COUNCIL OF THE EUROPEAN UNION

Brussels, 19 June 2013

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NOTE

from:	Permanent Representatives Committee
to:	Council
No. Cion prop.:	10026/13 UEM 109 ECOFIN 397 SOC 366 COMPET 351 ENV 453 EDUC 167 RECH 196 ENER 217 - COM(2013) 377 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on Sweden's 2013 national reform programme and delivering a Council opinion on Sweden's convergence programme for 2012-2016

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2013) 377 final.

ANNEX

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

THE COUNCIL OF THE EUROPEAN UNION,

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

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

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission[3],

Having regard to the resolutions of the European Parliament[4],

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

After consulting the Economic Policy Committee,

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1 OJ L 209, 2.8.1997, p. 1.

2 OJ L 306, 23.11.2011, p. 25.

3 COM(2013) 377 final.

4 P7_TA(2013)0052 and P7_TA(2013)0053.

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, on the basis of the Commission's proposals, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States[5], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 Strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a recommendation on Sweden's national reform programme for 2012 and delivered its opinion on Sweden's updated convergence programme for 2011-2015.

5 Council Decision 2013/208/EU of 22 April 2013.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey[6], marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances, adopted the Alert Mechanism Report[7], in which it identified Sweden as one of the Member States for which an in-depth review would be carried out.

(6) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(7) On 10 April 2013, the Commission published the results of its in-depth review[8] for Sweden, under Article 5 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances. The Commission's analysis leads it to conclude that Sweden 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. Although the large current account surplus does not raise risks similar to large deficits the Commission will continue monitoring the developments of the current account in Sweden.

(8) On 19 April 2013, Sweden submitted its 2013 convergence programme covering the period 2012-2016 and its 2013 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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6 COM(2012) 750 final.
7 COM(2012) 751 final.
8 SWD(2013) 124 final.

(9) Based on the assessment of the 2013 convergence programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible for 2013. The government projects a GDP growth of 1.2% and 2.2% in 2013 and 2014, respectively, whereas the Commission forecasts 1.5% and 2.5%. The objective of the budgetary strategy outlined in the programme is to ensure long-term sustainability of public finances by respecting the rules of the Swedish fiscal framework, including the target of having a surplus in general government net lending of 1% of GDP on average over the business cycle. General government balance slipped from a small surplus of 0.2% of GDP in 2011 to a deficit of 0.5% in 2012. The programme confirms the previous medium-term budgetary objective (MTO) of -1.0 % of GDP. The MTO is in line with the requirements of the Stability and Growth Pact. The programme foresees a structural general government balance, as recalculated by the Commission, to improve from a minor deficit around 0.4% of GDP in 2012-13 to a surplus in 2014 and onwards. Therefore, the MTO is likely to be met over the programme period. According to the information in the programme, the growth rate of government expenditure, net of discretionary revenue measures, would exceed the reference medium-term rate of potential GDP growth in 2012 and 2013, but would be below that rate in 2014. Even taking into account the possibility of further expansionary discretionary measures in 2014, the risks to the budgetary targets are limited. According to the programme, the debt ratio, which is below the 60% of GDP reference value, is projected to increase temporarily to 42% of GDP in 2013, but fall back below 40% of GDP in 2015. The Commission forecasts the debt ratio to decline to 39% in 2014.

(10) The high indebtedness of the private sector (at 235 % of GDP in 2012) continues to be a matter of concern. 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. The current tax deductibility of interest payments and low recurrent property taxes contribute to a debt bias in Swedish housing taxation, contributing to high debt levels. Moreover, the relatively big gap between the effective marginal tax rate on debt and on equity for new investment suggests a continued bias towards debt-financing for corporations. Sweden has recently restricted the deductibility of intra-group interest expenses but has no comprehensive system to correct the debt-equity tax bias. Corporate debt remains substantial at 149% of GDP.

