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**Assessment of the 2012 national reform programme and convergence programme for
SWEDEN**

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

**on Sweden's 2012 national reform programme and delivering a Council opinion on
Sweden's updated convergence programme, 2012-2015**

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CONTENTS

Executive summary	3
1. Introduction	4
2. Economic developments and challenges.....	5
2.1. Recent economic developments and outlook.....	5
2.2. Challenges	6
3. Assessment of the policy agenda	9
3.1. Fiscal policy and taxation.....	9
3.2. Financial sector	12
3.3. Labour market, education and social policy	15
3.4. Structural measures supporting growth and competitiveness	18
3.5. Modernisation of public administration	21
4. Overview table	23
5. Annex	25

EXECUTIVE SUMMARY

In 2012, the Swedish economy is expected to slow down as compared to 2011, with a foreseen GDP growth of 0.3%. After positive labour market developments in 2011, unemployment is expected to rise slightly to 7.7% in 2012.

The performance of the Swedish economy is overall very good. Since the mid-1990s, Sweden has followed an ambitious agenda of fiscal and structural reform. Most recently, the reform efforts have focused on achieving full employment, ensuring a strong and stable financial sector, improving the functioning of the housing market, reforming the education system, promoting innovative and dynamic businesses and tackling the environmental and climate change issues.

However, several challenges still need to be tackled. Notwithstanding government measures in the area of the labour market integration of vulnerable groups, the unemployment rates of these groups remain high. While the housing market has cooled somewhat since mid-2011, several structural distortions persist that have contributed to house-price volatility in the past. Certain aspects of the Swedish tax system could be made more effective, efficient and growth-enhancing. Moreover, Sweden's competitive position is threatened in the medium term by falling business investment in R&D and inadequate commercialisation of innovative output.

1. INTRODUCTION

Procedural aspects

In June 2011, the Commission proposed three country specific recommendations¹ (CSRs) for economic and structural reform policies for Sweden. In July 2011 the Council of the European Union adopted these recommendations which concerned public finances, housing and the labour market.

In November 2011, the Commission published its Annual Growth Survey for 2012 (AGS 2012) in which it set out its proposals for building the necessary common understanding about the priorities for action at national and EU levels in 2012. It focused on five priorities — growth-friendly fiscal consolidation, restoring normal lending to the economy, promoting growth and competitiveness, tackling unemployment and the social consequences of the crisis, and modernising public administration — and encouraged Member States to implement them in the 2012 European Semester.

Against this background, Sweden presented its national reform programme (NRP) and convergence programme (CP) on 20 April 2012. These programmes give details on progress made since July 2011 and plans going forward. The two documents outline in an integrated manner the fiscal consolidation efforts on the one hand and key structural reforms and reforms underpinning macroeconomic stabilisation on the other. The CP is in conformity with the Code of Conduct and the NRP follows the guidance provided by the Commission. Sweden has ensured close coherence between the two programming documents. 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/social exclusion by 20 million.

Before adopting the NRP and the CP, the Government conducted extensive consultations, particularly at the local and regional level. Responding to requests from interested civil-society groups, such organisations were consulted at an early stage of the NRP process. Consultations also took place in the framework of a special reference group composed of Government ministries and social partners, including both trade unions and employers' associations. These efforts have clearly contributed to enhancing ownership and understanding of the Europe 2020 strategy.

This Staff Working Document assesses the state of implementation of the 2011 recommendations as well as the AGS 2012 in Sweden, identifies current policy challenges and, on that basis, examines the country's latest policy plans.

Overall assessment

Sweden has only partially implemented each of the Council recommendations. The fiscal policy stance is regarded as prudent, and is likely to ensure that Sweden fulfils its medium-term objective (MTO) as from 2012. However, this is mainly due to the fact that the government has lowered the MTO from +1% of GDP to -1% of GDP as of 2012. In 2011, the more ambitious MTO was not fulfilled. In the area of the housing market and household indebtedness, the measures taken by the government are relevant, but focus mainly on strengthening the resilience of the financial sector. So far there has been less attention paid to measures to foster prudent lending or to diminish the debt bias in the financing of housing investment. Despite some promising first steps, the stringent rent regulation and constraints in the housing supply remain in place. As regards the labour market, the government has taken a large number of measures aimed at fostering the labour market participation of young people and other vulnerable groups, but it is still too early to assess the effectiveness of these

¹ SEC(2011) 806 final of 7 June 2011

measures. Measures to increase flexibility at the lower end of the wage scale and to ease the difference in employment protection legislation for temporary and permanent workers are at the stage of a political debate.

Although Sweden's economic performance is very good, reflecting its ambitious fiscal consolidation and structural reform agenda since the mid-1990s, several challenges still need to be tackled, namely in the labour market, the housing market and the tax system. Notwithstanding government measures in the area of the labour market integration of vulnerable groups, these groups have not fully benefited from the observed cyclical improvement in the employment situation. While the housing market has cooled somewhat since mid-2011, several structural distortions persist that have contributed to house-price volatility in the past. In line with the analysis set out in the Commission's AGS 2012, certain aspects of the Swedish tax system could be made more effective, efficient and growth-enhancing. In particular, the current design of the taxation of both housing and VAT leaves room for improvement; improving the former could also help to address the challenges associated with housing-related indebtedness.

The policy plans submitted by Sweden are relevant and credible, but in some areas lack the ambition to address these challenges comprehensively. The strategy to contain the risks of high household debt by strengthening the resilience of the financial sector could be accompanied by measures to foster prudent lending and flexibility of housing supply. Policy plans in the field of labour taxation are conditional on the available fiscal space and overlook the possibility of budget-neutral tax shifts linked, for example, to reviews of tax benefits for debt accumulation and the VAT structure. Finally, according to the NRP the Government intends to continue with active labour market policy measures as the main approach to ensuring the participation of vulnerable groups in the labour market, whereas a more determined policy response in other areas, such as employment protection legislation or wage formation, would also be warranted.

2. ECONOMIC DEVELOPMENTS AND CHALLENGES

2.1. Recent economic developments and outlook

Recent economic developments

After growth of 6.1% in 2010 the Swedish economy continued its rapid recovery in 2011, reaching annual growth of 3.9%. Most sectors of the economy contributed to this performance, with household consumption and investment particularly strong in the first half of the year and net exports booming in the third quarter. Positive labour market developments in the wake of the strong recovery in 2010 continued in 2011, with the seasonally adjusted unemployment rate falling from 9% in spring 2010 to 7.3% in September 2011. In the second half of 2011, however, the fallout from the sovereign debt crisis sapped consumer and corporate confidence and the worsening international economic outlook affected Swedish exports, which plummeted in the fourth quarter. Households increased their saving rate as they saw their wealth affected by a fall in stock prices and declining house prices.

For early 2012, various indicators send mixed signals. On the one hand, both business and consumer confidence have rebounded noticeably in the first months of the year and household expectations about future house price developments have also recovered strongly, helped by interest-rate cuts by the Riksbank.. On the other hand, the latest industrial production data and new orders have been disappointing, showing a sizeable contraction in February and March.

The seasonally adjusted unemployment rate increased temporarily around the turn of the year but dropped again to 7.3 % in March 2012.

Inflation has been low and has declined over the past year with HICP (harmonised index of consumer prices) inflation averaging at 1.4%. The impact of high commodity prices has been mitigated by the lagged effects of currency appreciation, which continued until spring 2011. At the same time, low core inflation (HICP excluding energy and unprocessed food) reflected subdued unit labour costs, stemming from reasonable productivity growth and modest wage increases.

Public finances are strong, with the general government budget ending the year with a slight surplus of 0.3 % in 2010 and 2011 and gross government debt falling to 38 % in 2011. In view of increasing uncertainty and the intention to achieve fiscal targets with a margin, the government adopted a rather cautious fiscal approach, abandoning most of its expansionary plans for the 2012 budget. Against a backdrop of strong fiscal fundamentals, Swedish government bonds are increasingly being considered as a safe haven investment, with the effect of strengthening the Swedish krona towards the end of 2011.

