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Assessment of the 2013 national reform programme and convergence programme for SWEDEN

Accompanying the document

Recommendation for a Council Recommendation

on Sweden's 2013 national reform programme and delivering a Council Opinion on Sweden's 2013 convergence programme for 2012-2016

{COM(2013) 377 final}

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In 2012 and early 2013, growth and employment in Sweden were strongly affected by the euro area sovereign-debt crisis and the global slowdown. Overall, GDP grew by 0.8 % in 2012, and the Commission's spring forecast estimates growth of 1.5% in 2013 and 2.5% in 2014, with private consumption being the main driving force. The labour market was quite stable in 2012, with the unemployment rate hovering around 8%.Following the redundancy notices announced in the autumn months of 2012, the unemployment rate is expected to rise to 8.3% in 2013, before falling back to 8.1% in 2014. Youth unemployment rose to 23.7% in 2012, above the EU average. Inflation fluctuated around 0.9% in 2012 and is expected to remain low in 2013, dampened by the strengthening currency, before rising to 1.4% in 2014.

Sweden's public finances have been affected by the economic slowdown and slowing tax revenues, as well as by the expansionary measures included in the 2013 Budget Bill. Lacklustre growth pushed the general government balance from a surplus into a deficit of 0.5% in 2012. Expansionary policies and a continued rise in unemployment are expected to widen the deficit to 1.1% of GDP in 2013, but an improvement to a deficit of 0.4% is projected for 2014 on account of accelerating economic activity. The structural budget balance is expected to swing from a surplus of 0.2% of GDP in 2012 to a slight deficit of 0.1% of GDP in 2013 and back to a surplus of 0.3% of GDP in 2014. Therefore, Sweden is likely to continue to meet its medium-term budgetary objective – fixed at a structural deficit of 1% of GDP. Gross government debt is projected to remain low, around 40% of GDP in 2013 and 2014.

Key Issues

The Swedish economy remains one of the most competitive in the EU, and has weathered the crisis relatively well in terms of growth, employment and public finances. In April 2013, the Commission concluded that the country is experiencing macroeconomic imbalances when it comes to private sector debt and the housing market, which deserve continued attention.

Sweden has made some progress in addressing the 2012 CSRs, particularly the challenges in the labour market. Sweden has also made some efforts to address problems in the housing and mortgage markets and has adopted a well-defined innovation strategy, which should pool resources and make the country more competitive by addressing the future needs of the research sector.

Nevertheless, Sweden faces major challenges with regard to private sector debt, housing market uncertainties and the integration of vulnerable groups in the labour market. Over the medium term, research and development will remain a concern as private investment in research dwindles.

- **Housing market:** High private sector debt (235% of GDP in 2012) continues to be a matter of concern and incentives to borrow – such as the debt-bias in housing taxation – have not been phased out. Constraints in the housing supply remain, and are exacerbated by rent control, cumbersome planning and limited competition in the construction sector. Together with debt-inducing housing taxation, these inefficiencies tend to create upward-bias in house prices. Household debt of around 80% of GDP (roughly 170% of disposable income) has only recently stabilised. High debt exposes households to risks related to possible drops in house prices or interest rate increases.

Corporate debt is also substantial, at around 149% of GDP, partly driven by the debt-bias in taxation.

- **Labour market:** The government has taken a number of measures to further integrate young people and people with a migrant background into the labour market, but unemployment in these groups remain high (youth unemployment increased from 22.8% to 23.7% from 2011 to 2012, above the EU average, while at 30.6%, the unemployment rate for non-EU nationals exceeds the EU average of 21.3%). Moreover, the at-risk-of-poverty rate for women over 65 increased from 13.1% to 24.7% between 2005 and 2011, far above the EU average.
- **Research and innovation:** In the medium term, Sweden's competitiveness is challenged by its traditional reliance on a limited number of multinational firms. However, over the last two decades, some of these firms have relocated their research and innovation facilities, often placing them close to growth markets or in new headquarters. Despite increased public spending on research, Swedish R&D intensity is falling, and to reach its R&D intensity target of 4% of GDP, Sweden would need to increase R&D spending, particularly by the private sector. The 2012 innovation strategy provides a good basis for future progress and its practical implementation will now need to be closely monitored.

1. INTRODUCTION

In May 2012, the Commission proposed a set of country-specific recommendations (CSRs) for economic and structural reform policies for Sweden. On the basis of these recommendations, the Council of the European Union adopted four CSRs in the form of a Council Recommendation in July 2012. These CSRs concerned public finances, the housing and mortgage markets, the labour market, and research and innovation. This Staff Working Document (SWD) assesses the state of implementation of these recommendations in Sweden.

The SWD assesses policy measures in light of the findings of the Commission's Annual Growth Survey 2013 (AGS)[1] and the second annual Alert Mechanism Report (AMR)[2], which were published in November 2012. The AGS sets out the Commission's proposals for building the necessary common understanding of the priorities for action at national and EU level in 2013. It identifies five priorities in guiding Member States towards renewed growth: pursuing differentiated, growth-friendly fiscal consolidation; restoring normal lending to the economy; promoting growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; and modernising public administration. The AMR serves as an initial screening device to determine whether macroeconomic imbalances exist or are likely to emerge in Member States. The AMR found positive signs that macroeconomic imbalances in Europe are being corrected. To ensure that complete and lasting rebalancing is achieved, Sweden and 13 other Member States were selected for a review of developments in the accumulation and unwinding of imbalances.[3]

In the light of the 2012 Council Recommendation, the AGS and the AMR, Sweden presented updates of its national reform programme (NRP) and its convergence programme on 19 April 2013. The NRP follows the guidance provided by the Commission, but as last year Sweden is invited to set in its next NRP a numerical target for reducing social exclusion to supplement the EU target of reducing the number of persons at risk of poverty and social exclusion by 20 million.

The programmes submitted provide detailed information on progress made since July 2012 and on the future plans of the government. The information contained in these programmes provides the basis for the assessment made in this SWD. The reform priorities and policy measures described in the NRP rely largely on measures already announced by the government in the 2013 Budget Bill and the 2013 Spring Fiscal Policy Bill.

The national reform programme went through an extensive consultation process, also at the local and regional level. Responding to requests from social partners, regular consultations were carried out with social partners through a reference group organised by the government. The reference group represents involved ministries of the Swedish government offices, as well as social partners and regular meetings on the implementation of the Europe 2020 strategy in Sweden are being organised. Since the presentation of the 2012 NRP, three consultations at the civil service level have also been organised. Civil society has also been

[1] COM(2012) 750 final.

[2] COM(2012) 751 final.

[3] 13 in-depth reviews were published on 10 April 2013. Although Cyprus had been selected for an in-depth review in the AMR, in the end it was not reviewed under the Macroeconomic Imbalance Procedure in view of the advanced preparations for a financial assistance programme.

consulted through a number of public consultations and the Sweden's 2013 NRP was accompanied by examples of the implementation of the Europe 2020-strategy at the local and regional level. The convergence programme was presented to the Riksdag’s parliamentary Committee on Finance on 18 April 2013 and adopted by the government on 19 April 2013.

Overall assessment

The analysis in this SWD leads to the conclusion that Sweden has made some progress on measures taken to address the CSRs of the Council Recommendation.

It appears that Sweden is likely to achieve its medium-term objective (MTO). However, it should be noted in this context that the government lowered the MTO from +1% of GDP to -1% of GDP in 2012, which was also confirmed in the 2013 convergence programme. As regards the housing and mortgage markets, some measures have been taken to foster prudent lending (such as the planned increase in the risk-weight floor, and strengthened capital requirements), but no decisive measures to reduce the debt-bias in housing taxation have emerged. Although the housing market has benefited from some reforms, notably to the system for private lettings and emerging proposals addressing the construction sector, constraints in the housing supply remain in place and rent control further limits the supply of rental units. As regards the labour market, the government has taken a number of measures to further foster labour market integration of disadvantaged people (in particular young people and people with a migrant background). However, so far unemployment rates of these groups remain high and further efforts could be made to increase demand for vulnerable groups and to further improve the functioning of the labour market. With the adoption of the Research & Innovation Bill, as well as the innovation strategy in the autumn of 2012, Sweden addressed the CSR pertaining to the challenges of the Swedish R&D sector.

The policy plans submitted by Sweden address most of the challenges identified in last year’s SWD, and broad coherence between the two documents has been ensured. The national reform programme confirms Sweden's commitment to address shortcomings in the areas of the housing and labour market. The convergence programme demonstrates Sweden's commitment to preserve a sound budgetary position towards the medium-term objective and ensure the long-run sustainability of public finances in line with the Stability and Growth Pact. Nevertheless, further efforts could be made to address the challenges identified in a comprehensive way, notably by effective measures to curb the increasing private sector indebtedness and to foster further flexibility of housing supply. Reforms of the tax system, for example by reviewing the tax benefits for debt accumulation and the VAT structure would also be warranted. Finally, according to the NRP, the government limits its strategy of ensuring the participation of disadvantaged people to active labour market policy, whereas a more determined policy response to further improve the functioning of the labour market in other areas would also be welcome.

2. ECONOMIC DEVELOPMENTS AND CHALLENGES

2.1. Recent economic developments and outlook

Recent economic developments

In 2012 and early 2013, growth and employment in Sweden were strongly affected by the euro-area sovereign-debt crisis and the global slowdown. Overall GDP grew by 0.8% in 2012. A number of challenges arose in the autumn of 2012: confidence indicators plummeted across all categories, investment stagnated and exports faltered, reflecting falling global demand and the effect of strong krona appreciation over the summer of 2012. The number of lay-off notices also increased. Nevertheless, Swedish households remained relatively optimistic, encouraged by stable house prices and decreasing mortgage rates. Real income growth was sustained by real wages, which continued to grow supported by low inflation. In early 2013, also industry reported more optimism, as new orders and industrial production started to grow in year-on-year terms.

So far Swedish exports have been rather resilient, benefiting from a large and diversified export market. Nevertheless, exports fell by 4 % in 2012 due to weak external demand and the strengthening of the Swedish krona. The labour market was quite stable in 2012, with the unemployment rate hovering around 8 %, having deteriorated somewhat in recent months with youth unemployment of above 20 %. Harmonised Index of Consumer Prices (HICP) inflation fluctuated around 0.9 % in 2012, being dampened by the strengthening currency and low capacity utilisation.

Public finances were affected by the economic slowdown and slowing tax revenues, as well as by the expansionary measures included in the 2013 Budget Bill. The general government balance swung from a surplus of 0.2 % of GDP in 2011 to -0.5 % in 2012. However, over the last few years there has been a declining trend in gross government debt, which stood at 38.2 % of GDP in 2012 and although it is expected to increase temporarily to 40.7 % in 2013, it is forecast to return to a level below 40 % next year.

Economic outlook

According to the Commission 2013 spring forecast, GDP is expected to grow by 1.5 % in 2013 and become more dynamic in 2014, when it is estimated to increase by 2.5 %, with private consumption being the main driving force, unlike previous recoveries, which were typically export-driven. Recent data on exports point to a further deceleration at the beginning of 2013, reflecting continuously suppressed demand from EU Member States as well as a stronger krona, which may continue to have an adverse effect on Swedish exports in 2013. Firms' employment plans remain cautious and growth is expected to remain subdued for the rest of 2013, as confidence among households and companies rises only gradually and external demand slowly resumes. Nevertheless, household consumption accelerated in the fourth quarter of 2012 and domestic demand is expected to drive growth in 2013. Several factors may contribute to this development: real disposable income keeps growing at a solid pace, backed by wage increases, low inflation (which is likely to stay below the 2 % target for the foreseeable future), and higher pensions. Household savings are also reaching unprecedented levels, suggesting a potential for higher consumption once the uncertainty subsides.

Investment is expected to remain weak in 2013, as companies have become more cautious. However, companies that have been postponing their investment plans are likely to push on with them once they see a credible revival in global growth. Low investment levels in previous years also argue in favour of a strong pick-up in capital formation once uncertainty subsides. Financing conditions remain favourable, supported by three cuts in repo rates in 2012 and wide access to foreign funding for Swedish banks.

The labour market is likely to deteriorate further in 2013. Most employers expect no change, or a slight reduction, in employment in the coming months and this, together with the fact that the labour force continues to rise, is expected to result in unemployment at around 8.3 % this year, before it falls back to 8.1 % in 2014.

The macroeconomic scenario underpinning the budgetary projections in the Swedish programmes appears to be plausible (the economic outlook contained in the NRP is in line with the main CP scenario). The government projects growth 1.2% and 2.2% in 2013 and 2014, respectively, whereas the Commission forecasts 1.5 and 2.5%.