(11) Although the Swedish housing market has been stable in the recent past, it remains a potential source of instability. On the supply side, the Swedish housing market is characterised by some inefficiencies which may contribute to drive house prices upwards and create undesirable lock-in effects. Swedish construction investments are only half of those of other Nordic countries, both in relation to GDP as well as population. At present, it often takes several years to launch a new project, due to lengthy processes at the municipal level. Streamlining these processes would increase the flexibility of housing supply, foster competition in the construction sector and decrease construction costs. Further reforms to the rent-setting system are needed to allow market forces to establish an optimal supply of rental housing at an adequate price. Addressing the inefficiencies of the housing market is likely to also help reduce household debt levels, as these issues are interlinked.

(12) In Sweden, unemployment rates for youth, people with a migrant background and the low-skilled in general remain far above those of the rest of the working-age population and above the EU average. Sweden has taken a large number of new relevant measures to address this issue. Measures targeting the integration of people with a migrant background into the labour market have already produced initial results in lowering the unemployment rate, but continued efforts are needed to reduce the gap between them and the rest of the population. Young people have so far not noticeably benefited. However, a number of promising measures have been put in place or are in the pipeline; these include supporting work introduction agreements within the context of the Swedish model of wage setting by fully independent social partners. Efforts to strengthen apprenticeships and other types of work-based vocational education are also fully relevant but these will have to be more ambitious if they are to have the desired impact. Continued progress would be warranted in reviewing employment-protection legislation and exploiting the benefits of the job guarantee for young people. More narrowly-defined measures targeting those in most need should be preferred to general subsidies. Under the Swedish Job guarantee, young people who are seeking work through the Public Employment Service and who have already been unemployed for 90 days are offered targeted services to help improving their chances of finding employment and education opportunities. However, the guarantee currently seems less effectively targeted towards young people who are not in education or training, nor registered with the Public Employment Service. In line with the 2012 recommendation, Sweden has commissioned a review of the effects of the reduced VAT rate for restaurants and catering services on prices, wages and employment of young people, which should deliver preliminary results in January 2014 and final conclusions in 2016. This review will be important, given the concerns raised about the cost-effectiveness of this measure.

(13) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Sweden's economic policy. It has assessed the convergence programme and national reform programme, and presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Sweden but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (4) below.

(14) In the light of this assessment, the Council has examined Sweden's convergence programme, and its opinion[9] is reflected in particular in recommendation (1) below,

(15) In the light of the Commission's in-depth review and this assessment, the Council has examined Sweden's national reform programme and convergence programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances are reflected in recommendations (2) and (3) below.

HEREBY RECOMMENDS that Sweden should take action within the period 2013-2014 to:

1. Implement the measures necessary to pursue a growth-friendly fiscal policy and preserve a sound fiscal position ensuring compliance with the medium-term objective over the programme horizon.

2. Continue addressing risks related to private debt by reducing the debt bias in housing taxation by phasing out tax deductibility of interest payments on mortgages or/and increasing property taxes. Take further measures to foster prudent lending by measures promoting amortisation of mortgages. Further reduce the debt-bias in corporate taxation..

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

3. Improve the efficiency of the housing market by continued reforms of the rent setting system and strengthening the freedom of contract between individual tenants and landlords. Promote increased competition in the construction sector and review the planning, zoning and approval processes with the aim of increasing transparency, shortening lead times and reducing entry barriers for construction companies.

4. Reinforce efforts to improve the labour-market integration of low-skilled young people and people with a migrant background by stronger and better targeted measures to improve their employability and the labour demand for these groups. Step up efforts to facilitate the transition from school to work, including via a wider use of work-based learning, apprenticeships and other forms of contracts combining employment and education. Complete the Youth Guarantee to better cover young people not in education or training. Complete and draw conclusions from the review of the effectiveness of the current reduced VAT rate for restaurants and catering services in support of job creation.

Done at Brussels,

For the Council
The President