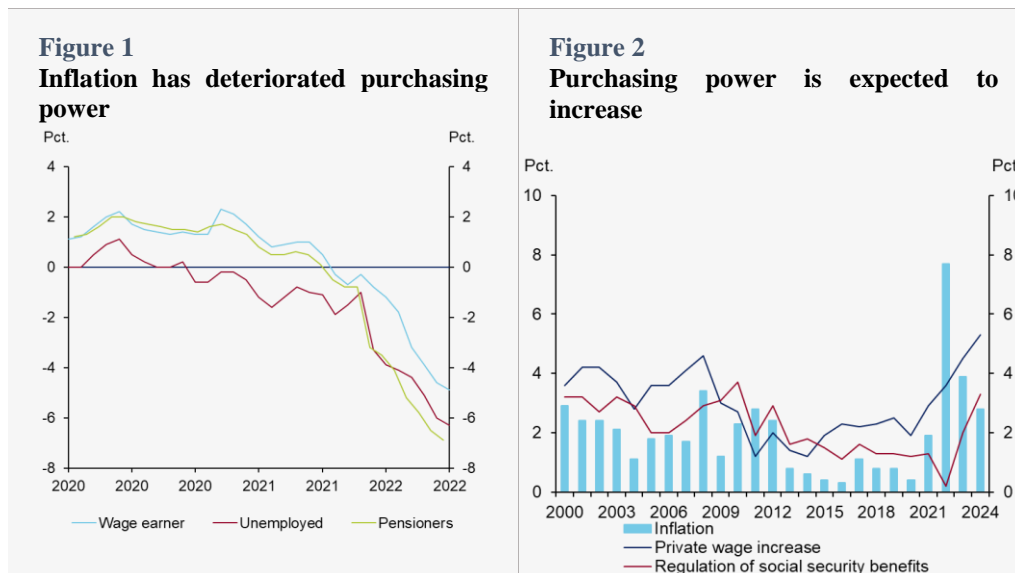
The adjustment of social security benefits is set by the adaptation percentage (1), hence it follows the general wage development in the private labor market two years earlier. Thus, the adaptation percentage for 2022 is determined by the wage increases in 2020. While some benefits are only adjusted with the wage development, others are subject to a minor adjustment and/or mandatory pension contributions. A number of benefits (unemployment insurance benefits, The Danish students' Grants and Loans Scheme, pension benefits, early retirement benefits etc.) have from 2016 to 2023 been subject to a minor adjustment, as per the Agreement on Tax Reform from 2012. Since 2018, the minor adjustment has amounted to 0.75 percentage points annually. Hence, these social security benefits are adjusted with a rate that is 0.75 percentage points lower than the general wage development.

From 2020, a mandatory pension scheme was introduced for people receiving income-replacing benefits (such as unemployment insurance benefits, sickness or parental leave benefits etc.), as per the Agreement on New Regulation of the State Pension and the Introduction of Mandatory Savings for Transfer Recipients of November 2018. This means that a fixed percentage of the benefits are paid into a pension scheme every year. In 2020, 0.3 percent of the benefits were paid in pension contributions.

In the period from 2013 to 2020, with the exception of 2017, inflation has been historically low, cf. Figure 1 below. During the same period, wage increases – and thus the adjustment of social security benefits – have been higher than price increases. This means that the adjustment of benefits has benefited recipients for many years.

In 2021, inflation increased significantly, resulting in a significant deterioration in purchasing power for wage earners and especially benefit recipients in 2022, cf. Figure 1. The rate adjustment percentage was 1.2 pct. in 2022 due to a relatively low wage increase in 2020.

Already in 2023, the rate adjustment percentage is higher, namely 2.7 pct., and will in 2024 be even higher, corresponding to 3.2 pct. for 2024. Wage earners – and with a two-year delay benefit recipient – can look forward to an improvement in purchasing power as a result of declining inflation and higher agreed wages from 2023 to 2025, cf. Figure 2.