2.2. Challenges

Sweden faces serious challenges as regards private-sector debt and related uncertainties in the housing market as well as the integration of disadvantaged people into the labour market. From the mid-term perspective, R&D is still a matter of concern, with a negative trend in terms of private investments. There is a clear link between these challenges and the priorities of the 2013 Annual Growth Survey, in particular with respect to promoting growth and competitiveness, tackling unemployment and the social consequences of the crisis, as well as modernising public administration.

The high indebtedness of the private sector (at 235% of GDP in 2012) continues to be a matter of concern. As analysed in the in-depth review (see Box 1), corporate debt remains substantial, at around 149% of GDP (although this number includes tax-motivated cross-border lending within multinational companies amounting to almost 50% of GDP). Household debt, hovering around 80% of GDP or roughly 170% of disposable income, has only recently stabilised and is not likely to decline in the near future given continued credit growth and a slow pace of mortgage amortisation. On the other hand, credit conditions do not indicate that any deleveraging pressures are imminent. Nevertheless, the challenge remains, as high debt makes households' net wealth more exposed to possible drops in house prices. Moreover, interest rate increases could set off a downward movement which would be detrimental to households.

The Swedish housing market remains a potential source of instability, although lately it has developed in a balanced way. As pointed out in the in-depth review (see Box 1), inefficiencies still weigh on the housing supply, particularly as a result of cumbersome planning processes, limited competition within the construction sector and the remaining regulation of the rental market. Together with debt-inducing housing taxation, these inefficiencies tend to create upward-bias in house prices.

The Swedish tax system is generally efficient. However, in addition to the debt-bias in housing and company taxation, the efficiency and transparency of the tax system is sub-optimal as a result of a number of deviations from the principles of tax uniformity and neutrality that were the basis of the 1991 tax reform. For example, these principles aimed to limit exceptions to the application of a standard VAT rate, a goal which is currently not being attained.

The main policy challenges for the labour market are still broadly the same as in the 2011 and 2012 assessments. The labour market participation of young people and people with a migrant background remains weak as compared with that of the rest of population. The unemployment rate for young people increased from 22.8 to 23.7%[4] between 2011 and 2012, which is still above the EU average. Although this figure is somewhat overstated by a high share of students and temporarily high inflows into the labour force, the 'non-student' unemployment rate is still high compared to other EU Member States with a similarly good labour market performance for the 25-64 age group. This points to a

[4] Youth is understood as the 15-24 age group. The overall population covers the 15-74 age group.

particular challenge for low-skilled young people, typically those who have not completed upper-secondary education.

At 30.6 %, the unemployment rate of non-EU nationals exceeds the EU average of 21.3 %, although it decreased marginally between 2011 and 2012, despite a general deterioration in the labour market. Moreover, the employment rate of non-EU immigrants (44.2 %) remains far below the EU average (53.7 %), and even further below the Swedish national average. This shows that a large part of the population with migrant background, and especially women, are excluded from the labour market. In addition to these points, the at-risk-of-poverty rate for older women (aged 65+) measured as the share of the group with an income below 60 % of the national median income, is above the EU average and increased by more than 10 percentage points between 2005 and 2011, from 13.1 % to 24.7 %. This contrasts with the corresponding rate for older men (9.8 %) and the EU average (13.7 %). Although indicators of absolute poverty do not show any deterioration or a gender gap,[5] the at-risk-of-poverty indicator suggests that older women are getting poorer in comparison with men of the same age group.

In the medium term, Sweden's competitiveness and innovation capacity is challenged by its traditional reliance on a limited number of multinational firms for its knowledge-based innovation. These large firms dominated employment creation in Sweden in the 1980s and 1990s. However, over the last two decades, they have decreased their employment in Sweden while increasing it globally (outside Sweden, as well as outside the EU). Moreover, over the last decade these firms have also increasingly outsourced their research and innovation facilities, often placing them close to growth markets or in new headquarters, as a result of gradually adopting advanced global strategies as well as foreign ownership. Therefore, Swedish R&D intensity is falling, in spite of significant financial increases in the public R&D bills of 2004, 2008 and 2012. To reach its R&D intensity target of 4 %, Sweden would need to increase R&D spending, particularly by the private sector. Thus, as a small country heavily dependent on its exports, the challenge for Sweden is to remain competitive and attractive for domestic and foreign business investment in research and innovation.

[5] Severe material deprivation for women over 65 remains, similarly to men, below 1 % of the population.

Box 1. Summary of the 2013 in-depth review (IDR) under the Macroeconomic Imbalance Procedure (MIP)[6]

In the Alert Mechanism Report (AMR) published on 28 November 2012, the Commission found it useful, in view of the imbalance identified in May 2012, to examine further the persistence of imbalances or their unwinding in Sweden. To this end, the second 2013 in-depth review (IDR) published on 10 April 2013 takes a broad view of the Swedish economy in line with the scope of the surveillance under the Macroeconomic Imbalance Procedure. The review concluded that the country is experiencing macroeconomic imbalances, which deserve monitoring and policy action. In particular, macroeconomic developments regarding private sector debt and deleveraging, coupled with remaining inefficiencies in the housing market, deserve continued attention.

The main findings from this analysis are as follows:

- The Swedish current account surplus is large, but it does not seem to point to an underlying imbalance in the economy, having already corrected markedly since 2007 and being expected to decline further in the medium term. Although the large current account surplus does not raise risks in the way that large deficits do, the Commission will continue monitoring the developments of the current account in Sweden.
- Despite a continued reduction in the export market shares, the Swedish economy remains one of the most competitive in the EU. Disregarding the crisis years 2008-09, the losses in market shares have been marginal over the last 10 years. Market share losses in goods have been largely compensated by gains in services. The losses reflect structural changes linked to the traditional Swedish product mix rather than unfavourable domestic cost developments or eroding quality competitiveness, and are hence not considered as symptoms of declining competitiveness.
- Macroeconomic risks related to high indebtedness of the private sector continue to be important, despite a number of mitigating factors and recently introduced policy measures on housing and corporate taxation. Corporate debt has declined substantially since 2009 but remains high even if the large bulk of inter-company loans is disregarded. Although household debt has stabilised, the main contributing factors — the debt-bias in housing taxation and the slow mortgage amortisation pace —are still in place, thus limiting prospects for further deleveraging. Low interest rates on mortgages also contribute to debt build-up. On the other hand, various indicators of financial health of corporations and stress tests for households, as well as the low rate of defaults during the 2008-2009 crisis, alleviate to some extent concerns about the private actors' capacity to service their debts. Credit supply and demand conditions do not indicate any imminent deleveraging pressures.
- The housing market has been balanced over the latest period yet remains a potential source of instability for the future. Despite some recent measures, housing supply remains constrained by cumbersome planning processes connected to the local planning monopoly of the Swedish municipalities, limited competition within the construction sector and remaining elements of rent control. Together with debt-

[6] http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp141_en.pdf.

inducing housing taxation, these inefficiencies tend to create an upward-bias in house prices and in household indebtedness.

3. ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

The main goal of the government's budgetary strategy, as expressed in the 2013 Convergence Programme (henceforth 'programme'), is to ensure long-term sustainability by respecting the rules of the Swedish fiscal framework, in particular the target of a surplus in general government net lending of 1% of GDP over the cycle. The strategy also aims to meet the requirements of the Stability and Growth Pact, notably by keeping to the 3% deficit limit and establishing a medium-term budgetary objective (MTO). The MTO, fixed as a deficit of 1% of GDP, reflects the conditions of the Stability and Growth Pact. According to the programme, this less ambitious MTO (before 2012 it was fixed at a surplus of 1% of GDP) should be seen as a minimum requirement for the structural balance to which Sweden is subject as an EU Member State. Nevertheless, the guiding principle for the government's fiscal policy strategy will continue to be the more demanding target of 1% surplus over the cycle.

The general government balance slipped from a small surplus of 0.2% of GDP in 2011 to a deficit of 0.5% in 2012. This can be compared to an expected deficit of 0.1% of GDP in last year's programme, the difference being explained by higher expenditure growth than expected. The deterioration in relation to the targeted deficit was not related to cyclical development, since the economy grew faster in 2012 than was expected in last year's programme and unemployment increased in line with expectations. The expenditure ratio in 2012 increased due to higher income pensions (to compensate for a decline in 2010-2011), other social payments and compensation of employees.

Based on an assumption of no policy change, the programme provides for a deficit of 1.4% of GDP in 2013, shrinking to 0.9% of GDP in 2014, as the economy is expected to recover gradually. In the Commission's spring forecast, the general government balance is expected to show deficits of 1.1% of GDP in 2013 and 0.4% of GDP in 2014, based on a more pronounced recovery. Compared with last year's programme, both the 2013 programme and the Commission's spring forecast anticipate a much lower government balance in 2013 and 2014 due to an expansionary budget for 2013 and higher projected unemployment in both years. Fiscal expansion in 2013 includes both a decreasing revenue ratio in view of lower corporate tax and an increasing expenditure ratio resulting from a further increase in pensions and other transfers to households. The projected fall in expenditure in 2014 is based on the assumption that no additional discretionary measures will be adopted, although this is associated with risks in view of the upcoming elections.

For 2015 and 2016, surpluses of 0.2% and 1.2% of GDP are expected in the programme, based on a favourable macroeconomic scenario, with strong household consumption and labour productivity growth. In 2016, the programme also expects buoyant employment growth, as a result of government labour-market and tax reforms. Should the effects of these reforms be less than expected, revenue growth may be slower, which would jeopardise the

2016 target for general government balance. In addition to strong economic growth, expenditure restraint is expected to be the main means of improving the fiscal balance between 2014 and 2016. Assuming that policies do not change, the programme forecasts that the expenditure ratio will fall by 3.4 percentage points over the programme period. The programme expects the fiscal balance to be strengthened primarily at central government level. However, the old-age pension system should shift to a deficit along with slight deficits in local government net lending.

The programme foresees a structural general government balance, as recalculated by the Commission,[7] of -0.6 and 0% of GDP in 2013 and 2014, respectively, the Commission forecasts a swing in the structural balance from 0.2 % of GDP in 2012 to -0.1 % and back to 0.3 % of GDP in 2013 and 2014 respectively. Since the MTO is fixed at -1 % of GDP as from 2012, it is likely to be met over the period covered by the programme, even taking into account the possibility of further expansionary discretionary measures in 2014. These could stem from a political will to restore the real value of expenditure items that are not indexed to inflation or income growth, particularly in view of the elections scheduled for 2014. Moreover, the government may decide to proceed with the fifth step in the in-work tax credit as set out in its election programme.

According to the information provided in the programme, the growth rate of government expenditure, net of discretionary revenue measures, exceeded the reference medium-term rate of potential GDP growth (1.84 %) in 2012 and will exceed it in 2013, with a negative impact on the structural balance of 0.1 % and 0.4 % of GDP, respectively. According to the Commission Spring forecast, the negative impact on the structural balance would amounts to 0.5 % and 0.6 % of GDP, respectively. The difference for 2012 between the assessment based on the programme and the Commission spring forecast lies in the estimated cyclical unemployment benefit expenditure, where the programme data contain a break in the series. The slippage from the expenditure benchmark in 2012 and 2013 should be seen in the context of the likelihood that the MTO will be met over the programme period. In 2014 and later years, according to both the information provided in the programme and the Commission spring forecast, the growth rate of government expenditure, net of discretionary revenue measures, will not exceed the reference medium-term rate of potential GDP growth (1.84 %).

Following an overall assessment of the Member State's budgetary developments and plans, with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures, the plans have been found to be consistent with continued fulfilment of the MTO.

[7] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

Box 2. Main budgetary measures

Revenue	**Expenditure**
2012	
• Lower VAT rate for restaurant and catering services (-0.2% of GDP)	• Higher spending on infrastructure (+0.1% of GDP)
2013	
• Lower corporate income tax (-0.2% of GDP)	• Labour market package (+0.1% of GDP)

Note: The budgetary impact in the table is the impact reported in the programme by the national authorities. A positive sign implies that revenue / expenditure increases as a result of this measure.