Economic outlook

The Commission's interim forecast predicts that growth will remain subdued in early 2012, before gradually picking up. GDP growth is expected to reach 0.3 % in 2012 and 2.1 % in 2013. In the short term, the outlook for export growth is rather subdued, as a number of trading partners are weighed down by the fallout from the sovereign-debt crisis in the euro area. Private consumption should also grow less briskly, with household spending expected to be held back by bleaker employment prospects and greater perceived uncertainty, including with respect to house prices. Some relief is expected from a more accommodative monetary policy stance and stronger real wage developments, whereas fiscal policy is not expected to do much to boost demand in the short term.

Sweden's convergence programme contains one main macroeconomic scenario, which is also the main scenario of the NRP. It foresees that real GDP growth will slow down from 4.1 % in 2011 to 1.3 % in 2012, before accelerating again to average 3.7 % annually over the 2013-15 period. The macroeconomic scenario is plausible for the 2011-12 period, when a broad-based deceleration is expected, whereas it looks favourable for the later years, when the strong acceleration in growth is based on households significantly lowering their saving rate. The government estimates that the major structural reform implemented in 2012 — the reduced VAT rate for restaurants and catering services — will increase GDP by 0.1 % and decrease the unemployment rate by 0.1 percentage points.

On 30 May 2012, the Commission adopted the Convergence Report 2012 assessing whether Member States with a derogation meet the criteria for adopting the single currency. The report concluded that Sweden does not fulfil the criteria of legal compatibility and exchange-rate stability and therefore does not qualify for euro adoption.

2.2. Challenges

Despite generally favourable economic development, Sweden still faces a set of inter-linked policy challenges to sustainable macroeconomic development. The main policy challenges have remained broadly unchanged since the 2011 assessment.

Sweden has a rather high level of private debt, which is accounted for mainly by the non-financial corporations sector (around 155 % of GDP in 2010), but also the household sector (around 82 % of GDP or 170 % of disposable income). While the corporate debt burden has decreased substantially since 2009, accumulation of household debt has continued to increase even after the 2008-2009 crisis. This has gone hand in hand with strong growth in house

prices. Over the last year, however, the upward trend in house prices has reversed and household debt has stabilised as a percentage of GDP. Although these developments make the challenge less urgent, it remains relevant. The high level of household indebtedness makes households' net wealth more vulnerable to asset price fluctuations, changes in interest rates (accentuated by the widespread use of flexible mortgage rates) and the employment outlook.

There are a number of policies currently in place that may contribute to the volatility of the Swedish housing market and mortgage debt accumulation. First, indebtedness of households is encouraged by a debt bias in housing taxation generated by generous tax deductibility of interest payments and low property taxes. Second, there has also been a trend towards increasingly longer amortisation periods, with new mortgage loans typically including no, or very limited, amortisation. Third, stringent rent regulation pushes households, instead of waiting for a rental apartment, to buy a house or apartment which will quickly meet their need for housing services, thus adding to the demand for houses and tenant-owner's apartments, which tend to be mortgage-financed. On the supply side, a local planning monopoly, lengthy zoning processes and rules on sub-letting of tenant-owner's apartments, together with insufficient competition in the sectors supplying input to the construction sector, affect the flexibility of housing supply, thus contributing to higher house prices. Addressing all the above issues is necessary to reduce the risk of debt-driven housing bubbles and to improve the functioning of the housing market.

As regards the labour market, the challenge of low labour market integration of young people and immigrants is still relevant. The unemployment rate of young people remains high² (22.9% in 2011), despite some improvement reflecting a general recovery in the labour market during 2011. The situation of foreign nationals even deteriorated in 2011, with the unemployment rate of this group increasing by almost 1 percentage point (to 20%) between 2010 and 2011. Employment rates for 2010 were 38.5% for young people and 47.6% for non-EU nationals. Within the latter group, developments have been particularly worrying for women. Tackling these adverse developments would be directly in line with the priorities set out in the Annual Growth Survey 2012 and is essential for achieving the Europe 2020 employment target.

On the supply side, factors behind the relatively high unemployment rates and low employment rates for young people and immigrants could include labour taxes and social contributions, which remain comparatively high despite extensive government reforms since 2005. On the demand side, the full integration of vulnerable groups in the labour market could be hindered by relatively high wage levels at the low end of the wage scale.³ The differences in employment protection between regular and temporary workers constitute another possible barrier⁴. As regards immigrants, there is some evidence that their integration in the labour market is occasionally hindered by potential employers' unequal treatment of foreign-born job applicants. Finally, early school leaving also plays an important role in the exclusion of young

² The low employment rate for young people could be due to the fact that a large proportion of them are involved in tertiary education. At the same time, according to Eurostat, students (who are mostly looking for employment alongside their studies) represent about half of unemployed youth (the share is one third for full-time students according to Swedish national statistics). This pattern seems to be just as significant for the Netherlands, Finland and Denmark. In Sweden, however, the level of youth unemployment is much higher than in those countries and education appears to absorb young people who would otherwise be unemployed.

³ The employment rate for persons with an upper secondary or post-secondary education is much higher than for those with an education below the upper secondary level, whereas the average pay for these groups is very close. As suggested in the 2010 Wage Formation Report by the National Institute of Economic Research, high minimum wages may tend to curtail employment for groups with limited education or low productivity for other reasons.

⁴ See the OECD Economic Survey for Sweden, 2011.

people and immigrants from the labour market (although drop-out rates are not high in relation to the EU as a whole).

The AGS 2012 requested an integrated assessment of tax policies. In Sweden, the design and structure of the tax system could be improved by implementing tax shifts which could make it more effective, efficient and growth-enhancing. Rather lenient tax treatment of housing leads to a debt bias, which has contributed towards the rising stock of mortgage debt and also, potentially, high house prices. A bias towards debt financing could also be observed in corporate taxation, contributing to the build-up of corporate debt until 2009. Within consumption taxation, the efficiency of VAT could be further enhanced by limiting the use of reduced VAT rates. Reforms in VAT and housing taxation could provide room to reduce the tax burden on labour, which remains relatively high despite considerable progress in recent years and may be discouraging domestic economic activity, employment growth and investment.

Sweden's competitive position is threatened in the medium term by falling business investment in R&D and little commercialisation of innovative output. Since 2002 the outflow of R&D business investments has exceeded the inflow. Consequently, R&D intensity fell from a peak of 4.13% in 2001 to 3.42% in 2010. Sweden's strong R&D position, as seen in the Innovation Union Scoreboard, is vulnerable due to its strong dependence on a few large multinational companies which are increasingly moving towards the global innovation system. Despite being a top performer in most indicators of R&D performance, Sweden is below EU average as regards commercialisation of innovative products and services. Also, Sweden is slightly lagging behind in creation of fast-growing innovative enterprises capable of ensuring a sustainable and competitive economy for growth and jobs.

Box 1: Summary of the results of the in-depth review under the macroeconomic imbalances procedure

The in-depth review on Sweden identified potential imbalances in the areas of the housing market and private debt.

Although house prices seem to have developed in line with fundamentals, the Swedish housing market represents an area where imbalances may emerge. Some policies and features, such as supply bottlenecks and rental regulation in combination with changes to the tax system, may have created an upward bias in house prices. Some of these policies and institutional features imply distortions or represent imperfections that carry an economic efficiency cost and could have a destabilising effect. Their interaction with tax policies and institutional features in the Swedish mortgage market, such as generous interest deductibility on mortgages and little amortisation, could also potentially increase the cost of these.

Despite some mitigating circumstances, the high level of private-sector debt, in particular household indebtedness, deserves attention. While corporate debt makes up the largest share of total private-sector debt, there are specific factors behind it (mainly the strong role of multi-nationals and of intercompany loans) which makes it less of a concern. In the case of household debt, however, the high debt level implies a heightened risk to macroeconomic stability by making households' balance sheets more sensitive to negative shocks, such as a fall in house prices, a prolonged period of low or negative economic growth or a real interest rate shock. In view of that risk, and the potential role of various policies in stimulating continued debt build-up, such as generous interest rate deductibility, close monitoring may be warranted.