Source: Economic Report ('Økonomisk Redegørelse'), August 2022 and Economic Report ('Økonomisk Redegørelse'), March 2023

7) **Please provide information as to whether any special measures have been adopted since late 2021 to ensure persons can meet their energy and food costs, such as price subsidies for energy, fuel, and basic food items.**

To mitigate consequences of the high inflation, which significantly affected consumers' purchasing power and in particular for benefit recipients and pensioners, the Danish government has initiated several measures. The measures have been aimed at providing economic support to financially disadvantaged citizens who have been disproportionately affected by the higher prizes. Three agreements can be highlighted, which in total have amounted to compensation of 10.5 billion DKK in 2022 and 2023. This includes the Agreement on Compensation for Rising Energy Prices of June 2022, the Agreement on Winter Assistance of September 2022, and the Agreement on Inflation Assistance of February 2023.

**The Agreement on Compensation for Citizens for Rising Energy Prices of June 2022** allocated DKK 3.1 billion to implement temporary measures compensating citizens for increasing energy prices. Among other initiatives, it was agreed to increase the tax credit on labor income in 2022 and 2023, give pensioners with low assets a tax-free lump sum of DKK 2,500 in 2022 and 2023 (DKK 5,000 in total), and give a tax-free lump sum of DKK 2,000 to recipients of early retirement benefits. The latter two were intended as financial assistance to those significantly affected by the inflation and who already have a limited income base. To enable students to achieve a higher disposable income by working alongside their studies

without affecting their state educational support ('*SU*'), the income threshold was increased by DKK 4,000 per month from January 1st 2022.

**The Agreement on Winter Assistance of September 2022** implemented mitigation measures totaling DKK 5 billion in 2022 and 2023 as a result of the war in Ukraine, the supply situation, and the high price increases. A broad coalition of parties in the Danish Parliament was behind the agreement. The agreement aimed at assisting the many families, businesses, and cultural and community organizations struggling to pay their energy bills due to rising inflation. This was done by ensuring that consumers and businesses could obtain a state-guaranteed loan from their energy companies for expenses related to electricity, gas, and district heating above a certain threshold. The loans were given for 12 months and consumers and businesses have the option to repay the energy companies over a period of 4 years. Furthermore, the initiatives contributed to substitute away from gas by promoting the conversion to green district heating and heat pumps. In addition, the electricity tax was reduced to the EU's minimum rate of DKK 0.8 per kWh in the first half of 2023, benefiting all consumers and businesses. The reduction reduces income disparities as the impact of the reduction is relatively greater for low-income groups. Lastly, the agreement included a one-time increase in child and youth benefits of DKK 660 per child in 2023, specifically helping families with children.

**The Agreement on Inflation Assistance of February 2023** compensated consumers and businesses for the high price levels. A broad representation in the Danish Parliament decided to allocate DKK 2.4 billion to financially disadvantaged citizens among others with the Agreement on Inflation Assistance. The Agreement included DKK 1.12 billion as additional financial assistance to pensioners with low assets. The aim was to provide financial support to seniors with limited liquid assets and relatively modest supplementary incomes, who were particularly affected by the rising prices. The group of pensioners received a special help of 5,000 kroner in two installments of 2,500 kroner. This group would later receive another installment of 5,000 kroner in addition to the original amount due to the ongoing nature of the cost of living crisis. Citizens, who were instead receiving early pension or similar social services, would receive a lower amount of 2,000 kroner in a single installment. The special help for pensioners was also exempt from taxation and did not count towards any limits relating to other benefits that the recipient may be entitled to receive.

Furthermore, DKK 300 million was allocated to financially vulnerable families in the social assistance system, which was expected to benefit approximately 65,100 children across 40,500 families. Families with a single child received 7,500 kroner, while families with two children received 11,250 kroner, and families with three or more children received 13,500 kroner. The families would receive the inflation help in two installments in June and August respectively. The installments were exempt from taxation and did not count towards any limits relating to other benefits that the recipient may be entitled to receive.