The debt ratio has shown a declining trend since the mid-1990s, which was only temporarily interrupted by the recession of 2008/09. Gross debt stood at 38.2% of GDP in 2012. Since the debt-to-GDP ratio is below the reference rate, the debt reduction benchmark is not applicable. The programme expects a temporary increase in the debt ratio to 42% in 2013 due to central government lending of SEK 100 billion (roughly EUR 11 billion) to the Riksbank for strengthening the foreign exchange reserve. In 2014-16, the programme anticipates a renewed decline in the debt-to-GDP ratio to 36.2 % in 2015, the main drivers being the contribution from real GDP growth and primary surpluses in 2015-16. This decline is based on a rather favourable macroeconomic scenario and includes the effects of some limited further privatisation receipts. Medium-term debt projections (see Graph below Table V in annex) indicate that full implementation of the programme would lead to a further decline in the debt-to-GDP ratio by 2020.

Long-term sustainability

It would appear that Sweden is not facing any short-term or medium-term sustainability challenges. Government debt (38.2 % of GDP in 2012 and expected to rise to 39 % in 2014) is below the 60 % of GDP Treaty threshold, providing the country with some fiscal space over the medium term. The country is at medium risk in the long term due to the cost of ageing, but it has some time to adjust policies that affect age-related spending. The risks would be lower if the structural primary balance reverted to the higher values observed in the past, such as the average for the period 1998-2012. If age-related expenditure growth were contained further, it would contribute to the sustainability of public finances in the long term. According to the 2012 Ageing Report, the long-term care component of the medium- and long-term sustainability indicators is much higher than on average in the EU.

Fiscal framework

The Swedish fiscal framework, which is characterised by a cautious approach, has been stable over the latest period. It has its origin in the period following the recession of the early 1990s, linked to which public finances suffered. The framework combines elements that are laid down in law with softer regulation through a series of practices and particular approaches to the budgetary process ensuring a tight process controlled by the Swedish Ministry of Finance. This process comprises three key components. First, the surplus target, encompassing the finances of both central and local governments (counties and municipalities) and the pension system, stipulates that an overall surplus of 1 % of GDP should be achieved over the business cycle (since 2010 the surplus target must be defined). The achievement of the target is assessed against seven different indicators, largely forward-looking. The multitude of indicators impairs the clarity of the assessment and could lead to an opportunistic interpretation. Second, the three-year nominal expenditure ceiling for central government (excluding interest expenditure) and the pension system controls budget overruns and forces government departments to prioritise. Third, the balanced-budget rule for local governments forbids municipalities and counties to approve ex-ante deficit budgets and requires them to compensate for any ex-post deficits within three years. The 2013 Budget Bill included new rules allowing municipalities and countries to balance revenues over time through so called results-balancing reserves, as a means of reserving a proportion of the surplus in good times, which can then be used to cover deficits in a recession. The new rules entered into force on 1 January 2013, with the possibility to include surpluses as from 2010, and are expected to give local governments bigger possibilities to avoid pro-cyclical budgeting. In addition to the budgetary rules, the Fiscal Policy Council was established in 2007 as a government agency with the task of providing an independent evaluation of the government's fiscal policy as outlined above and compliance with the fiscal rules.

The well-established fiscal framework has successfully contributed to putting Swedish public finances on a much stronger footing at both the central and the local level. It has played a specific role in preventing strong tax receipts in good times from translating into pro-cyclical spending increases. This has provided the necessary margin for automatic stabilisers to play their role in recessions, even making room for discretionary fiscal stimulus.

At the end of 2012, the Swedish government called a parliamentary committee with the purpose of reviewing the budget process. Initial results have recently been published (SOU 2013:32) and a full report is due by 1 October 2013. The present public inquiry evaluates whether the Swedish budgetary framework is in line with Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States. The inquiry concludes that the overall compliance is good but that Sweden lacks a regular evaluation of the government's macroeconomic forecasts and budget forecasts, as required by the Directive. The inquiry therefore proposes to keep the process generally intact, with the addition that the government should be required to regularly publish evaluations of the forecasts presented in the Budget Bills and the spring budget. The government should also address significant discrepancies against the Commission's forecasts. The Directive is to be transposed by 31 December 2013.

Tax system

Swedish taxation levels are the second highest in the EU with a tax-to-GDP ratio (including social security contributions) of 44.3 % in 2011 (latest available year for detailed data on taxation). In 2011, revenues from indirect taxes rose by 0.6 percentage point year-on-year (42.0 % of total tax revenue), while revenues from direct taxes dropped back slightly (42.2 % of total tax revenue). The implicit tax rate on labour has declined steadily from its peak level of 49.3% in 1998, to reach a new low of 39.4 % in 2011 which can mostly be explained by all the measures taken in recent years to decrease the tax burden on labour.

The in-work tax credit which the Swedish government introduced in stages in recent years seems to have generated the desired effect: a reduction of the effective marginal tax rate on labour (and the tax wedge), in particular for low-earners. However, the marginal tax rates for above-average wage earners and the average tax wedge remain high. Similarly, the implicit tax rate on labour remains above the EU average (weighted 35.8 %), despite a significant decline over the last decade.

A further reduction in labour taxation could be achieved via the planned but not yet realised fifth step of the in-work tax credit. In this context, the government's ambition, as announced linked to the presentation of the spring budget in April 2013, and repeated in the NRP, to strengthen the in-work tax credit further, and to raise the lower threshold for state income tax when the state finances so allow, are welcome steps.

Since the tax reform in the early nineties, which aimed to make the system less complex, and also easier for citizens to comply with, various exemptions have been (re)introduced, not least in the area of VAT, where there are currently numerous deviations from the standard rate. Making sure that the tax system is understood and accepted by tax payers is also important.

Corporate taxation is under review and a linked public inquiry will deliver its final report by 31 March 2014. In this context, there is a relatively big gap between the effective marginal tax rate on debt and on equity for new investment, suggesting a bias towards debt-financing for corporations. The 2013 Budget Bill includes measures designed to address this issue. The corporate tax rate was reduced from 26.3 % to 22 % as of 1 January 2013, coupled with a reform limiting the scope of deductibility of interest expenses on all types of intra-group loans. For other types of corporate loans, deductibility rules remain unchanged.

It is still too early to assess the effect of the recently introduced reduction in the real estate charge for rental and tenant-owned apartments and the increase in the standard deduction on income from the lease of a private dwelling, which is meant to tackle constraints in the housing supply responding to the 2012 CSR in this area.[8]

With a view to improving low employment rates in the case of low-skilled workers, the Swedish 2012 Finance Bill included reduced VAT on restaurant and catering services. Economic evidence shows that reductions in VAT rates are not the most efficient means of boosting employment and growth, whereas broadening of tax bases is generally considered to be more growth-friendly.[9] For Sweden, the third 2012 country-specific recommendation (CSR 3) identified the need to review the effectiveness of the reduced rate on restaurant and catering services in support of job creation. The government has commissioned an in-depth analysis of the effects of the reform which will be presented on 1 January 2016 (initial conclusions due on 1 January 2014).

Tax rates on energy products remain comparatively high in relation to the EU average. The Swedish energy tax system is, however, highly differentiated and tends to tax sectors exposed to foreign competition less than private households or service sectors.[10] Reforms were initiated in 2011 to start reducing these differences. Overall, the energy tax system remains complex and there is scope for a more uniform and consistent pricing of energy products through the tax system. An assessment and follow-up of the 2011 reform is scheduled for 2015.

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[8] However, the reduction of the property fee will in fact increase the favourable tax treatment of these types of dwellings in relation to other assets, and further increase the debt bias in taxation.

[9] European Commission, 'Communication on the future of VAT', COM(2011) 851 final.

[10] See for example OECD, 2013 Inventory of Estimated Budgetary Support and Tax Expenditures for Fossil Fuels.

To conclude, despite the high tax level the Swedish tax system is generally efficient, although there is room for further strengthening the growth-friendliness of the system. The tax burden on capital is now rather low, while the tax burden on consumption in relation to GDP is higher than the EU average. The reduction of the tax burden has mainly been concentrated on labour taxes and in particular taxes on low- and middle-income earners in order to enhance the labour supply. The overall progressivity of the tax rates on labour has not changed. The main difficulty facing the Swedish tax system is that it creates a bias towards debt. More neutral tax treatment of different investment options, in line with the Swedish tax neutrality objectives, could be achieved through higher recurrent property tax and/or a reduction/gradual phasing out of interest deductibility. In addition, if the application of the standard VAT rate were extended, the Swedish tax system would gain in efficiency. Taken together, such measures might create scope within Swedish fiscal policy for further reduction of the tax burden on labour.

3.2. Financial sector

Amid the Nordic 'safe haven' phenomenon, the financial sector in Sweden enjoyed relative stability and profitability throughout 2012. The Swedish banking sector, which is equivalent to more than 400 % of Swedish GDP, recorded one of the highest growth rates in the EU in 2012, driven mainly by lending to the domestic private sector. In fact, the level of household debt is high and the lion's share of household debt is made up of mortgages, rising hand in hand with rising house prices over the last 15 years. At present, credit growth for mortgage loans is less expansive but still amounts to approximately 4.5 % per year and still outpaces the growth of disposable income.

In 2012, the Council Recommendations for Sweden contained a CSR concerning the need to strengthen the stability of the mortgage market in the medium term, including by fostering prudent lending and reducing the debt bias in the financing of housing investments. The structure of housing taxation and weak amortisation are two of the main factors which have contributed to the build-up of household debt. A low property taxation together with a generous tax relief on interest payments tilt the incentive structure towards debt-financed investment in property. The Swedish authorities have taken a set of measures to address these issues. In 2012, the Swedish Financial Supervisory Authority (FSA) proposed increasing the amount of capital to be held by Swedish banks for their mortgage exposures through a risk weight floor of 15 % for mortgage loans. Further steps, such as measures to increase amortisation, are being taken. The government has asked the FSA to prepare an action plan by 15 October 2013 containing measures to be taken to promote active amortisation among borrowers.

Rigidities on the housing market may be linked to foregone employment opportunities and hampered growth by putting limits to the mobility of workers, students, immigrants etc. Swedish urban areas also need to be able to attract innovative companies and talented employees, often in competition with cities located within the same region, or even part of Europe.

In spite of these potentially grave consequences, hardly any taxation measures have been proposed to reduce the debt bias in the financing of housing investments. **On the supply side, the Swedish housing market is also characterised by some inefficiencies which may contribute to drive house prices upwards and create undesirable lock-in effects**. For example, Swedish construction investments are only half of those of other Nordic countries, both in relation to GDP as well as population. Recent data on housing starts point towards a continued decline for residential buildings and in total, housing investments dropped by almost 13% (from already low levels) during the third quarter 2012 compared to the same period in 2011, and the construction industry does not expect investments to pick up this year.

In terms of barriers to construction, a number of recent public inquiries have looked into how zoning and planning processes could be simplified. At present, it often takes several years to launch a new project, as each one needs to go through lengthy processes at the municipal level. Before building permits are granted, a detailed development plan designating residential, commercial and industrial areas first has to be put in place and appeals may be launched at both stages. The rules governing the zoning and planning processes are also perceived as opaque and there are unwanted variations in their applicability across municipalities. While some reforms hence may be under way, actual legislative proposals are, however, still pending.

The residential rental market is afflicted by structural problems linked to several decades of stringent rent control, which is only recently showing signs of some softening. In 2013, previous measures were followed up by market-oriented reforms in the private lettings system. A public inquiry proposing further measures was submitted to the government in December 2012, and further efforts to achieve a well-functioning rental market will be welcomed. According to the NRP, the government has appointed a committee with the aim of increasing the supply of rental units. The committee is to propose improvements by 15 October 2013, among other things linked to the tax situation for the rental market.

As regards the funding structure of banks, the other vulnerable area of the Swedish financial sector, it remains exposed to risks linked to foreign investors. Only 22% of the balance sheet is funded by private-sector deposits, while 33% is covered by wholesale funding. A large proportion of wholesale funds are raised in foreign currencies. For the four largest banking groups, foreign currency debt exceeds 55% of their total market funding.[11] In the past, the volatility of foreign wholesale funding has been relatively high. Any adverse developments in the Swedish economy could have a negative impact on the confidence of foreign investors, which in turn could lead to capital outflows and an abrupt increase in funding costs. A risk factor in this context could be, for example, instability in the housing market.

Nevertheless, in the last few years the capital adequacy of the large Swedish banks has continued to increase and in principle the banks already meet the impending minimum of 10% Core Equity Tier 1 ratio.[12] High solvency was confirmed by the European Banking Authority 2012 EU Capital Exercise. Lending to the economy is still adequate, in line with the Annual Growth Survey objectives. Asset quality raised no concerns as non-performing loans accounted for only 1.4% of total loans (Q3 2012). Despite the downturn in economic growth, profitability remained high compared to other European banks.