The policy response could include measures to foster prudent lending, reduce the debt-bias in housing taxation, strengthen mortgage amortisation requirements and promote the use of fixed interest rate mortgages. Possible measures to improve the flexibility of housing supply include simplification of the planning and zoning processes, fostering competition in the construction sector and further easing the regulation of the rental market.

3. ASSESSMENT OF THE 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 2012 Convergence Programme (henceforth 'programme'), is to ensure long-term sustainability 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 over the cycle. The strategy also aims at fulfilling the requirements of the stability and growth pact, notably respecting the 3% deficit limit and establishing a medium-term budgetary objective (MTO). Until 2011, the government maintained the MTO at the same level as the surplus target, i.e. at 1% of GDP. The programme announces that, as from 2012, the MTO will be a deficit of 1% of GDP. The new MTO adequately reflects the requirements of the Stability and Growth pact. The reduction is explained by a wish to 'distinguish more clearly between the Swedish national framework and the demands made of Sweden as a member of the EU' and the lower target should be seen as a minimum requirement for net lending following from the fact that Sweden is a member of the EU. The programme states that the guiding principle for the government's fiscal policy strategy will continue to be the more demanding 1% surplus-over-the-cycle target.

As in 2010, general government net lending showed a small surplus of 0.3% of GDP in 2011. This compares to an expected surplus of 0.6% of GDP in last year's programme, with the difference stemming from somewhat slower revenue growth than expected. Based on a no-policy change assumption, the programme foresees a small deficit of 0.1% of GDP in 2012, turning into a surplus of 0.5% of GDP in 2013, as the economy is expected to recover strongly. In the Commission's spring forecast, the general government balance is forecast to show a deficit of 0.3% of GDP in 2012 and a surplus of 0.1% of GDP in 2013, based on a more muted recovery. Compared with last year's programme, both the 2012 programme and the Commission's spring forecast foresees a much lower government balance in 2012, based primarily on revenues not being as strong as expected, but also on expenditures being somewhat higher. For 2013, the programme predicts that household consumption will grow at a much faster pace than foreseen by the Commission's spring forecast, based on the assumption that households will start reducing their saving rate. For 2014 and 2015, surpluses of 1.7% and 3.0% of GDP are foreseen, respectively, based on a favourable macroeconomic scenario, with strong employment growth as a result of earlier government labour-market and tax reforms. Should the effects of these reforms be less than expected or materialise at a slower pace, there might be slower revenue growth, which would have a negative impact on the general government balance. Expenditure restraint is expected to be the main contributor to the improvement in the fiscal balance over the programme period. Assuming unchanged policies, the programme forecasts that expenditures will fall by 3.3 % of GDP over the programme period.

The programme foresees a structural general government balance, as recalculated by the Commission⁵, of 1.0% and 1.6% of GDP in 2012 and 2013, respectively, whereas the Commission's forecast foresees the structural balance growing from 0.0% of GDP in 2011 to 0.3% and 0.4% of GDP in 2012 and 2013, respectively. As the MTO has been lowered to -1% of GDP as from 2012, it means that it is likely to be met over the period covered by the programme, even taking into account the likelihood of further expansionary discretionary

⁵ 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

measures being taken in 2013 or 2014. These could derive from a need to restore the real value of such expenditure items that are not indexed to inflation or income growth.

According to the information provided in the programme, in 2012 the growth rate of government expenditure, net of discretionary revenue measures, will exceed a rate which is lower than the reference medium-term rate of potential GDP growth (1.84%) and which ensures an annual structural adjustment towards the MTO by 0.5% of GDP (0.85%). In 2013 and the later years, by contrast, it will not exceed the reference medium-term rate of potential GDP growth (1.84%). Following an overall assessment of the Member State’s budgetary 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.

Box 2: Main budgetary measures	
Revenue	Expenditure
2011	
<ul style="list-style-type: none"> • Increase in basic income deduction for +65 year-olds (-0.2% of GDP) 	
2012	
<ul style="list-style-type: none"> • Lower VAT rate for restaurant and catering services (-0.2% of GDP) 	<ul style="list-style-type: none"> • Higher spending on infrastructure (+0.1% of GDP)
<p><i>Note:</i> The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure. The degree of detail reflects the type of information made available in the stability or convergence programme and, where available, of a multiannual budget.</p>	

The debt ratio has shown a declining trend since the mid-1990s. The recession of 2008/09 only temporarily interrupted this process and gross debt stood at 38.4% of GDP in 2011. Over the programme period, the programme foresees a further decline in the debt ratio to 27.5% of GDP in 2015, with the main driver being large primary balances, but also a substantial contribution from real GDP growth. This decline is based on a rather favourable macroeconomic scenario and includes the effects from some limited further privatisation receipts. In 2011, Sweden had a positive net financial position of 18.4% of GDP. Since the debt-to-GDP ratio is below the reference rate, the debt reduction benchmark is not applicable.

Long-term sustainability

The long-term change in age-related expenditure is above the EU average. The initial budgetary position offsets the long-term costs. Under a no-policy change assumption, debt would fall to 23% of GDP by 2020. Full implementation of the programme plans would reduce debt faster. Ensuring continued sufficient primary surpluses over the medium-term, as planned in the programme update, would further improve the sustainability of public finances.

Fiscal framework

The Swedish budgetary framework has been gradually taking shape since the second half of the 1990s in reaction to the significant worsening of public finances during the deep recession of the early 1990s. The current 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.

The framework is based on three main rules. 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. The achievement of the target is assessed against seven different indicators. 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. In addition to the budgetary rules, the Fiscal Policy Council was established in 2007 with the task of providing an independent evaluation of the government's fiscal policy and compliance with the fiscal rules.

The fiscal framework has been reinforced in recent years by the adoption in 2010 of a law making it a legal obligation to define the surplus target and specify the expenditure ceiling for the coming three years. In an agreement reached in 2011 among all major political parties in Parliament, the Fiscal Council received an expanded mandate and some additional resources. This represents a strengthening of the Council, as previously it had not enjoyed broad support in Parliament.

Tax system

Sweden is a high-tax country with a tax-to-GDP ratio of 45.8 % in 2010, well above the EU average. Overall, the tax policy mix is sound, moving slowly from labour taxation to other sources of taxation generally regarded as less harmful to growth. Although the share of 'growth-friendly taxes' is substantial, there is scope for further growth-enhancing tax shifts (from labour to housing taxation) and for important efficiency improvements (housing, VAT, corporate taxation). Tax administration is among the most efficient in the EU, with high tax compliance rates and low tax collection costs.

Taxation of housing in Sweden is characterised by a debt bias, generated by low recurrent property taxes (reduced significantly in 2008) and generous tax reliefs for mortgage interest payments. The deduction scheme and property taxes in their current form are also regressive, as the former benefits borrowers with high capital and labour income, against which interest expenses can be deducted and property taxes are kept flat above a certain threshold. In order to make the tax system more debt-neutral, return on housing investments could be taxed as other returns (via the imputed rent or higher property taxes) or the interest tax relief could be reduced or phased out. The timing of these reforms would need to be decided carefully, in order not to put excessive downward pressure on house prices.

Within corporate taxation, there is a relatively large gap between the effective marginal tax rate on debt and on equity for new investment, suggesting a bias towards debt-financing for corporations. Correcting the debt bias in both housing and corporate taxation is important in view of the high level of household and corporate debt.