Additionally, to ensure that citizens with the highest medication expenses could continue to afford necessary prescription drugs, the maximum co-payment for was reduced. Lastly, an

additional DKK 350 million was prioritized for temporary rent reductions for tenants with a special need for supplementary temporary rent assistance in 2023. The purpose was to counteract the risk of an increase in evictions in the social housing sector. The target group for the scheme was individual housing estate with a particular need for temporary rent subsidy.

**8) Please provide up-to-date information on at-risk-of-poverty rates for the population as a whole, as well as for children, families identified as being at risk of poverty, persons with disabilities and older persons. Please show the trend over the last 5 years, as well as forecasts for upcoming years.**

First of all, it should be mentioned that Denmark does not have an official definition of poverty. Instead, the development in a range of other statistical measures of the income distribution is monitored and published once a year. This includes the so called “low income group” which measures the rate of people with a disposable income below 50 percent of the median income in the population in a given year. As is the case with the at-risk-of-poverty rate (ROP) this measurement in itself does not measure poverty as defined by a lack of resources needed to provide for oneself. A large part of this group in Denmark consists of students, who have chosen to invest a short period of time with a relatively low disposable income expecting a relatively high disposable income after graduation, and a group of self-employed with a temporary low disposable income.

The question is answered by showing the calculations of ROP provided by Eurostat [Statistics | Eurostat \(europa.eu\)](#), also see the [definition](#) and table 8.1 below. It has to be emphasized that this is not a measure of poverty. Analyzing income only, and not including other socioeconomic factors, results in a picture with limited sense in a Danish context.

**Table 8.1**  
**At-risk-of-poverty (ROP) in Denmark, percentage of group**

Time	2018	2019	2020	2021	2022
<b>Population as a whole (All ages)</b>	12,7	12,5	12,1*	12,3	12,4
<b>Children (&lt;18 years old)</b>	11,0	10,3	10,0*	9,6	10,1
<b>Older persons (&gt;60 years old)</b>	8,4	8,6	9,8*	10,4	11,7

\* Break in time series.

Annotation: The at-risk-of-poverty rate is the share of people with an equalized disposable income (after social transfer) below the at-risk-of-poverty threshold, which is set at 60 % of the national median equalized disposable income after social transfers. This indicator does not measure wealth or poverty, but low income in comparison to other residents in that country, which does not necessarily imply a low standard of living. Please note that the ROP for families and persons with disabilities is not part of the available Eurostat data.



The ROP is calculated by Eurostat and can be expected to differ from calculations on the official Danish data due to differences in the definition of disposable income and the sample size among other things. It would be possible later to calculate the ROP on the Danish data, if requested. Please note that it is not clear how to calculate the ROP for people with disabilities (as this is not a well-defined status in a European context). Furthermore, it is not considered possible to forecast the development in the ROP with any kind of precision due to the large impact made by different parts of the business cycle, the size and nature of immigration, the inclination to study and a range of other factors.

**9) Please provide information on what measures are being taken to ensure a coordinated approach to combat poverty as required by Article 30 of the Charter, and to diminish reliance on last-resort relief, such as food banks and soup kitchens.**

Denmark has general welfare provisions for all people with legal residence in Denmark. The welfare provisions include a broad range of policy areas, such as health, employment, social services, etc. Some of the services and benefits are universal, while others target people with special needs. Most welfare services are a municipal responsibility.

The Danish government is developing policies on social welfare through a long and coordinated legislation process. When new legislation is made, the ministry with the departmental responsibility prepares the legislation. In the process the ministry is obligated to consult other relevant ministries and the executing parties, which typically are Local Government Denmark (the national association of municipalities) and Danish Regions (the national association of regions). In addition, before any law can be passed, the government has to send the law in public hearing. This process ensures an overall and coordinated approach that prevents and removes obstacles for citizens to access to social rights.