In general, Swedish businesses benefit from adequate access to private and public capital. The latest survey on access to finance[13] showed that only 8% of companies in Sweden report access to finance as being the most pressing problem. Also SMEs enjoy better

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[11] http://www.riksbank.se/Documents/Tal/Jochnick/2013/tal_af_jochnick_bilder_130125_eng.pdf.

[12] There is general agreement in Sweden on setting stricter requirements for domestic banks than the minima adopted at the EU level, among other reasons because of the substantial size of the financial sector in the Swedish economy. In this context, the Council for Cooperation on Macro-prudential Policy was set up in February 2012.

[13] European Central Bank and European Commission, SMEs' Access to Finance Survey 2011, December 2011.

financing conditions than the average SME in the EU.[14] They are also satisfied with their access to public financial support.

All in all, the Commission comes to the conclusion that Sweden has made some progress with respect to the measures taken to address CSR2. The measures appear to be relevant and credible but further efforts along the lines outlined above seem warranted.

3.3. Labour market, education and social policies

The performance of the Swedish labour market is generally very good: the overall employment rate is very high (79.4 %, in 2012 for those aged 20-64); labour productivity is above the EU average; the wage-setting system is quite flexible and accommodates cyclical developments well; dialogue between the social partners is consensus-oriented and efficient in preventing strikes; the unemployment benefits system as well as the sickness and disability benefit schemes have become more supportive of labour integration and employment; and substantial progress has been made in reducing labour taxes.

However, the Swedish labour market does not function well for young people without upper-secondary education, people with non-EU migrant background or the low-skilled in general. Their unemployment rates are far higher than those of the rest of the working-age population and above the EU average. Admittedly, the youth unemployment rate, at 23.7 % in 2012, is somewhat overstated (in absolute terms but not relative to other countries) in that half of unemployed young people are students looking for jobs, who typically report short unemployment periods. Moreover, it may have been temporarily pushed up by a generational effect and government policies which have resulted in a particularly strong expansion of the labour force in recent years, making it more difficult for new entrants to get established in the labour market. Nonetheless, despite these mitigating factors, it is clear that the labour market underperforms for low-skilled young people, who have seen the highest increases in unemployment since 2001 as well as declining activity rates. When students are excluded, youth unemployment appears high (11.9 % in 2012) if compared to countries[15] with a similarly good labour market performance, where the figure stands between 2.5 % and 8.1 %). As for immigrants from non-EU countries (non-EU nationals), their unemployment rate stood at 30.6 % in 2012, far above the EU average of 21.3 %. Sweden shows a larger difference in employment/unemployment rates between natives and immigrants than other EU Member States, including those with a similarly large migrant population (AT, UK and NL).

In 2012, the Council Recommendations for Sweden contained a CSR concerning the need to improve the labour market participation of young people and people with a migrant background as well as to review the effectiveness of the VAT cut on restaurants and catering services in supporting job creation.

Some of the policies currently in place contribute to underperformance of the labour market for these groups.[16] A lack of work-based vocational education hinders the transition from school to work and, together with the design of upper-secondary education, leads to an expanding pool of people with insufficient or inappropriate skills, prone to being trapped in

[14] European Commission, Sweden SBA Fact Sheet 2012.
[15] Netherlands, Denmark, Finland, Germany and Austria.
[16] A more detailed discussion of the impact of the various policies is presented in Pavlina Zakova, "Sun Spots on the Swedish Labour Market", Country Focus 10/1, European Commission, May 2013, available from http://ec.europa.eu/economy_finance/publications/country_focus/index_en.htm

temporary jobs or long-term unemployment.[17] Entry wages in some sectors, such as retail, appear to be above the market-clearing level and lead to a sub-optimal level of employment.[18] Wage agreements between the social partners over the last decade have resulted in a rather narrow wage structure, with little wage progression at the lower end. The government's role in the so called tri-partite negotiations described below is welcomed in this context. The strong duality in employment protection legislation is detrimental to low-skilled people, who face difficulties in obtaining a permanent contract. The 2001 reform of student support has pushed more university students into work alongside their studies and they may be crowding out low-skilled people from temporary or part-time low-paid jobs. The matching process has deteriorated with skill mismatches increasing after the 2008/2009 crisis and an inflexible housing supply increasingly hindering matching between job-seekers and job-providers from various regions.

Following the 2012 CSR, the Swedish government has taken a number of new measures, most of which were presented in the Budget Bill for 2013 and the National Reform Programme. To speed up the integration of people with a migrant background, especially women, into the labour market, the Introduction Act of 2010 has been reinforced as an incentive for municipalities to receive newcomers more promptly. The Public Employment Services are now involved early in the integration process. Moreover, the system of parental benefits has been modified to counter delays in the labour market entrance of foreign-born women due to long parental leave periods.

A smoother transition from school to work was already the main objective of the reform of upper secondary education in 2011. The reform involved further differentiation of the general education and vocational tracks and the introduction of apprenticeships as an alternative route to obtaining a vocational diploma. However, both the vocational path and apprenticeships struggle with a lack of interest both from the part of students and employers due to little recognition and difficulties in organising the apprenticeships.[19] Within the 2013 budget, the use of apprenticeships has been further promoted by extending allowances to employers of apprentices in both upper-secondary and adult education. Furthermore, tri-partite negotiations are taking place on 'work introduction agreements',[20] which combine employment at 75 % of working time and vocational training at 25 %, at a wage that is at least 75 % of the current entry wage. The government intends to support these agreements between

[17] Indeed, the lack of work-based education appears to be the main institutional feature distinguishing Sweden from other countries with high employment rates, such as Germany, Austria, Denmark or the Netherlands. .

[18] Substantial rigidity in the lower part of the wage structure prevents wages from reflecting the productivity differentials between individual workers or sectors. By way of an example, whereas differences in pay between people with and without upper-secondary education are very small, the former enjoy markedly higher employment rates (with the gap increasing markedly over the last decade). This suggests that a possible lowering of wages for inexperienced or low-productivity workers could improve their employment rate. See also OECD, *Economic Surveys – Sweden*, 2011 and 2013; Per Skedinger, *Minimum Wages and Employment in Swedish Hotels and Restaurants*, Labour Economics, 13, 2006; Minimilöners effekter på löner och sysselsättning - en översikt, Arbetsmarknad & Arbetsliv 13(2), 2007; Effects of Increasing Minimum Wages on Employment and Hours: Evidence from Sweden's Retail Sector,,IFN Working Paper No.869, 2011; Malin Sahlen, *Ungdomsarbetslöshet – när ska muren rivas*, Ekerlids Förlag, 2012.

[19] In fact, the number of apprenticeships has declined since 2008. It is also explained by the fact that 'an education contract' was introduced in 2011, putting more responsibility on the organisers of the apprenticeship training.

[20] These contracts were introduced in some sectors after the 2008-09 crisis following an agreement by the social partners. Negotiations between the social partners at national level stalled in January 2013, but are continuing at sector level.

the social partners by providing wage subsidies and sector-adapted vocational courses for young people employed under the agreement.[21] The government is also investigating a possible new employment format with educational content for young people ('apprentice probation employment'). Furthermore, an extra 18 000 temporary student places in adult vocational education, higher vocational education and universities should be funded under the 'youth package' presented in connection with the 2013 Budget Bill. Additional funds for vocational training and work experience programmes were allocated in the 2013 Spring Fiscal Policy Bill.

Besides supporting the agreements on vocational introduction, the government strives to foster demand for disadvantaged people by funding more placements and training places for people at a high risk of long-term unemployment.[22] In addition, to increase the employment prospects of people with disabilities, there will be greater opportunities to receive individual assistance at a new workplace and the NRP foresees providing people with reduced work capacity with practical work experience within the central government and agencies.

With a view to improving the functioning of the labour market, the government intends to clarify the requirements that apply to all recipients of labour-market-related benefits or income support from the public authorities. The government has also taken initial steps to review some aspects of employment protection legislation. In particular, an inquiry has been held to review the priority rules for dismissals and to propose ways of limiting employers' costs linked to disputes concerning dismissals. In September 2012, the inquiry proposed three amendments to the Employment Protection Act and these are now being considered by the government. Alternatively, the government would promote changes to the rules for dismissals via transition agreements between the social partners. In parallel with the submission of the NRP, the Swedish government also shared its intention to create so called new start zones in order to promote socioeconomic development in challenged areas by giving small companies the possibility to make social fee deductions subject to certain conditions. The measure is proposed to be applicable as from 1 January 2014; however it falls under State aid rules and shall therefore be notified to the European Commission. Whether the measure will eventually be included in the 2014 Budget Bill to be presented in the autumn, will also depend of the budgetary space and the economic outlook at that time.

As regards the 2012 labour market measure to reduce the VAT rate for restaurants and catering services, the government has commissioned a review of its effects on prices, wages and the employment of young people. The preliminary results of the review will be available in January 2014 and a final assessment will be delivered in 2016. At this stage, the data point to a 4.5 % increase in overall business volume in 2012 compared with 2011, which is the largest volume increase in this sector for 10 years, and recorded at a time of weak private consumption. Moreover, in the first nine months of 2012 wages in the restaurant sector rose by 8.5 % compared with the same period in 2011, which is twice as much as in the whole private business sector. This might suggest that the VAT cut has had positive effects on

[21] These courses correspond to up to 16 weeks of tax-financed full-time studies and are free of charge for the beneficiaries. A pilot assignment has been given to the Public Employment Services (PES) for the manufacturing industry sector, for the period Feb 2013-Dec 2014, to provide such training for up to 800 young people between 16 and 25.

[22] The proposal could support approximately 9 500 places in 2013 and 4 750 places in 2014.

job creation in the restaurant sector.[23] Nevertheless, the effects on the overall employment are very uncertain (e.g. due to possible reduction in other sectors) whereas the cost of this measure in terms of foregone VAT revenue is high (estimated at 0.1-0.2 % of GDP or between EUR 400 and EUR 800 millions[24]). Moreover, the measure contributes to further differentiation in VAT structure, therefore decreasing the efficiency of the tax.

The Commission comes to the conclusion that Sweden has made some progress with the measures taken to address the CSR. The Swedish government has taken a large number of new, relevant and robust measures within the different areas listed in the CSR. The recommendation to review the effects of the VAT cut for restaurant and catering services is considered to have been partially implemented, as the actual review is still not available and a cost-efficiency analysis of the measure shall still be made. Measures targeting the integration of people with a migrant background into the labour market have already produced hints of initial results in lowering the unemployment rate of the group, but continued efforts are needed to reduce the distance from the rest of the population. There are no noticeable effects yet for young people. However, a number of promising measures have been put in place or are in the pipeline. For instance, the support for agreements on vocational introduction is a promising move to foster demand for young labour and to overcome the barrier of high-entry wages in some sectors, within the context of the Swedish model for wage setting by fully independent social partners. The efforts to strengthen apprenticeships and other types of work-based vocational education are totally appropriate for facilitating a smooth transition from school to work and reducing unemployment among young people who have completed post-secondary education. Nevertheless, more ambition will be required to reach the desired impact. There is a case for continued progress in reviewing employment protection legislation and implementing a Youth Guarantee[25], building upon the current job guarantee for young people. Previous measures often covered the entire labour market segment showing weakness (e.g. all young people, all immigrants). However, preference should be given to more narrowly-defined measures targeting the most disadvantaged individuals from these segments in relation to general subsidies which typically involve high fiscal costs and a high risk of a deadweight loss.

As regards education, according to Eurostat, **since 2006 early school leaving has been below the national 2020 target of 10 %** (7.1 % in 2012, preliminary figures). However, based on the national definition,[26] early school leaving has remained constant at 27 % over the past five years and at a higher level than in the 1990s. The 2011 reform of upper secondary education, described above, has not yet generated positive results in reducing the share of school-leavers.

[23] The restaurant trade organisation Visita calculated that the increase in wages paid could amount to an employment increase of 5 843 full time equivalents, or 5.3 %. .

[24] Estimates by the government and the Fiscal Policy Council.

[25] Council Recommendation of 22 April 2013 on establishing a Youth Guarantee (2013/C 120/01) to ensure that all young people under the age of 25 years receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship within four months of becoming unemployed or leaving formal education.

[26] According to the national definition, early school leavers are young people who at the age of 20 have not yet completed upper secondary education successfully. Eurostat defines early school leaving as a share of the population aged 18-24 with at most lower secondary education and not in further education or training. This explains the difference in relation to the national definition, since young people in Sweden often take an alternative route to obtain their diploma with full grades, and are therefore considered to be in training.