The efficiency of VAT could be further enhanced through a shift towards a more harmonised VAT structure⁶. The application of reduced rates complicates the system and distorts the

⁶ The standard rate of 25 % is high, but reduced rates are applied e.g. to food, restaurant and catering services (12 %), a range of cultural goods and public transport (both 6 %), and some items are fully exempt.

functioning of the market. Moreover, even if the various reduced rates have been motivated by specific policy concerns, a reduced VAT rate is normally not the most effective or efficient policy measure to achieve these aims. This is likely to be also the case with the reduced VAT rate for restaurant and catering services which was introduced in January 2012 with a view to boosting youth employment. Experience from other countries shows that these measures have been criticised as costly, with a limited impact on employment.⁷

Fiscal space provided by the abovementioned reforms could be used to reduce labour taxation further, and this could enhance growth. The government has implemented several reforms in recent years to lower the tax burden on labour. In particular, the in-work tax credit, introduced in four stages over the period 2007-2010, reduced the marginal and average tax rates. However, the marginal tax rates for above-average wage earners and the average tax wedge remain high. Similarly, the implicit tax rate on labour (39% in 2010) remains above the EU average (non-weighted 32.9%, weighted 36%), despite a significant decline over the last decade.

The government is not contemplating any major changes to the tax system in the near future. A further reduction in labour taxes through a fifth stage of the in-work tax credit scheme remains one of the reform ambitions, but the government has announced that there might not be sufficient fiscal space to implement it before 2014-2015. Given the generally good fiscal position, the space for a more counter-cyclical impact might deserve more attention. The government has launched an inquiry to review corporate taxation which will issue recommendations in 2013.

3.2. Financial sector

The Swedish financial sector is in relatively good shape. Swedish banks are well capitalised, with capital ratios already meeting Basel III requirements⁸. Their exposure to countries in receipt of EU or IMF financial assistance has declined to a very low level. Banks' profitability measured as returns on equity has improved over the last year, and the share of loans losses has declined (0.04% of total lending in mid-2011). From a company perspective, too, access to finance does not pose a serious challenge in Sweden⁹. However, as discussed in section 2.2, the Swedish financial sector remains vulnerable to developments in the housing market due to high household debt. Also, the financial sector continues to face risks related to its strong international exposure and a heavy reliance on external short-term funding.

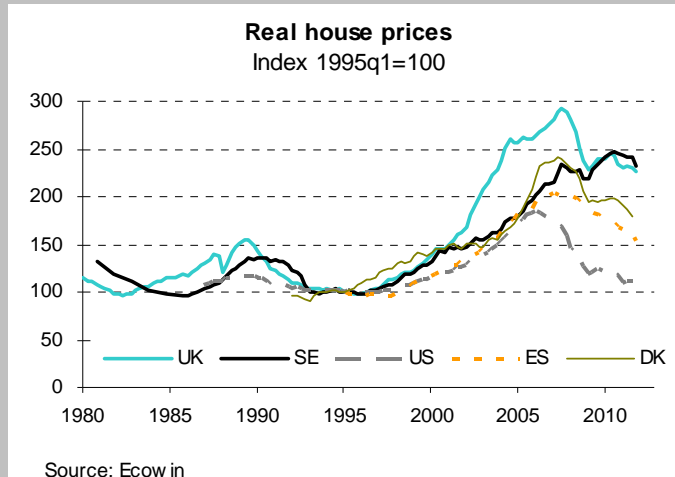
⁷ See footnote 12.

⁸ Moreover, no Swedish institution was below the required 5% core Tier 1 capital following the July 2011 EBA stress test nor required to comply with the higher minimum core Tier 1 capital ratio of 9% of risk-weighted assets following the temporary recapitalisation plan adopted by the European Council in October 2011.

⁹ The 2011 survey on SME access to finance shows that only 8% of companies in Sweden report access to finance as being the most pressing problem (EU average: 15%).

Box 3: The Swedish housing market

From the second half of the 1990s until the onset of the financial crisis, house prices in Sweden rose sharply. When the financial crisis hit, house prices started to fall, though their correction proved fairly muted and since 2009, house prices resumed their strong up-ward movement reaching a new all-time high in 2010. During 2011, house prices in Sweden have been rather stable, with some downward movement accelerating in the fourth quarter of 2011



There is no straightforward way of assessing whether house prices are now at a level in line with fundamentals. At least on some metrics, house prices now look richly valued (e.g. price-to-rent ratio, affordability ratios). The price-to-disposable-income-per-capita ratio is still some 25% above its mid-1990s level and close to its recent peaks. However, these valuations are based on historical average values. Indicators which take into account possible structural changes as well as econometric estimates suggest that the steady increase in house prices over the last 15 years may well be justified by fundamentals, such as strong disposable income growth and low interest rates coupled with limitations on the supply-side.

There are reasonable explanations why Swedish house prices have avoided the steep correction seen in many other countries in recent years. The quick recovery from the 2008/09 recession, which was helped by significant monetary and fiscal stimulus, and a relatively resilient labour market explains why disposable income has continued to rise at a respectable pace also in the more recent period. Some specific tax measures favoring housing (such as significant decrease in property taxation and deduction schemes for home improvement services) have also added to demand for owner-occupied housing, as has rental regulation. The trend decline in mortgage rates, in combination with reduced amortization requirements, also fuelled demand over the last decade. On the supply side, a number of factors have contributed to a rather muted supply expansion over the same period. The effects from the crisis of the early 1990s and the 1991 tax reform lead to a sharp contraction of the construction sector, which has taken a long time to recover from. Poor competition and administrative uncertainty in relation to zoning and issuance of building permits may also have held back supply by raising costs. Thus, contrary to Spain and Ireland for instance, Sweden did not experience an overexpansion of the construction sector, as increased demand for housing mainly manifested itself in higher prices and less in increasing volumes.

Although house prices seem to have developed in line with fundamentals, the Swedish housing market represents an area where an imbalanced development could emerge. Some policies and features, such as supply bottlenecks and rental regulation in combination with changes to the tax system, may have created an upward bias in house prices. Some of these policies and institutional features (a widespread use of variable-rate mortgages and little amortisation) imply distortions or represent imperfections that carry an economic efficiency cost and could have a destabilising effect. Their interaction with tax policies, such as generous interest deductibility on mortgages and low property taxes, could also potentially increase the cost of these.

The challenge of high house prices and household indebtedness were highlighted in a recommendation given to Sweden in 2011. The government's response to the specific risk of house prices has so far been rather limited. This has to be seen against the background of a housing market situation which has stabilised since the recommendation was issued. The government has set up an advisory committee to analyse developments in house prices and household indebtedness and suggest, by August 2012, possible reforms. While the focus of this inquiry is relevant, there is no guarantee that it will lead to any actual measures¹⁰. In 2011, the government also marginally eased regulation of the rental market. In its 2012 spring bill, the government proposes some measures to simplify the sub-letting of apartments and to stimulate housing construction. Also, it refers to a new act to simplify the planning and building permits processes. Although certainly welcome, these measures are not likely to be sufficient to address the issues involved. The intended lowering of the property fee for rental units and for construction of new housing, as well as higher tax deductions for revenues of home rentals, are likely to increase the availability of housing, but a more systematic solution would have been preferred, based on elimination of tax distortions and rent regulation. Continuous efforts are needed to achieve a well-functioning rental market and to tackle the constraints on the housing supply.

In broader terms, the government has been addressing the challenge of household indebtedness by strengthening the resilience of the financial sector. A number of measures have been taken in this respect. Above all, the crisis-related more stringent rules for Swedish banks' capital adequacy have been extended beyond the end of 2011. In November 2011, the authorities had already announced higher capital requirements for four systemically important banks, above the Basel III requirements and ahead of the Basel III implementation schedule. With a view to strengthening supervision capacity, the resources of the Swedish Financial Supervisory Authority have been reinforced. The Financial Crisis Committee was appointed in 2011 to review the rules for managing a financial crisis. In order to counter liquidity risks, plans were announced to meet the short-term liquidity requirement of Basel III ahead of the agreed timetable, with the euro and the US dollar being treated separately. Moreover, banks should continue to reduce the differences in maturity between assets and liabilities, and improve their public liquidity reporting.