The Act on Social Services obliges municipalities to offer a large variety of services, support, and benefits to socially marginalized people or people in risk of social marginalization.

People in socially marginalized positions and at risk of social marginalization often experience that their personal and social problems lie within several problem areas. The municipal council shall therefore consider applications and enquiries for assistance, having regard to all possibilities available to render assistance under the social legislation, including counselling and guidance. In addition, the municipal council shall consider the possibility that assistance may be available from another authorities.

**10) Please provide information on steps taken to consult with, and ensure the participation of, the persons most affected by the cost of living crisis and/or organizations representing their interests in the process of designing of measures in response to the crisis.**

As already mentioned, all legislative proposals undergo an external consultation among relevant stakeholders before they are presented to the Parliament. This gives affected associations and organizations the opportunity to submit written comments, either expressing their opinions on the bills or suggesting changes. This also applies to all legislative proposals regarding measures in response to the crisis.

As part of the legislative process, the bill *regarding inflation assistance for financially vulnerable families*, which implements parts of the Agreement on Inflation Assistance of February 2023, was subject to external consultation among relevant stakeholders. Responses were among others received from the organizations Save the Children (Red Barnet) and the Danish Association of Social Workers (Dansk Socialrådgiverforening). Both associations have pointed out that families with children have undergone a considerable income decrease since March 2023 and that they consider the inflation assistance, scheduled for disbursement in June 2023, as being initiated too late. In response to these concerns, the Ministry of Employment noted, that they have chosen the model with fastest possible disbursement of assistance. In addition to this, the Ministry noted that the assistance was paid out automatically, which delayed the disbursement due to IT development. The consultation process did not lead to changes in the bill. The external consultation of another part of this agreement, namely the *additional financial support for recipients of the elderly pension supplement etc.*, included relevant organizations, such as Danish Seniors (Danske Seniorer) and the National Association of Current and Former Psychiatric Service Users (Landsforening af nuværende og tidligere Psykiatribrugere). They all recognized the need for financial assistance and expressed support for the proposal. Professional Seniors (Faglige Seniorer) emphasized the need for additional information efforts to reach eligible persons and stressed the importance of clear complaint procedures in their written response. The Ministry of Employment took note of their comment and would ensure reliable complaint procedures through the Danish Payments Agency (Udbetaling Danmark). The external consultation on the bill, which implements the initiative on extra subsidies to citizens with high medicine expenses in the Inflation Assistance Agreement led to responses from affected associations and organizations, including Senior Citizens Denmark (Ældre Sagen), Danish Disability Organizations, (Danske Handicaporganisationer), the Diabetes Association (Diabetesforeningen), and the Danish Cancer Society (Kræftens Bekæmpelse). They all expressed satisfaction for the proposal.

The bill on *additional financial support to recipients of elderly checks, one-time payments to individuals who have withdrawn from the labor market, and one-time payments to students receiving stipends as supplements due to disabilities or as single parents*, as part of the Agreement of Compensation to Citizens for Rising Energy Prices, included an external consultation where many organizations expressed support for the proposal. DaneAge Association (Ældresagen) and Danish Seniors (Danske Seniorer) were positive about the additional financial support to pensioners. However, they wanted to expand the target group to include old-age pensioners as well. The Ministry of Employment noted that in the agreement, it was prioritized to only provide financial support to old-age pensioners who receive the elderly allowance, as they have limited liquid assets and relatively modest supplementary incomes. Therefore, the comments did not lead to changes in the target group for inflation assistance. Additionally, the consultation process led to technical amendments regarding the contact of students to the bill based on a written comment from the Labour Market Supplementary Pension (ATP). Additionally, when formulating the Agreement on

Winter Assistance of September 2022, the Danish government entered into a close dialogue with industry associations for energy suppliers. This was done to ensure that consumers could defer their payments for electricity, gas, and district by designing the state-guaranteed loans in the most efficient way.