The teaching profession's continuing lack of attractiveness remains a significant reason for the declining quality of education in Sweden, as demonstrated by the deteriorating results in international tests (OECD PISA 2009). Low pay with little salary progression over their career[27] clearly discourages young qualified teachers and contributes to the ageing of the teaching workforce (41 % of upper-secondary school teachers are aged 50 or older). The government has adopted a range of measures to support the teaching profession, including continuing professional development of teachers. However, an important measure, the accreditation of teachers, has undergone numerous postponements of the implementation deadline.

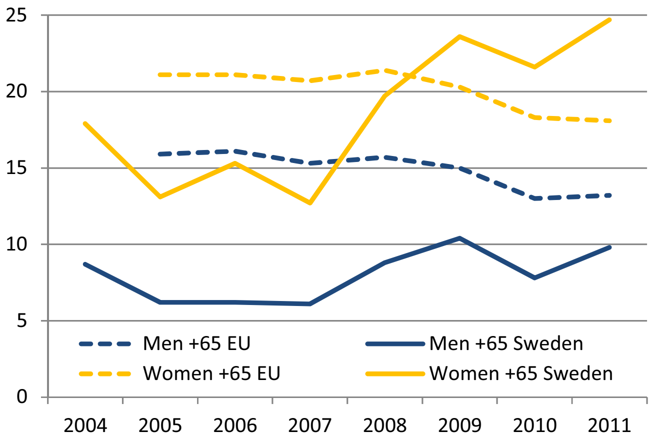
As regards tertiary education attainment, Sweden had already exceeded its 2020 target (40-45 %) in 2010, with 47.9 % of graduates in the 30-34 age group in 2012. However, the high average age of university entrants, significant drop-out rates from higher education (46 % in 2008)[28] and lengthy study periods raise doubts about the system's efficiency. Recent measures, such as linking the level of study support to study results, are likely to speed up the throughput of students. The government's intention to increase the number of study places in the fields of engineering, medicine, dental studies and nursing is welcome and should help to align education with the demand in the labour market.

The Swedish social model draws its strength from the synergies between the universal social protection system and a well-developed active labour market policy. Sweden is one of the Member States with the lowest income inequalities. The combined at-risk-of-poverty and social exclusion rate has been stable over the last decade (2004: 16.9 %, 2011: 16.1 %). However, the differences across groups are quite large. There is a continued deterioration in the relative social situation of older women, who record at-risk-of-poverty rates above the EU average and almost three times higher than those of men in the same age group, the figure having increased from 13.1 % in 2005 to 24.7 % in 2011 (Graph 1).

[27] Salary after 15 years of teaching experience was 13 % below the OECD average in 2010, which contrasts with an above-average overall wage level. The ratio of salary at the top of the scale to starting salary was around 1.35 in 2010, below the OECD average of 1.62. While in the OECD countries teachers' salaries rose by 22 % on average between 2000 and 2010, they rose by a mere 8 % in Sweden (OECD, *Education at a Glance*, 2012).

[28] OECD, *Education at a Glance*, 2010. This includes students entering single courses who may never have intended to study all the courses required for a degree (an estimated 40 % in Sweden). Preliminary data for 2011 indicate that the completion rate for Sweden is at the same level as for 2008 for bachelor and master level type of education (ISCED 5A). The completion rate has slightly increased overall for tertiary education.

Graph 1: At-risk-of-poverty rates for persons above 65 (based on 60 % of the median income)



Source: Eurostat

The increase of the at-risk-of-poverty rate of older people can to some extent be explained by higher median incomes as a result of the increasing disposable income of workers due to wage growth and the in-work tax credits introduced between 2006 and 2010.[29] Since the income of a large proportion of Swedish women above 65 was just above the 60 % threshold before the introduction of the in-work tax credit, the statistical effect of the reform was particularly noticeable for the relative income position of this group. Recently the government has sought to improve the relative income position of retired people by introducing tax cuts for pensioners in several stages between 2009 and 2013. Yet as the at-risk-of-poverty-rate for older women keeps rising other factors may be contributing. The present relatively large gender gap in pension entitlements (estimated at 30 %)[30] results from the gender differences in pay, hours worked and the duration of working life in the past.[31] Since gender differences are much smaller in the present working age population, gender pension gaps are set to become narrower in the future.

The Swedish government's social policy is sharply focused on reducing social exclusion through labour market integration. For the approximately two million retired people for whom this is not always an effective or realistic method of reducing the risk of poverty, in addition to the abovementioned tax cuts, a system of housing allowances is in place, which is however not fully exploited because of a lack of awareness among the target groups. It should also be noted that Swedish pensioners have access to subsidised social services, which may to some extent compensate for this group's lower income. Moreover, although the group has relatively low income levels, wealth aspects must also be considered when assessing the global situation of individual households. However, it is clear that the relative poverty rate for older women has been increasing and that there is a widening gap in relation to men of the same age group. Further analysis to fully understand all underlying mechanisms, for instance

[29] The relative resilience of Swedish workers' income during the crisis years can also explain the contrast between a worsening of the situation of older people in Sweden and an improvement in many other EU Member States where poverty rates decreased as the income of the working population declined. In Sweden, the income of non-working people has not declined in real terms.

[30] Francesca Bettio, Platon Tinios, Gianni Betti, The Gender Gap in Pension in the EU, ENEGE, 2013.

[31] In addition, the higher poverty rates for older women as compared to men are due to the fact that the indicator is household based. Since women tend to earn less and live longer, their income drops significantly when their husbands decease, therefore often falling into the at-risk-of-poverty range.

in relation to the way women are treated in the transition from the old to the new pension system, is warranted and the issue remains a point to watch in the future.

3.4. Structural measures promoting growth and competitiveness

Sweden is one of the most competitive countries in the European Union. The Swedish economy is characterised by high technological advancement, solid R&D and innovation performance (although it suffers from declining private investments) and reliable and transparent institutions, as well as a higher education sector which delivers satisfactory results. Disregarding the crisis years 2008-09, losses in export market shares have been minimal over the last 10 years and reflect structural changes rather than unfavourable domestic cost developments or quality concerns. Market share losses in goods have been largely compensated by gains in services.

In 2012, the Council Recommendations for Sweden contained a CSR concerning the Research and Innovation Bill (still impending at the time), to make sure that it tackled the challenges of declining R&D intensity and the low level of commercialisation in Sweden.

Research and innovation

Sweden adopted its Research and Innovation Bill, in parallel with its innovation strategy in October 2012.[32] The declared purpose of the strategy is to contribute to a climate in Sweden offering the best possible conditions for innovation by 2020. The combined policy response, which is also well aligned with the AGS priority of promoting growth and competitiveness, has a threefold dimension.

First, given that the traditional stronghold of employment is no longer sustained by larger multinational firms, Sweden's innovation policy now focuses on enhancing the growth of existing and new Swedish SMEs, preferably knowledge-intensive ones. Policies include a wide spectrum of measures which form an integral part of both the new R&I bill and the new national innovation strategy. **Second, the national innovation strategy aims to create world-class innovative regions and environments by 2020**, which is to be supported by a further mobilisation of innovative public procurement[33] and appropriate regulation to boost innovation. **Third, there is a strong strategic focus, mainly on innovation areas, in both the R&I bill and the innovation strategy**. The rationale is to focus part of the resources in areas where Swedish industry has relative strengths and core competences and where there are growing markets, both in Sweden and globally. Sectors receiving increased investments in research and infrastructure include life sciences, advanced materials, energy storage systems, as well as clean-tech and energy. Further down the innovation chain, challenge-driven strategic innovation areas include sustainable and clean cities, health and information society, as well as established large 'traditional' industry sectors in Sweden.

The strategy acknowledges the education system's crucial role in developing the knowledge, skills and approaches of young people which are necessary for translating ideas into innovation. However, although the strategy identifies the right policy areas, among them education, it should be recognised that the education landscape is diverse and there are big differences in universities when it comes to innovation and entrepreneurship. Building entrepreneurship education into the school education curriculum and teaching entrepreneurship skills to trainee teachers are steps in the right direction.

[32] http://www.government.se/sb/d/2025/a/202558.
[33] A public inquiry into how public procurement could be made more efficient was published on 5 March 2013.

The strategy broadly addresses the concerns expressed in CSR4, and the proposed measures put a stronger emphasis on ensuring a higher return on R&D investment than there has been in the past. The challenge of getting ideas to the market for innovative and high-growth enterprises is also well recognised. The main challenge for Sweden now is swift implementation. One risk is the fact that there is no specific funding attached to the strategy, as it is intended to come from bills in related policy areas, such as the new Research & Innovation Bill of October 2012 or the forthcoming Energy Bill, scheduled for spring 2013. Overall, implementation implies a challenge for governance in working across ministries with the focused objective of boosting innovation and synchronising supply-side and demand-side measures. In terms of total R&D investments, it is also clear that Sweden is one of the countries that need to crank up their R&D intensity in order to reach their target (4 % of GDP by 2020). R&D intensity fell from a peak of 4.13 % of GDP in 2001 to 3.42 % in 2010 (1.07 % public and 2.35 % private). The main weaknesses in the Swedish innovation system are the falling business R&D investments linked to outsourcing in multinational enterprises and the commercialisation of innovations in sustainable high-growth firms. EU structural funds can play an important role here, as they provide 40-50 % of public regional support for research and innovation with a particular focus on SMEs. In this context, it should be possible to continue to develop relevant R&I infrastructure, incubators and knowledge-based clusters. This requires increased coordination between national and regional initiatives.

The increased focus on research and innovation should encourage the build-up of research and innovation-based systems to stimulate fast growing innovative enterprises. Furthermore, the reduction in the corporate tax rate from 26.3 % to 22 % in January 2013, the proposed tax credits for investors to stimulate access to capital for new and fast-growing companies, and the introduction of significantly higher expenditure ceilings for infrastructure investments (mainly road and rail) are all measures that are likely to create jobs and boost economic growth. The NRP also reports on government initiatives to strengthen the public organisation, Almi Företagspartner, providing financing and advisory services to companies at early stages of innovation and growth. **The measures hence appear to be both relevant and credible, and the recent strategy and R&I Bill should be a good basis for future progress. The Commission therefore comes to the conclusion that Sweden has fully addressed the CSR. However, it will be necessary to monitor closely the actual implementation and its practical effects.**

Environment, energy and transport

Traditionally, Sweden has had a good mix of different types of energy-saving measures, including fiscal, financial, legislative, information and voluntary instruments, supported at various governance levels (national, regional, county and municipal) and tackling all sectors of the economy. Moreover, governance structures and institutions are well developed. While these measures continue to contribute to energy efficiency, today new policy initiatives are limited and the economic potential of energy efficiency has not been fully harnessed.

The Swedish government should make sure that the country benefits fully from good energy-efficiency knowledge, established programmes and collaboration schemes, governance and institutional structures. The rate of energy-efficiency improvements should be maintained. Moreover, the complete and timely transposition and effective implementation of the Energy Efficiency Directive (to be transposed by June 2014) would also create additional tools to promote energy efficiency.

As regards energy infrastructure, Sweden has a very extensive electricity transmission network. Large volumes of production from hydroelectric power plants located in the northern part of Sweden need to be transported to demand centres, which are concentrated in the central and southern parts of Sweden. However, there is significant congestion between the north and south of the country. This led the authorities last year to divide Sweden into four distinct pricing areas. Sweden covers much of its electricity demand by hydropower, which makes it vulnerable to the hydrological situation. The second largest source of generation is nuclear power. Sweden is increasingly exposed to price volatility, especially when a low reservoir level coincides with an unplanned outage of a nuclear power plant. Sweden has a relatively small gas market, which is only interconnected with one Member State (Denmark), covering 100 % of the Swedish supply, exposing the country to supply disruption.

As regards renewable energy, Sweden has committed to reaching a target of 49 % of renewable energy sources in final energy consumption (49.1 % in 2010 and hence already achieved) and a 10 % share of renewable energy in the transport sector by 2020. The NRP reports that the government has commissioned an inquiry to map out possible alternative approaches and to identify measures to reduce the transport sector's emissions and dependency on fossil fuels. The inquiry should present the results by 31 October 2013.