The measures taken by the government are relevant, but focus mainly on strengthening the resilience of the financial sector. In this area, the efforts to increase capital requirements and advance liquidity requirements for banks are ambitious compared to other EU Member States. Nevertheless, measures to foster prudent lending and diminish the debt bias in the financing of housing investment have so far received less attention, apart from the introduction in the autumn of 2010 of a cap of 85% on the loan-to-value ratio. Furthermore, despite some promising steps, the system of rent regulation and the major constraints on housing construction remain in place. In this light, the recommendation on housing and the financial sector is considered to have been partially implemented.

In line with the Annual Growth Survey objectives, the capital positions of the systemic banks have been strengthened without restricting lending to the economy. Credit growth to the private sector has been overall stable (between 5 and 6% during 2011), with credit to households slowing down and credit to non-financial corporations accelerating.

¹⁰ The previous inquiry, which delivered its results in October 2010, focused on various aspects including housing supply, rent regulation and mobility in the housing market, but its conclusions were only very tentative and did not provide concrete recommendations for policy action in this field.

3.3. Labour market, education and social policy

The performance of the Swedish labour market is generally very good: the overall employment rate is very high (78.7%, 2010); labour productivity is above the EU average; the wage-setting system is rather flexible and accommodates cyclical developments well; the dialogue between the social partners is consensus-oriented and efficient in preventing strikes; the system of unemployment benefits 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. Nevertheless, well-targeted policy action is warranted in several areas, in particular in addressing persistent and relatively high unemployment rates as well as low employment rates for young people and non-EU nationals.

The need to tackle the weak labour market participation of young people and immigrants was identified in a country-specific recommendation for Sweden in the 2011 assessment and was also highlighted as a general priority in the Annual Growth Strategy 2012. The Swedish Budget Bill for 2012, presented in September 2011, included numerous measures in response to the recommendation. The measures in favour of youth employment include: lowering the VAT rate for restaurants and catering services; implementing the apprenticeship programme as a permanent part of upper secondary school; introducing a reform aimed at increasing the number of students leaving upper secondary school with passes in all subjects; and ensuring a better match between upper secondary school and the labour market. With a view to improving the labour market integration of immigrants, the measures include: further monitoring of, and improvements to, the reformed reception system for newly arrived refugees; evaluation of the effectiveness of Swedish language training for immigrants; launching an inquiry aimed at proposing by October 2012 measures to speed up integration in the labour market of female immigrants and immigrants arriving in Sweden on the basis of family reunification (60% women), as well as subsidies for employers who hire unemployed immigrants.

Most of these measures are relevant and can be expected to have a positive impact. However, since most reforms are not being implemented until 2012, it is too early to assess whether they have actually had any significant effects on the target groups. The relevance and effectiveness of the main measure targeted at youth employment — the VAT reduction for restaurants and catering services — could be called into question. As experience from other Member States indicates¹¹, there is some doubt concerning the effect which this tax expenditure measure has on job creation and growth. The Swedish VAT reform will be evaluated by several government agencies, with final reports to be provided in January 2016. A short-term evaluation of the price impact will be presented already in July 2012.

In addition to the measures included in the Budget Bill 2012, the NRP reports on initiatives which aim at improving the functioning of the Swedish labour market, including in the field of employment protection and wage formation. The government is considering options to prevent exploitation of fixed-term employment. In addition, a public inquiry is examining whether employer costs related to employment termination disputes can be reduced. —Another public examination has been instructed to investigate and, by 30 November 2012, propose solutions for a new form of employment with an educational content for young people — apprentice probation employment. In addition, the government offices are making

¹¹ For Finland, see Iida Häkkinen Skans and Tuomas Kosonen, *Sänkt moms på frisörverksamhet och restauranger i Finland: Blev det verkligen lägre priser och högre sysselsättning?*, Ekonomisk Debatt nr 5 2011; Konjunkturinstitutet, Yttrande på promemorian 'Sänkt restaurang- och cateringmoms' (dnr Fi2011/1404). For France, see e.g. the report from the "Conseil des Prélèvements Obligatoires", http://www.ccomptes.fr/fr/CPO/documents/divers/Rapport_de_synthese_Entreprises_et_niches_fiscales_et_sociales_071010.pdf, page 200 and following. Estimates of the effects of a VAT reduction for restaurants in Belgium suggest a similar conclusion.

preparations for the introduction of a special form of employment for upper secondary school apprentices. All these initiatives represent promising steps towards more flexibility at the low end of the wage scale, benefiting young and low-skilled people, and towards reducing the employment protection divide between permanent and temporary workers. However, they are still in an embryonic stage and the result will depend on the reaction of the social partners.

To summarise, the government strategy to improve labour market participation of young people and immigrants has so far mainly focused on active labour market policy measures. Previous measures in this field have not generated significant and lasting positive effects. It is too early to see the results of the measures implemented in 2012. In order to handle the challenges in a more comprehensive way, a more determined effort in areas such as employment protection and high wages at the lower end of the wage skill might be required. Initiatives announced in the NRP are promising steps in that direction, but it is to be seen whether they will translate into palpable results. In the field of labour taxation, there is a clear risk that none of the remaining reform ambitions set out in the previous NRP will be implemented over the programme period, in particular the fifth stage in the in-work tax credit scheme and a further increase in the threshold for the state income tax. The government has indicated that sufficient fiscal space for these reforms might not be available until 2014-2015. In the light of these observations, the recommendation on labour market integration is considered to have been partially implemented.

As regards progress towards the Europe 2020 targets, it can be expected that the apprenticeship programme, the reform of upper secondary education and the new measures targeting immigrants will be the main measures which will have a positive impact on the 2020 employment target, as well as the early school leaving target and the target to reduce the number of people at risk of poverty. Earlier measures might have contributed already to the improvement in the employment rate since 2009. However, such a conclusion would be premature given the difficulty of disentangling the effect of a cyclical upturn in employment from the effect of the government measures.

The use of the European Social Fund in Sweden support numerous projects that help fight unemployment and social exclusion, especially for the most vulnerable groups among young people and immigrants. On a critical view, it is noted that the Swedish government in its budget for 2012 decreased the limit for outstanding ESF commitments at the end of the year by 20% compared to 2011, which leads to a less effective use of the ESF for this purpose in the years 2012-2014. This is in contradiction with one of the objectives set out in the Annual Growth Survey 2012, mobilising and making better use of the available EU funds to implement the recommendations on the labour market, and goes against the spirit of the recent Commission's Youth Opportunities Initiative.

The Swedish social model is characterised by a well-developed universal social protection system and an active labour market policy. Expenditure on social protection as a percentage of GDP has constantly been among the highest in the EU (in 2009 SE: 32.1%, EU-27: 29.5%). The social protection system has remained solid throughout the economic crisis, reflecting stable public finances. Sweden has not been forced to introduce any austerity measures in the social protection system. As a result, the combined at-risk-of poverty and social exclusion rate has been stable over the last few years (2007: 14.5%, 2010: 15%). Sweden is one of the Member States with the lowest income inequalities (ranking second in 2010, against the EU average of 23.3%)¹².

¹² The risk of poverty is considerably higher for those born outside the EU (32.4% in 2010), non-EU citizens (51.3% in 2010), the unemployed (48.9% in 2010), elderly women (21.6% in 2010) and single people with dependent children (37.5%, 2010).

Despite a slight improvement in the overall at-risk-of-poverty and social-exclusion indicator in 2010, the situation has not improved for some vulnerable groups. The negative trends concern the elderly (especially women), in-work poverty for women, child poverty and the impact of social expenditure in reducing child poverty (see statistical annexes). The issue looks even more worrying from a longer-term and EU-wide perspective. While the risk of poverty and social exclusion decreased in the EU over the period 2007-2010 for people above 65 by 4.7 pps (by 3.4 pps for women), it increased in Sweden by 5.5 pps (by 8.7 pps for women).

The Swedish government's overall policy objective is strongly focused on reducing social exclusion through labour market integration. Increased labour market inclusion for groups with a weak foothold on the labour market, such as immigrants and young people, will lead to a significant reduction in social exclusion for those vulnerable groups. This is also the main purpose of a key measure taken recently to combat social exclusion — the reform of the reception system for asylum seekers and their families introduced in December 2010. The reform aims to improve the labour market inclusion of immigrants by shifting responsibility for activation measures from the municipalities to the Swedish Public Employment Service. The objective is to harmonise the quality of introduction measures, strengthen personal incentives for taking up jobs and provide adequate individualised guidance.

However, there are vulnerable groups, such as elderly women with low pension earnings and single households with children, for whom labour market inclusion is not always an effective or realistic method of reducing the risk of poverty. As a result, the overall policy focus on labour market inclusion as a way of reducing the risk of poverty should be complemented by other policies as well.

As regards education, early school leaving fell below the 10% target in 2010 and continues to decrease. Sweden has thus already reached the national target set for 2020. The main measure in the fight against early school leaving has been the implementation of the upper secondary reform beginning in the 2011-2012 school year, further differentiating the vocational track and mainstreaming the apprenticeship system to make upper secondary vocational training more relevant to labour market needs. As regards tertiary education attainment, Sweden had already exceeded its 2020 target (40-45%) in 2010, with 45.8% of graduates in the 30-34 age group.

Nevertheless, the declining quality of school education, as illustrated in international test results (OECD PISA in 2009), and the continuing lack of attractiveness of the teaching profession remain major points of concern. The government adopted a range of measures to tackle this: a new Education Act strengthening rights to learning support; new curricula to better prepare upper secondary school students for the labour market; a programme for strengthening education in mathematics, natural sciences and technology; a reform of initial teacher education under the so-called 'Boost for teachers' initiative; and additional resources for the continuing professional development of teachers. The high average age of university entrants, significant drop-out rates from higher education (46% in 2008)¹³ and the rather late graduation of university students lead to a relatively belated entry of graduates into the labour market. This accounts for among the highest cumulative expenditure per student over the average duration of tertiary studies. The reforms initiated recently and described in the NRP such as the quality-based resource allocation starting in 2013 should strengthen the role of higher education institutions in the knowledge triangle. Overall, Sweden has introduced a large number of relevant and ambitious reforms, particularly in school education. There is,

¹³ 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.

however, a need for better coordination of these measures, particularly with regard to early school leaving and to reducing the incidence of dropping out from tertiary education.

3.4. Structural measures supporting growth and competitiveness

Sweden ranks among the most competitive economies in the world, taking into account factors such as labour productivity, knowledge and skills levels, infrastructure, eco-efficiency, innovation capacity and the business environment. Sweden is above the EU average in these areas and did not receive any country-specific recommendations in the field of structural reforms in 2011.

Research and innovation

Sweden has the second highest level of R&D expenditure as a share of GDP and is considered to be an innovation leader according to the Innovation Union Scoreboard. However, several shortcomings have been identified that hinder further progress in the area of research and innovation. First of all, the commercialisation of innovative products is rather weak with the indicator of 'Sales of new to market and new to firm innovation' below the EU average and showing a negative trend.¹⁴ Also, Sweden appears to be lagging behind in creating fast-growing innovative enterprises. It creates new firms in innovative sectors, but these firms are not growing to the same extent as in other European countries. The patenting activity of young firms in Sweden (less than 5 years) is clearly lower than that of young firms in the United States or other Nordic countries.¹⁵

The Swedish innovation environment seems to be losing the ability to retain and attract business R&D investments and innovation chains. Business R&D intensity has declined significantly over the last years¹⁶, largely reflecting reallocation of business R&D investment by large companies outside Sweden¹⁷. As a result, progress towards the national R&D target of 4% of GDP has ceased, with R&D intensity declining from a peak of 4.13% in 2001 to 3.42% in 2010. Within the business sector, R&D investment is very much concentrated in a few large companies¹⁸, which renders the apparently favourable position of Sweden vulnerable (also in view of the fact that many big R&D investors in Sweden are now foreign-owned). At the same time, R&D investments in Small and Medium-sized Enterprises has fallen almost 30% between 2005 and 2009.

Sweden is a relatively small country in population terms and the Swedish research and innovation system depends on its being integrated into the expanding European research and innovation system to access knowledge in strategic areas for the country and to achieve a critical mass. In this respect, the public sector could make more progress. Currently, only the most research-intensive universities in Sweden cooperate extensively with international partners, which means they miss out on the more intensive cooperation taking place among top universities in other European countries.

¹⁴ Innovation Union Scoreboard 2011.

¹⁵ Innovation Union Competitiveness report 2011.

¹⁶ R&D financed by business enterprises as a % of GDP fell from 2.96% in 2001 to 2.12% in 2009, the largest decrease among all EU Member States. In fact, most world competitors to Sweden increased their business R&D investment intensity over the same period.

¹⁷ Inward business R&D expenditure to Sweden decreased by 11% between 2003 and 2007, while outward R&D investment from Sweden increased by 49% over that period. Declining overall business R&D expenditure between 2007 and 2010 suggest that this trend continued in the subsequent period.

¹⁸ When foreign affiliates in Sweden are also taken into account, around 65-70% of private R&D is performed by large companies while 98% of all Swedish companies are SMEs. In recent years, employment growth has no longer been based in multinational firms in Sweden but in small and medium-sized enterprises.

Over the last five years, several initiatives have been launched to enhance the effectiveness of the Swedish research and innovation system, with a focus on innovation in SMEs through reinforced cooperation with universities and better access to seed funding and venture capital. Interesting proposals have also been made more recently for both demand-side measures (i.e. introducing a new procurement law, fostering innovation-friendly procurement) and supply-side measures (in particular to fund testing, demonstration infrastructure and incubators of new research-based products)¹⁹. A reform of the early-stage financing system, in order to streamline it and gain synergy effects, is outlined in the NRP. These initiatives are relevant, but additional value could be produced if these supply-side and demand-side measures were linked more closely to each other.

The new Innovation Bill, planned for adoption at the end of 2012, provides an opportunity to address the weaknesses in the Swedish research and innovation system in a comprehensive way. An effort is needed to restore the attractiveness of the business environment for private R&I investments by introducing schemes to encourage young innovative firms to develop new technologies and innovative solutions and by developing stronger incentives for science-industry cooperation targeting in particular large firms established in Sweden. Through a more strategic use of EU Structural Funds for R&D&I, it should be possible to further develop smart specialisation and international linkages as well as strengthen co-ordination between national and regional initiatives²⁰. Key initiatives could include investments in innovative SMEs along the entire innovation value chain and the swift commercial exploitation of research and innovation results. The state could also play a stronger brokerage role, fostering research and innovation partnerships between the business sector and universities and research institutions.

Environment, energy and transport

Sweden has developed a good mix of measures to promote energy efficiency, including fiscal, financial, legislative, information and voluntary instruments. These measures are supported at various governance levels (national, regional and local) and tackle all sectors of the economy. Additional energy-saving potential could be identified by examining the interaction between the systematic use of combined heat and power on the one hand and building insulation on the other.

Sweden has committed to reduce its greenhouse gas emissions by 17% (compared to 2005 and only for emissions not covered by the EU Emission Trading System) by 2020. According to 2011 projections taking into account existing measures, Sweden is expected to be very close to reaching its national target. Nevertheless, given the already low level of emissions, abatement costs are likely to rise in the future, putting emphasis on the cost-effectiveness of Sweden's climate change policies. A number of measures have been adopted recently to cut emissions from the transport sector (e.g. hike in fuel taxes, new vehicle tax rules), which together with the agriculture sector are the main producers of GHG emissions in the country.