Sweden is also making good progress towards achieving its climate-related EU target and measures are in place in virtually all sectors to mitigate greenhouse gas emissions. However, taking the already relatively low level of emissions into account, further emphasis should be put on the cost-effectiveness of Sweden's climate change policies. Sweden has undertaken to use the lever of the CO_2-tax, together with other economic instruments in place, to ensure that the set target is met.[34] Climate policy efforts are currently focusing on the modernisation of smart grid technologies and the promotion of electric cars and biofuels in the transport sector. Emissions from road transportation are a specific policy challenge, as the Swedish vehicle stock has a relatively high CO_2 emission intensity compared to the EU average. As an incentive to reduce emissions further, the government is promoting tax measures and pilot programmes for low-carbon vehicles and technologies, including biofuels. Although Sweden has a good track record for mainstreaming climate policy, it has been less prominent in integrating mitigation and adaptation objectives when applying EU cohesion and structural funds. However, the NRP reports that Sweden is exploring different ways to promote a greener economy. In 2010 the Government designated three counties as pilots for green development to disseminate experience guide other counties. In its recent research and innovation bill, the Government is introducing an initiative on research funding to stimulate biomass and bio-based products for a bio-based national economy.

The overall situation of the transport infrastructure network is quite satisfactory, with rising investment levels. There were new infrastructure projects and additional funding in 2012. However, the level of investment in the maintenance and upgrading of the Swedish rail system has not kept pace with the increase in traffic in recent years. In addition, some bottlenecks remain in the main cities. Responding to market needs in cross-border rail traffic with continental Europe will require close cooperation, particularly with Denmark and Germany and above all for future Swedish export traffic. While capacity is becoming scarce in other modes, there are indications that there is still spare capacity in shipping.

The Swedish government is contemplating the introduction of water pricing pursuant to the Water Framework Directive to achieve a sustainable source of drinking water from a good aquatic environment. Water quality is being threatened by nutrient overload, particularly

[34] Prop. 2009/10:41.

in the Baltic Sea and the waters in the southern part of the country, and there is considerable pressure on hydromorphology in several river basins. In the waste sector, Sweden has succeeded in achieving a low landfill rate (1%), and a 49% share of recycling and incineration respectively.[35] The NRP reports that in a planned bill on waste, the government's ambition is to promote resource-efficient eco-cycles without hazardous substances, which might result in increased recycling, business opportunities and jobs in the recycling sector.

A guide for mapping and analysing non-tax environmentally harmful subsidies[36] was recently presented as a result of a government assignment. The guide, which was highlighted in both last year's and this year's NRP, provides guidance for identifying, assessing and phasing out these harmful subsidies. Concrete proposals with clear timelines based on these assessments would be welcome.

All in all, the structural measures announced by the Swedish government for addressing bottle-necks in growth and competitiveness in the environmental, energy and transport fields appear to be appropriate and credible.

3.5. Modernisation of public administration

Swedish public administration is highly effective. The perceived overall quality of the services provided is ranked well above the EU average.[37] As in other Scandinavian countries, the implementation of tools for modernising public administration (including the use of ICT solutions) is highly advanced. E-government take-up by citizens and companies is also widespread, but public e-procurement could be extended further and procedures could be simplified and shortened to optimise tendering opportunities for SMEs and foreign companies. Overall, tax compliance is high and tax administration cost-effective.[38] However, there is room for improvement in terms of reducing the administrative burden (including a return to the principles of tax uniformity and neutrality) and simplifying procedures.

In 2012, Sweden did implement measures to address the administrative burden on businesses, acknowledging the need to step up its efforts. According to the 2013 World Bank Doing Business Report the time to start a business in Sweden is 16 calendar days, which is marginally longer than the EU average of 14 days and more than five times longer than the agreed Small Business Act target of 3 days by 2012. Although in 2006 the Swedish government undertook to reduce the administrative burden for businesses by 25% by 2010 (subsequently pushed back to 2012), the reduction achieved by 2010 was just over 7%.

The government has recently taken a series of initiatives, including a simplification programme for the period 2011-14. It has also commissioned a public inquiry, to be published in November 2013, on the scope for reducing reporting requirements for companies. Moreover, government agencies' comprehensive use of e-procurement by 2013 is on the agenda, as is the possible outsourcing of some public administration support functions with a view to improving efficiency and reducing administrative costs. Although these measures are in line with the 2013 Annual Growth Survey priority of modernising public administration,

[35] http://www.naturvardsverket.se/Start/Statistik/Avfall-och-avloppsvatten/Avfallsstatistik. .
[36] http://www.naturvardsverket.se/Miljoarbete-i-samhallet/Miljoarbete-i-Sverige/Regeringsuppdrag/Redovisade-2013/Handledning-for-att-kartlagga-icke-skatterelaterade-potentiellt-miljoskadliga-subventioner/.
[37] According to the government effectiveness index of the World Bank (2010, 2011).
[38] According to the report 'Excellence in public administration for competitiveness in EU Member States', European Commission (2012), the cost of tax administration is only 0.4% of tax revenues compared to an EU average of 1.3%.

progress has been slow over the last couple of years and it is not clear whether substantial improvements will be made during the course of 2013. While there is no doubt about the relevance of the announced measures, their effectiveness is nonetheless uncertain, at least in the short run.

4. OVERVIEW TABLE

2012 commitments	Summary assessment
Country-specific recommendations (CSRs)	
CSR 1: Preserve a sound fiscal position in 2012 and beyond by implementing the budgetary strategy as envisaged and ensuring continued achievement of the MTO.	**CSR1 has been fully addressed in the course of 2012** and the 2013 Budget Bill is also in line with the recommendation. Nevertheless, it is still important to continue to achieve the MTO.. The general government budget is expected to have a small deficit in 2013. Taking into account the downward revision of the medium-term objective in the 2012 convergence programme (from a surplus of 1 % of GDP to a deficit of 1 % of GDP), Sweden is likely to continue to meet its commitment under the Stability and Growth Pact and fulfil the CSR. The pro-growth composition of the fiscal stimulus in the 2013 budget is commendable.
CSR 2: Take further preventive measures to strengthen the stability of the housing and mortgage market in the medium term, including by fostering prudent lending, reducing the debt bias in the financing of housing investments, and tackling constraints in housing supply and rent regulations.	**Some progress on measures taken to address CSR2 has been made by Sweden.** House prices and household debt have been stable over the last year. Several measures are in the pipeline to foster prudent lending: stricter capital and liquidity requirements; higher risk weights for mortgages; and discussions on introducing amortisation requirements). No measures have been taken to address the debt-bias in housing taxation. On the rental market, progress has been made through a partial reform of the rent-setting system in 2011 and by simplifying private lettings in 2013. Initial steps have been taken to tackle the constraints in the construction sector and other measures are being considered.
CSR 3: Take further measures to improve labour market participation of youth and vulnerable groups, e.g. by improving the effectiveness of active labour market measures, facilitating the transition from school to work, promoting policies to increase demand for vulnerable groups and improving the functioning of the labour market. Review the effectiveness of the current reduced VAT rate for restaurants and catering services in support of job creation.	**Some progress on measures taken to address CSR3 has been made by Sweden.** A number of measures have been taken on various fronts, in particular to speed up the integration of people with a migrant background into the labour market, facilitate the transition from school to work, promote demand for vulnerable groups and improve the functioning of the labour market. The 'youth package' provides for a number of extra temporary student places in universities and adult vocational education establishments. The government has commissioned a review of the effectiveness of the VAT cut in restaurant and catering services in relation to prices and employment in the sector. While previous measures seem to have been marginally effective in bringing down the unemployment rate of immigrants, there has been no

	progress yet for young people. However, since most of the abovementioned reforms will come into effect in 2013, it is too early to say whether they will actually have any significant effects on the target groups.
CSR 4 Take further measures in the upcoming research and innovation bill to continue improving the excellence in research and to focus on improving the commercialisation of innovative products and the development of new technologies.	**CSR4 has been fully addressed by Sweden.** The Swedish Research and Innovation Bill has been adopted, as has the National Innovation Strategy. In line with the Commission's recommendation in 2012, the emphasis has been on ensuring a higher return on R&D investment than in the past. The challenge of getting ideas to the market for innovative and high-growth enterprises is clearly recognised. However, the actual implementation of the strategy will have to be followed closely over time.
Europe 2020 (national targets and progress)	
Employment rate target set in the 2011 NRP: well over 80 %.	Employment rate 2010: 78.1 %, 2011: 79.4 %, 2012: 79.4 % The EU-wide target has already been met. It was also attained before the crisis in 2007-08. Achievement of the more ambitious national target was hindered by the 2008-09 crisis. Since then, progress has again been made towards the national target.
R&D target: 4 % of GDP by 2020	Gross domestic expenditure on R&D (in % of GDP) in 2010: 3.39 %, 2011: 3.37 %. Given the negative trend in private R&D, the achievement of this target is challenging and will require full and swift implementation of the new National Innovation Strategy.
Greenhouse gas emissions target: -17 % (compared to 2005 emissions; emissions under the EU Emissions Trading Scheme (ETS) are not covered by this national target).	Greenhouse gas emissions, base year Index 2005 = 100, 2010 and 2011. Sweden's non-ETS greenhouse gas emissions fell by 7 % between 2005 and 2010 and by 10 % between 2005 and 2011. According to the latest national projections submitted to the Commission, and taking account of existing measures, it is expected that Sweden will just reach its emission reduction target by 2020. Sweden has also adopted a voluntary national target which goes beyond its EU obligations. This target aims to reduce non-ETS greenhouse gas emissions in 2020 by 33 % compared to 2005.

Renewable energy target: 49 % Share of renewable energy in the transport sector: 10 %	In 2011, the share of total renewable energy in gross final energy consumption was 46.8 % and 8.8 % in the transport sector. (Source: Eurostat. April 2013. For 2011, only formally reported biofuels compliant with Art. 17 and 18 of Directive 2009/28/EC are included). Sweden is expected to meet the 2020 target.
The Swedish indicative national energy efficiency target for 2020 it that energy use shall be 20 per cent more efficient by 2020 compared with 2008. The target is expressed as an economy-wide target of a 20 per cent reduction in energy intensity between 2008 and 2020. Energy intensity is calculated as the quotient between power input and GDP at fixed prices (kWh/SEK).	Sweden has set an indicative national energy efficiency target in accordance with Articles 3 and 24 of the Energy Efficiency Directive (2012/27/EU). However, Sweden has not complied with the requirement of this Directive to express this target unambiguously in terms of absolute level of primary and final energy consumption in 2020.
Early school leaving target: 10 %	Early leavers from education and training (percentage of the population aged 18-24 with at most lower secondary education and not in further education or training): 2010: 6.5 %, 2011: 6.6 %, 2012: 7.5 %[39] The target has been achieved well.
Tertiary education target: 40-45 %	Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education): 2010: 45.3 %, 2011: 46.8 %, 2012: 47.9 % The target has been achieved.
Risk of poverty or social exclusion target: Reducing to well under 14 % the number of people aged 20-64 who are not in the labour force (except full-time students), long-term unemployed or on long-term sick leave	People at-risk-of-poverty or social exclusion attainment in 2010: 14.4%, 2011: 13.4%, 2012: 13.1%. According to the 2013 national reform programme, the proportion of the population defined in the target is estimated to be about 13 % of the age group in 2012, which is approximately the same level as compared to 2011.

[39] The values for 2009 and 2010 are considerably lower than the initial values set out in the 2012 staff working document (SWD). The Swedish figures in the 2012 SWD were provisional because Sweden anticipated a number of revisions for the variable that measures participation in education and training. This revision is now complete and the new values have been provided.

5. ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2009	2010	2011	2012	2013	2014
Core indicators								
GDP growth rate	3.4	3.0	1.0	6.6	3.7	0.8	1.5	2.5
Output gap [1]	-1.7	0.3	0.5	-1.6	-0.1	-1.3	-1.6	-1.1
HICP (annual % change)	1.4	1.9	1.9	1.9	1.4	0.9	0.9	1.4
Domestic demand (annual % change) [2]	2.6	2.0	1.4	6.5	3.2	0.5	1.5	2.4
Unemployment rate (% of labour force) [3]	8.6	6.3	7.1	8.6	7.8	8.0	8.3	8.1
Gross fixed capital formation (% of GDP)	16.4	17.4	18.8	18.0	18.4	18.8	18.8	19.1
Gross national saving (% of GDP)	21.3	23.3	26.5	25.6	26.9	25.6	25.6	26.1
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.1**	**0.7**	**1.9**	**0.3**	**0.2**	**-0.5**	**-1.1**	**-0.4**
Gross debt	**70.3**	**52.6**	**43.5**	**39.4**	**38.4**	**38.2**	**40.7**	**39.0**
Net financial assets	**-22.2**	**-0.9**	**17.2**	**23.7**	**20.7**	**n.a**	**n.a**	**n.a**
Total revenue	59.0	55.6	54.6	52.3	51.2	51.3	51.2	51.2
Total expenditure	61.1	54.9	52.7	52.0	51.0	51.8	52.2	51.5
of which: Interest	4.9	2.5	1.5	0.8	1.0	0.7	0.7	0.7
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**4.4**	**2.9**	**3.5**	**4.0**	**3.4**	**2.9**	**2.8**	**2.7**
Net financial assets; non-financial corporations	**-109.3**	**-114.6**	**-147.3**	**-165.2**	**-150.3**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**12.9**	**1.4**	**11.5**	**13.2**	**8.1**	**n.a**	**n.a**	**n.a**
Gross capital formation	12.0	12.3	12.4	12.0	12.9	11.9	12.0	12.2
Gross operating surplus	23.1	20.6	21.6	22.2	22.1	21.2	21.1	21.3
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**1.4**	**1.8**	**2.1**	**2.8**	**3.8**	**4.7**	**5.3**	**4.9**
Net financial assets	**84.9**	**91.8**	**103.9**	**119.4**	**110.0**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	39.9	40.8	40.2	40.3	40.6	41.5	41.6	41.4
Net property income	3.2	2.5	3.0	3.5	3.7	3.8	3.8	3.9
Current transfers received	25.5	23.8	22.3	21.7	20.7	21.0	21.4	21.0
Gross saving	3.3	4.4	5.4	6.2	7.2	7.9	8.5	8.2
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**3.8**	**5.6**	**7.7**	**6.8**	**7.2**	**6.9**	**6.9**	**7.1**
Net financial assets	**34.6**	**23.0**	**15.9**	**10.8**	**13.4**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	6.8	7.0	7.3	6.2	6.2	6.2	6.1	6.3
Net primary income from the rest of the world	-1.8	-0.1	1.9	2.2	2.6	2.3	2.3	2.3
Net capital transactions	-0.5	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Tradable sector	42.7	42.0	40.9	40.7	40.7	39.6	n.a	n.a
Non tradable sector	44.7	45.7	46.7	46.6	47.1	48.4	n.a	n.a
of which: Building and construction sector	3.8	4.0	4.4	4.6	4.9	5.1	n.a	n.a
Real effective exchange rate (index, 2000=100)	106.7	101.5	98.0	95.7	99.3	100.9	106.5	107.1
Terms of trade goods and services (index, 2000=100)	110.8	103.7	100.5	100.6	99.8	99.2	99.3	99.5
Market performance of exports (index, 2000=100)	97.1	98.8	99.5	99.7	101.9	101.7	101.4	101.4

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :

Commission services' 2013 spring forecasts (COM); Convergence programme (CP).

Table II. Comparison of macroeconomic developments and forecasts

	2012		2013		2014		2015	2016
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	0.8	0.8	1.5	1.2	2.5	2.2	3.6	3.9
Private consumption (% change)	1.5	1.5	1.8	2.2	2.6	2.8	3.7	3.6
Gross fixed capital formation (% change)	3.4	3.4	1.4	0.9	3.9	4.0	6.6	6.7
Exports of goods and services (% change)	0.7	0.7	1.3	1.1	4.6	4.5	7.3	7.8
Imports of goods and services (% change)	-0.1	-0.1	1.3	2.0	4.7	5.4	7.3	7.5
Contributions to real GDP growth:								
- Final domestic demand	1.6	1.6	1.4	1.5	2.2	2.2	3.2	3.3
- Change in inventories	-1.1	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	0.4	0.4	0.1	-0.3	0.2	-0.1	0.4	0.6
Output gap[1]	-1.3	-0.7	-1.6	-1.4	-1.1	-1.6	-0.7	0.3
Employment (% change)	0.7	0.7	0.2	0.2	0.7	-0.1	0.6	1.5
Unemployment rate (%)	8.0	8.0	8.3	8.3	8.1	8.4	8.1	7.1
Labour productivity (% change)	0.1	0.2	1.4	0.9	1.7	2.3	3.1	2.5
HICP inflation (%)	0.9	0.9	0.9	0.7	1.4	1.0	1.2	1.5
GDP deflator (% change)	0.7	0.7	1.4	1.1	2.1	1.2	1.4	1.7
Comp. of employees (per head, % change)	2.8	2.9	3.1	1.9	3.5	3.4	3.5	3.4
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	6.9	3.7	6.9	6.0	7.1	6.0	5.8	5.6

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Commission services' 2013 spring forecasts (COM); Convergence programme (CP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2012	2013		2014		2015	2016	Change: 2012-2016
	COM	COM	CP	COM[1]	CP	CP	CP	CP
Revenue	**51.3**	**51.2**	**51.1**	**51.2**	**50.9**	**50.6**	**50.3**	**-1.0**
of which:								
- Taxes on production and imports	18.5	18.5	18.3	18.4	18.4	18.5	18.6	0.1
- Current taxes on income, wealth, etc.	18.3	18.1	19.0	18.2	18.9	18.7	18.5	0.2
- Social contributions	7.7	7.7	7.5	7.7	7.5	7.4	7.3	-0.4
- Other (residual)	6.8	6.8	6.3	6.9	6.1	6.0	5.9	-0.9
Expenditure	**51.8**	**52.2**	**52.5**	**51.5**	**51.8**	**50.4**	**49.1**	**-2.7**
of which:								
- Primary expenditure	51.1	51.5	51.7	50.8	51.0	49.6	48.2	-2.9
of which:								
Compensation of employees	14.2	14.1	14.3	13.9	14.3	14.0	13.7	-0.5
Intermediate consumption	9.1	9.2	9.0	9.2	8.9	8.6	8.3	-0.8
Social payments	18.2	18.6	18.3	18.2	17.9	17.5	17.1	-1.1
Subsidies	1.6	1.6	1.5	1.6	1.5	1.5	1.4	-0.2
Gross fixed capital formation	3.5	3.5	3.5	3.5	3.4	3.3	3.3	-0.2
Other (residual)	4.6	4.6	5.0	4.6	5.0	4.7	4.4	-0.2
- Interest expenditure	0.7	0.7	0.8	0.7	0.8	0.8	0.9	0.2
General government balance (GGB)	**-0.5**	**-1.1**	**-1.4**	**-0.4**	**-0.9**	**0.2**	**1.2**	**1.7**
Primary balance	**0.2**	**-0.3**	**-0.6**	**0.4**	**0.0**	**1.0**	**2.0**	**1.8**
One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GGB excl. one-offs	**-0.5**	**-1.1**	**-1.4**	**-0.4**	**-0.9**	**0.2**	**1.2**	**1.7**
Output gap[2]	-1.3	-1.6	-1.4	-1.1	-1.6	-0.7	0.3	1.6
Cyclically-adjusted balance[2]	0.2	-0.1	-0.6	0.3	0.0	0.6	1.0	0.8
Structural balance (SB)[3]	**0.2**	**-0.1**	**-0.6**	**0.3**	**0.0**	**0.6**	**1.0**	**0.8**
Change in SB	*0.0*	*-0.4*	*-0.8*	*0.4*	*0.6*	*0.6*	*0.4*	-
Two year average change in SB	*-0.5*	*-0.2*	*-0.4*	*0.0*	*-0.1*	*0.6*	*0.5*	-
Structural primary balance[3]	1.0	0.6	0.2	1.0	0.8	1.4	1.9	0.9
Change in structural primary balance		*-0.4*	*-0.7*	*0.4*	*0.6*	*0.6*	*0.5*	-
Expenditure benchmark								
Applicable reference rate[4]	1.84	1.84	1.84	1.93	1.93	1.93	1.93	-
Deviation[5] (% GDP)	0.6	0.5	0.4	-0.4	-0.2	-0.3	-0.3	-
Two-year average deviation (% GDP)	0.3	0.6	0.3	0.1	0.1	-0.3	-0.3	-

Notes:

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

[3]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

[4] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t.The reference rates applicable to 2014 onwards have been updated in 2013.

[5] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A positive sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Convergence programme (CP); Commission services' 2013 spring forecasts (COM); Commission services' calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2007-2011	2012	2013		2014		2015	2016
			COM	CP	COM	CP	CP	CP
Gross debt ratio[1]	**39.9**	**38.2**	**40.7**	**42.0**	**39.0**	**41.8**	**39.5**	**36.2**
Change in the ratio	-1.4	-0.2	2.5	3.8	-1.6	-0.2	-2.3	-3.3
Contributions[2] *:*								
1. Primary balance	**-2.3**	**-0.2**	**0.3**	**0.6**	**-0.4**	**0.0**	**-1.0**	**-2.0**
2. "Snow-ball" effect	**-0.2**	**0.1**	**-0.4**	**-0.1**	**-1.0**	**-0.5**	**-1.2**	**-1.3**
Of which:								
Interest expenditure	1.2	0.7	0.7	0.8	0.7	0.9	0.8	0.8
Growth effect	-0.6	-0.3	-0.6	-0.4	-1.0	-0.9	-1.4	-1.5
Inflation effect	-0.8	-0.3	-0.5	-0.4	-0.8	-0.5	-0.5	-0.6
3. Stock-flow adjustment	**1.2**	**-0.2**	**2.5**	**3.3**	**-0.2**	**0.3**	**-0.1**	**0.0**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

	2012	2013		2014		2015	2016
		COM / CP[3]	CP[4]	COM / CP[3]	CP[4]	CP	CP
Gap to the debt benchmark[5,6]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
Structural adjustment[7]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
To be compared to:							
Required adjustment[8]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

[3] Assessment of the consolidation path set in CP assuming growth follows the COM forecasts.

[4]Assessment of the consolidation path set in the CP assuming growth follows the CP projections.

[5]Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[6]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[7]Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[8]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP) budgetary projections for the previous years are achieved.

Source :

Convergence programme (CP); Commission services' spring 2013 forecasts (COM); Commission services' calculations.

Table V. Sustainability indicators

	SE		EU27	
	No-policy change scenario	Programme (SCP) scenario	No-policy change scenario	Programme (SCP) scenario
S2	2.4	1.6	3.0	1.3
of which:				
Initial budgetary position (IBP)	-0.3	-1.1	0.8	-0.9
Long-term cost of ageing (CoA)	2.7	2.7	2.2	2.2
of which:				
Pensions	0.0	0.1	1.0	1.1
Health care	0.5	0.5	0.9	0.8
Long-term care	2.0	1.9	0.6	0.6
Others	0.2	0.2	-0.4	-0.3
S1 (required adjustment)*	-2.7	-4.0	2.2	0.5
of which:				
Initial budgetary position (IBP)	-2.0	-2.9	0.0	-1.8
Debt requirement (DR)	-1.3	-1.7	1.9	1.9
Long-term cost of ageing (CoA)	0.6	0.7	0.3	0.4
S0 (risk for fiscal stress)**	0.24		:	
Debt, % of GDP (2012)	38.2		87.0	
Age-related expenditure, % of GDP (2012)	27.6		25.8	

Note:
The 'No-policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the Commissions' spring 2013 forecast until 2014. The 'Programme (SCP)' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented.
* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.
** The critical threshold for the S0 indicator is 0.44.

Source :
Commission services; 2013 stability programme.