As regards renewable energy, Sweden is well on track to reach its commitments under the Europe 2020 strategy (49% share of renewable energy in final energy consumption, 10% share in the transport sector by 2020). As Sweden is already advanced in the field of renewables, energy efficiency and carbon emissions, costs of accommodating even higher

¹⁹ Vinnova policy VP 2011:04; Vinnova Information VI 2011:09; Erawatch country report 2010.

²⁰ 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. Large regional disparities in R&D expenditure should also be taken into account (R&D expenditure at NUTS 2 level ranging from 0.9% of GDP to 4.7% of GDP in 2009, thus revealing large variations in proximity to the national R&D target).

standards are likely to rise in the future. The EU structural funds could increasingly be used to help Sweden achieve its targets in these areas.

Despite the increases in energy and CO₂ taxes in 2011, the taxation system still has the potential to shift towards a greener taxation scheme. In particular, it would be beneficial to address the large number of exemptions and differentiated tax rates with a view to increasing the cost-effectiveness and the overall efficiency of environmental taxation²¹. The intention to carry out a comprehensive survey on potentially environmentally harmful subsidies, announced in the NRP, is welcome and should be pursued to deliver clear proposals on how these subsidies should be eliminated.

In the waste sector, Sweden has succeeded in achieving a low landfill rate (1%). However, given the high incineration rate (49%), there is less focus on prevention and diverting waste from incineration to recycling. This is the result of a deliberate policy to generate energy/heating and has led to the establishment of high cost infrastructure, which the authorities feel a need to use. Shifting the focus from incineration to recycling would not only significantly reduce direct and indirect GHG emissions, but would also generate benefits in terms of job creation²².

Energy infrastructure is well developed, although improving the connection between surplus generation areas in the north of the country and deficit consumption areas in the south, as well as cross-border connections, would be worthwhile with a view to improving the stability of the electricity supply. Notwithstanding the small size of the gas market, total dependence on a single interconnection and a heavy reliance on foreign storage facilities increase Sweden's vulnerability to distortions in gas supply.

The overall situation of the transport infrastructure network is quite satisfactory. An increasing share of GDP is being invested in transport infrastructure. Nevertheless, in addition to bottlenecks in the main cities, one main area of concern is the low level of investment in the maintenance and upgrading of the Swedish rail system, which has clearly not kept pace with the increase in traffic over recent years. Capacity is constrained partly because the network is mostly single track and carries traffic types with different quality needs. In 2011 Sweden announced that work on railway operation and maintenance would be stepped up. These challenges should also be addressed in the upcoming proposal for infrastructure decisions announced in the Swedish NRP.

Internal market and competition

Sweden is one of the Member States that transposed the Services Directive within the transposition deadline, involving a considerable number of amendments to national laws. In particular, Sweden has amended its law on foreign branches and has removed the obstacles created by numerous formalities and a cross-cutting establishment requirement. The Swedish point of single contact is well installed, but the clarity of the information could be improved (such as the search function), and it could be made easier for foreign users to complete the procedure (including developing ways of accepting foreign-issued e-identification).

Sweden is also a top performer in implementing the digital agenda. It ranked first out of 142 countries in the Global Information Technology Report 2012 by the World Economic Forum. E-commerce is widely used both in national on-line shopping (65.7% of Sweden's population compared to 40.4% in the EU in 2010) and in cross-border on-line shopping (12.7%

²¹ The impact of the carbon tax on GHG emissions from the industrial sector has been lowered by exemptions for petroleum, mineral products and metal industries.

²² Limiting energy recovery to non-recyclable waste could create more than 2.000 jobs and increase the annual turnover of the waste sector by over EUR 240 million in Sweden. European Commission, *Implementing EU waste legislation for green growth*, 2012.

compared to 8.8%). For SMEs, Sweden is the best performer with respect to on-line purchasing (52.6% compared to 26.4%) and scores well above the average for on-line selling (23.5% compared to 12.8%).

In the field of competition, Sweden is one of the Member States that has made the most progress over the past decade. Nevertheless, there is still scope for further improvement in several areas. The wide range of commercial activities run by municipalities in some sectors can result in unfair competition between publicly owned companies and private actors, especially in public procurement. Although the Swedish Competition Authority was given ample powers to act against commercial activities run by public authorities (municipalities), so far these powers have not been used. Also, there is a need to reinforce internal scrutiny and compliance mechanisms as regards state aid.

3.5. Modernisation of public administration

Swedish public administration is generally regarded as efficient, providing comprehensive services of a high quality to both citizens and enterprises. This strong performance is based on a high degree of openness and transparency in public administration, strong respect for the rule of law and consensual decision-making. Sweden consistently ranks among the world's least corrupt nations (it ranked 4th in the 2011 corruption index published by Transparency International). Sweden is also one of the leading countries in e-government: the provision of services to individuals and businesses has reached 100%²³; the take-up of e-government services is also high (90% for businesses and 68% for citizens, which is the second highest in the EU); and the use of e-procurement is well advanced (56% of municipalities, 50% of county councils and 28% of state authorities were using e-procurement at the end of 2010).

At the same time, the Swedish authorities are aware that there is room for improvement in terms of cost-effectiveness, streamlining and simplification. Setting up a company is case in point as it remains burdensome, time-consuming and costly in Sweden. In fact, in terms of the number of days needed to set up a new company Sweden performs worse than most other member states.

Sweden is currently developing a new strategy with a view to stepping up and extending e-government, with targets to be reached by 2015 and a long-term vision for 2020. Moreover, the 2010 Bill on public administration for democracy, participation and growth proposes comprehensive use by government agencies of e-procurement by 2013, simplified contacts with public administration and possible outsourcing of certain public administration support functions in order to improve efficiency and reduce administrative costs. In the Bill, the government also proposes scaling back provision by public entities of goods and services on markets in order to keep market distortions to a minimum and grant private sector providers a level playing field.

Although the administrative burden is not very high in Sweden compared to other EU countries²⁴, the Swedish government is taking measures to make further reductions in the resources which Swedish businesses, in particular SMEs, need to allocate in order to comply with the rules and requirements. In 2006, the government set a target to reduce the administrative burden for businesses by 25% by 2010 (subsequently postponed to 2012). As the reduction achieved so far is just over 7%, the Swedish government has stepped up its efforts considerably this year by taking a large number of measures: a simplification programme for 2011-2014; a newly created 'forum for better regulation' consisting of representatives from the business community, local authorities, county councils, and

²³ Based on a basket of eight basic services for enterprises and twelve basic services for citizens.

²⁴ European Commission, Member States Competitiveness Performance and Policies 2011.

government agencies and bodies; a new training programme for improving interaction between local authorities and enterprises; and several analyses to support and guide future policy measures. The mandate of the Swedish Better Regulation Council has been widened and extended until 2014. Furthermore, the Swedish government has decided to postpone the annual assessment of administrative costs until 2013 and in the meantime is looking for alternative, less burdensome ways of measuring administrative costs. In the area of taxation, several measures have been taken to simplify tax procedures for businesses and individuals (e.g. taxation of foreign experts).

The measures to reduce the administrative burden are relevant and in line with the priorities of the 2012 AGS, although it is less certain whether they will ensure that the target is achieved in 2012.