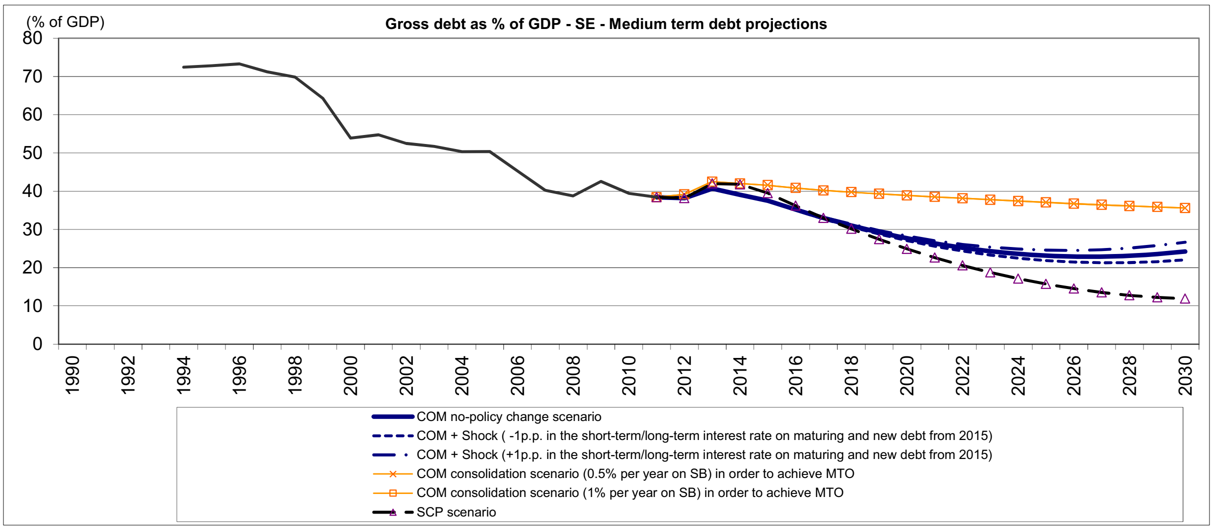


Table VI. Taxation indicators

	2002	2006	2008	2009	2010	2011
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	47.5	48.3	46.4	46.5	45.4	44.3
Breakdown by economic function (% of GDP)[1]						
Consumption	12.6	12.4	12.7	13.3	13.2	12.8
of which:						
- VAT	8.8	8.9	9.3	9.6	9.7	9.4
- excise duties on tobacco and alcohol	0.8	0.7	0.7	0.7	0.7	0.7
- energy	2.4	2.3	2.2	2.3	2.2	2.0
- other (residual)	0.6	0.5	0.6	0.6	0.6	0.6
Labour employed	25.7	24.1	24.0	23.4	22.3	22.6
Labour non-employed	4.0	4.3	3.7	3.9	3.4	3.2
Capital and business income	3.4	5.8	4.7	4.6	5.1	4.5
Stocks of capital/wealth	1.8	1.7	1.3	1.4	1.4	1.3
p.m. Environmental taxes[2]	2.9	2.7	2.7	2.8	2.7	2.5
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	52.7	55.7	58.3	57.4	59.4	58.4

Note:

[1] Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2013) Taxation trends in the European Union, for a more detailed explanation.

[2] This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.

[3] The VAT efficiency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2012), Tax reforms in EU Member States, European Economy 6/2012 and Taxation Papers 34/2012 for a more detailed explanation.

Source: Commission

Table VII. Financial market indicators

	2008	2009	2010	2011	2012
Total assets of the banking sector (% of GDP)	272.3	320.1	305.2	294.3	296.1
Share of assets of the five largest banks (% of total assets)	61.9	60.7	57.8	57.8	…
Foreign ownership of banking system (% of total assets)	10.6	6.8	…	…	…
Financial soundness indicators:					
- non-performing loans (% of total loans)[1), 2)]	0.5	0.8	0.8	0.7	0.7
- capital adequacy ratio (%) [1), 2)]	10.3	12.7	12.0	11.5	11.8
- return on equity (%) [1), 2)]	16.9	8.0	14.1	14.9	12.3
Bank loans to the private sector (year-on-year % change)	7.5	3.3	7.3	5.5	3.6
Lending for house purchase (year-on-year % change)	10.5	11.8	7.9	5.6	4.7
Loan to deposit ratio	223.4	221.9	221.9	215.4	207.8
CB liquidity as % of liabilities	4.9	4.0	0.0	0.0	0.0
Banks' exposure to countries receiving official financial assistance (% of GDP)[3)]	8.0	8.0	5.6	4.4	4.1
Private debt (% of GDP)	124.0	154.8	153.2	148.7	…
Gross external debt (% of GDP)[4)]					
- Public	12.3	16.4	17.4	18.1	17.8
- Private	65.7	83.2	73.5	66.6	69.3
Long term interest rates spread versus Bund (basis points)*	-0.1	0.0	0.1	0.0	0.1
Credit default swap spreads for sovereign securities (5-year)*	53.1	71.8	37.8	42.4	45.0

Notes:

1) Latest data (September 2012).

2) Four large banking groups.

3) Covered countries are CY, EL, ES, LV, HU, IE, PT and RO.

4) Latest data 2012Q3.

* Measured in basis points.

Source :

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VIII. Labour market and social indicators

Labour market indicators	2007	2008	2009	2010	2011	2012
Employment rate (% of population aged 20-64)	80.1	80.4	78.3	78.1	79.4	79.4
Employment growth (% change from previous year)	2.3	0.9	-2.4	1.0	2.3	0.7
Employment rate of women (% of female population aged 20-64)	77.1	77.2	75.7	75.0	76.5	76.8
Employment rate of men (% of male population aged 20-64)	83.1	83.5	80.9	81.1	82.1	81.9
Employment rate of older workers (% of population aged 55-64)	70.0	70.1	70.0	70.4	72.0	73.0
Part-time employment (% of total employment, 15 years and more)	25.0	26.6	27.0	27.0	26.5	26.5
Part-time employment of women (% of women employment, 15 years and more)	40.0	41.4	41.2	41.0	40.1	39.6
Part-time employment of men (% of men employment, 15 years and more)	11.8	13.3	14.2	14.5	14.2	14.6
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	17.5	16.1	15.3	16.4	17.0	16.4
Transitions from temporary to permanent employment	2.4	3.5	2.6	3.0	:	:
Unemployment rate1 (% of labour force, age group 15-74)	6.1	6.2	8.3	8.6	7.8	8.0
Long-term unemployment rate2 (% of labour force)	0.9	0.8	1.1	1.6	1.5	1.5
Youth unemployment rate (% of youth labour force aged 15-24)	19.2	20.2	25.0	24.8	22.8	23.7
Youth NEET rate (% of population aged 15-24)	7.5	7.8	9.6	7.7	7.5	7.8
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	8.0	7.9	7.0	6.5	6.6	7.5
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	41.0	42.0	43.9	45.3	46.8	47.9
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	20.0	18.0	26.0	18.0	19.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	27.0	31.0	37.0	33.0	32.0	:
Labour productivity per person employed (annual % change)	1.0	-1.5	-2.7	5.5	1.4	0.1
Hours worked per person employed (annual % change)	0.8	0.3	-0.5	1.6	0.0	-0.9
Labour productivity per hour worked (annual % change; constant prices)	0.2	-1.8	-2.2	3.9	1.3	1.0
Compensation per employee (annual % change; constant prices)	2.4	-1.6	-0.4	2.3	-0.3	2.0
Nominal unit labour cost growth (annual % change)	4.2	3.1	4.4	-2.3	-0.6	2.6
Real unit labour cost growth (annual % change)	1.4	-0.1	2.3	-3.1	-1.7	1.9

Notes:

[1] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed.

[2] Long-term unemployed are unemployed persons for at least 12 months.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	2006	2007	2008	2009	2010
Sickness/Health care	7.79	7.51	7.55	7.94	7.44
Invalidity	4.53	4.42	4.30	4.57	4.24
Old age and survivors	11.76	11.63	12.12	13.19	12.59
Family/Children	2.98	2.93	3.02	3.21	3.11
Unemployment	1.63	1.08	0.87	1.31	1.36
Housing and Social exclusion n.e.c.	0.51	0.47	0.46	0.47	0.46
Total	29.79	28.63	28.94	31.41	29.90
of which: means tested benefits	0.84	0.78	0.78	0.86	0.00
Social inclusion indicators	**2007**	**2008**	**2009**	**2010**	**2011**
At-risk-of-poverty or social exclusion[1] (% of total population)	13.9	14.9	15.9	15.0	16.1
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	14.9	14.6	15.1	14.5	15.9
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	10.4	15.5	18.0	15.9	18.6
At-Risk-of-Poverty rate[2] (% of total population)	10.5	12.2	13.3	12.9	14.0
Severe Material Deprivation[3] (% of total population)	2.2	1.4	1.6	1.3	1.2
Share of people living in low work intensity households[4] (% of people aged 0-59)	5.9	5.4	6.2	5.9	6.8
In-work at-risk-of poverty rate (% of persons employed)	6.5	6.8	6.9	6.5	6.9
Impact of social transfers (excluding pensions) on reducing poverty	61.8	57.2	50.0	51.7	49.8
Poverty thresholds, expressed in national currency at constant prices[5]	104641	112302	116661	117236	117980
Gross disposable income (households)	1513230	1595302	1661482	1714281	1796684
Relative median poverty risk gap (60% of median equivalised income, age: total)	20.3	18.0	20.3	19.7	18.5

Notes:

[1] People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate (AROP): share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.

[5] For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)

Sources:
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product market performance and policy indicators

Performance indicators	2003-2007	2008	2009	2010	2011	2012
Labour productivity[1] total economy (annual growth in %)	2.8	-1.5	-2.7	5.5	1.4	0.1
Labour productivity[1] in manufacturing (annual growth in %)	7.7	-5.7	-12.6	29.5	5.0	-2.1
Labour productivity[1] in electricity, gas, steam and air conditioning supply (annual growth in %)	1.5	-7.0	-7.4	7.0	-2.9	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	0.1	-12.1	-6.1	1.4	4.2	1.4
Total number of patent[2] applications per million of labour force	509.8	553.1	572.2	580.3	n.a.	n.a.
Policy indicators	**2003-2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Enforcing contracts[3] (days)	508	508	314	314	314	314
Time to start a business[3] (days)	16	16	16	16	16	16
R&D expenditure (% of GDP)	3.6	3.7	3.6	3.4	3.4	n.a.
Tertiary educational attainment (% of 30-34 years old population)	36.6	42.0	43.9	45.8	47.4	48.2
Total public expenditure on education (% of GDP)	6.91	6.76	7.26	6.98	n.a.	n.a.
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	1.3	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	0.5	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	1.7	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

[1] Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Total number of patent applications to the European Patent Office (EPO) per million of labour force

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

[5] Aggregate Energy, Transport and Communications Regulation (ETCR).

*figure for 2007.

Source:
Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table X. Green Growth

		2002-2006	2007	2008	2009	2010	2011
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.17	0.15	0.15	0.15	0.16	0.14
Carbon intensity	kg / €	0.23	0.20	0.19	0.19	0.20	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0.63	0.64	0.65	0.59	n.a.	n.a.
Waste intensity	kg / €	n.a.	n.a.	0.26	n.a.	0.35	n.a.
Energy balance of trade	% GDP	-1.5%	-1.7%	-2.0%	-1.3%	-1.7%	-1.9%
Energy weight in HICP	%	n.a.	12	11	11	11	12
Difference between change energy price and inflation	%	n.a.	-2.2	6.5	-0.4	2	0.7
Environmental taxes over labour taxes	ratio	9.7%	9.6%	9.7%	10.2%	10.8%	n.a.
Environmental taxes over total taxes	ratio	5.9%	5.5%	5.8%	6.0%	6.1%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.23	0.19	0.19	0.21	0.21	n.a.
Share of energy-intensive industries in the economy	% GDP	11.6	11.4	11.6	10.7	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.06	0.07	0.07	0.08	0.09
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	0.04	0.05	0.04	0.05	0.05
Public R&D for energy	% GDP	n.a.	0.03%	0.03%	0.04%	0.04%	0.04%
Public R&D for the environment	% GDP	n.a.	0.01%	0.01%	0.02%	0.02%	0.02%
Recycling rate of municipal waste	ratio	90.2%	94.9%	96.1%	97.6%	97.9%	n.a.
Share of GHG emissions covered by ETS*	%	n.a.	29.1%	31.7%	29.5%	34.6%	32.3%
Transport energy intensity	kgoe / €	n.a.	0.42	0.40	0.42	n.a.	n.a.
Transport carbon intensity	kg / €	n.a.	1.00	0.96	0.99	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	n.a.	36.3%	37.9%	37.1%	36.7%	36.8%
Diversification of oil import sources	HHI	n.a.	0.23	0.22	0.22	0.25	n.a.
Diversification of energy mix	HHI	n.a.	0.29	0.29	0.28	0.28	0.29
Share renewable energy in energy mix	%	n.a.	30.4%	31.3%	34.6%	33.8%	31.8%

Country-specific notes:
The year 2012 is not included in the table due to lack of data.
General explanation of the table items:
Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated below
All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)
Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)
Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)
Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)
Waste intensity: waste (in kg) divided by GDP (in EUR)
Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP
Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP
Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)
Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"
Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR)
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP
Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.
Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste
Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP
Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)
Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transp industry gross value added (2005 EUR)
Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector
Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption international bunkers
Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin
Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels
Share renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents
*Provisional data (15 April 213). Commission Services and EEA.
** For 2007 average of S1 & S2 for DE, LU, NL, FI, SE & UK. Other countries only have S2.
*** For 2007 average of S1 & S2 for IT, NL, FI, SE & UK. Other countries only have S2.