4. OVERVIEW TABLE

2011 commitments	Summary assessment
Country-specific recommendations (CSRs)	
<p>CSR 1: Keep fiscal policy on a path that ensures that the medium-term objective continues to be met.</p>	<p>Sweden has implemented the recommendation only partially.</p> <p>The stance adopted in the Budget Bill for 2012 is considered balanced, reconciling fiscal prudence with a need to counter the economic slowdown. The medium-term objective was not achieved in 2011, but is likely to be met in 2012-2013. This is mainly due to the fact that the government has lowered the MTO from +1% of GDP to -1% of GDP as of 2012. The Commission estimates the structural balance to have reached reach 0% of GDP in 2011 and to reach 0.3% and 0.4% of GDP in 2012 and 2013, respectively.</p>
<p>CSR 2: Take preventive action to deal with the macroeconomic risks associated with rising house prices and household indebtedness. A broad set of measures could be considered, such as reviews of the mortgage system, including the capital requirements of banks, rent regulation, property taxation and construction permits</p>	<p>Sweden has implemented the recommendation only partially.</p> <p>Although the stabilisation of the housing and mortgage markets makes the implementation of the recommendation less urgent, it remains valid in the long term. The measures taken by the government are going in the right direction, but focus mainly on strengthening the resilience of the financial sector, where the level of ambition is high. Measures to foster prudent lending and diminish the debt bias in the financing of housing investment, have so far received less attention. The government has taken some initial steps to ease the rent regulation and is considering measures to tackle the constraints in the housing supply.</p>
<p>CSR 3: Monitor and improve the labour market participation of young people and other vulnerable groups.</p>	<p>Sweden has implemented the recommendation only partially.</p> <p>The government has adopted a large number of measures which can be expected to have a positive impact. However, since most of the reforms are not being implemented until 2012, it is too early to assess whether they have actually had any significant effects on the target groups. A political debate has been launched on ways to increase the flexibility at the lower end of the wage scale and to ease the difference in employment protection legislation for temporary and permanent workers. Nevertheless, a more determined effort in these areas would be warranted to address the challenge. .</p>
Europe 2020 (national targets and progress)	
<p>Employment rate target set in the 2011 NRP: Well over 80%</p>	<p>Employment rate (%) 2010: 78.7%, 2011: 80%</p> <p>The EU-wide target has been met. Achievement of the more ambitious national target, already attained in 2007-2008, has been hindered by a significant increase in unemployment following the 2008-2009 crisis. Since then, significant progress has been</p>

	made towards the achievement of the target.
R&D target set in the 2011 NRP: Approximately 4% GDP	Gross domestic expenditure on R&D (in % of GDP) 2009: 3.61%, 2010: 3.42% No progress has been made towards the achievement of the target. The increase in public R&D expenditure as a share of GDP was outweighed by a decrease in business R&D expenditure.
Greenhouse gas emission target set in the 2011 NRP: a) -17% compared with the 2005 level or b) -40% compared with the 1990 level	Greenhouse gas emissions: a) base year 2005: 2010: -10.2% b) base year 1990: 2009: -17% Progress has been made towards achievement of the target. Sweden is on track to meet the target by 2020.
Renewable energy target set in the 2011 NRP: 49%	Share of renewable energy in gross final energy consumption: 2009: 47.3% (Eurostat), 2010: 47.8% (national RES report) Progress has been made towards achievement of the target. Sweden is on track to meet the target by 2020. The interim target for 2011/2012 was achieved already in 2009.
Energy efficiency — reduction in primary energy consumption by 2020 (in Mtoe): 12.8 Mtoe	n.a. The method for assessing national progress in energy efficiency is currently being discussed by the institutions in the context of the proposed Energy Efficiency Directive. Alternative indicators (e.g. energy intensity) suggest that progress has been made towards achieving the target.
Early school leaving target (in %): 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): 2009: 10.7%, 2010: 9.7% The target has been achieved.
Tertiary education target (in %): 40-45%	Tertiary educational attainment 2009: 43.9%, 2010: 45.8% The target has been achieved. It was even exceeded in 2010.
Target on the reduction of population at risk of poverty or social exclusion in number of persons: Reducing the number of people aged 20-64 who are not in the labour force (except full-time students), the long-term unemployed or those on long-term sick leave to well under 14%.	According to the NRP, the share of the population defined in the target is estimated to be about 13% of the age group in 2011 which is a reduction by one percentage point compared with 2010. Progress was made towards meeting the target between 2010 and 2011, according to preliminary figures.

5. ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Core indicators								
GDP growth rate	3.4	3.0	2.5	-5.0	6.1	3.9	0.3	2.1
Output gap ¹	-1.5	0.3	2.0	-5.6	-1.4	0.4	-1.0	-0.6
HICP (annual % change)	1.4	1.9	1.8	1.9	1.9	1.4	1.1	1.5
Domestic demand (annual % change) ²	2.6	2.0	2.9	-4.6	6.2	3.4	0.6	1.8
Unemployment rate (% of labour force) ³	8.6	6.3	6.8	8.3	8.4	7.5	7.7	7.7
Gross fixed capital formation (% of GDP)	16.4	17.4	19.1	18.0	18.1	18.3	18.5	18.6
Gross national saving (% of GDP)	21.3	23.3	27.3	23.3	25.4	26.7	25.1	25.3
General government (% of GDP)								
Net lending (+) or net borrowing (-)	-2.1	0.7	2.6	-0.7	0.3	0.3	-0.3	0.1
Gross debt	70.3	52.6	43.7	42.6	39.4	38.4	35.6	34.2
Net financial assets	-22.2	-0.8	16.0	22.4	24.0	21.1	n.a	n.a
Total revenue	59.0	55.6	54.8	54.0	52.4	51.4	51.8	51.8
Total expenditure	61.1	54.9	52.2	54.7	52.2	51.1	52.1	51.8
<i>of which: Interest</i>	4.9	2.5	1.7	1.0	0.8	1.0	1.1	1.1
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	4.4	2.9	3.7	2.8	3.7	3.3	1.9	1.6
Net financial assets, non-financial corporations	-109.3	-110.9	-141.7	-159.7	-167.7	-147.1	n.a	n.a
Net financial assets, financial corporations	12.9	0.7	5.5	13.9	13.5	14.4	n.a	n.a
Gross capital formation	12.0	12.3	13.0	10.0	12.0	13.0	12.8	12.9
Gross operating surplus	23.1	20.6	22.2	19.5	22.3	22.5	21.1	20.8
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	1.4	1.8	1.4	4.9	2.9	3.5	4.2	4.3
Net financial assets	84.9	91.3	102.7	110.1	115.0	101.2	n.a	n.a
Gross wages and salaries	39.9	40.8	39.8	42.0	40.4	40.7	41.4	41.5
Net property income	3.2	2.5	2.8	4.0	3.7	3.5	3.0	3.1
Current transfers received	25.5	23.8	22.2	23.1	21.7	20.8	21.1	20.9
Gross saving	3.3	4.4	4.8	8.0	6.2	6.8	7.3	7.5
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	3.8	5.6	7.9	6.7	6.6	7.1	5.7	5.8
Net financial assets	34.6	20.5	18.4	15.1	17.1	12.3	n.a	n.a
Net exports of goods and services	6.8	7.0	7.5	6.5	6.3	6.2	5.6	5.8
Net primary income from the rest of the world	-1.8	-0.1	1.9	1.9	2.0	2.3	1.8	1.8
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	41.4	38.8	40.2	40.2	n.a	n.a
Non-tradable sector	44.7	45.7	46.2	48.5	47.1	47.6	n.a	n.a
<i>of which: Building and construction sector</i>	3.8	4.0	4.4	4.5	4.8	5.2	n.a	n.a
Real effective exchange rate (index, 2000=100)	102.4	97.8	96.2	87.4	92.7	96.0	96.9	97.0
Terms of trade in goods and services (index, 2000=100)	104.4	97.7	94.5	95.3	95.1	94.4	93.8	93.6
Market performance of exports (index, 2000=100)	97.9	99.7	100.8	99.5	101.2	103.8	102.8	104.0
Notes:								
¹ The output gap constitutes the gap between actual and potential gross domestic product at 2000 market prices.								
² The indicator for 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								
<i>Source:</i>								
<i>Commission spring 2012 forecast</i>								

Table II. Comparison of macroeconomic developments and forecasts

	2011		2012		2013		2014	2015
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	3.9	3.9	0.3	0.4	2.1	3.3	3.7	3.6
Private consumption (% change)	2.1	2.1	1.1	1.5	1.8	3.6	3.7	3.4
Gross fixed capital formation (% change)	5.8	5.8	1.1	1.4	3.3	5.3	8.1	7.9
Exports of goods and services (% change)	6.8	6.8	1.3	0.3	5.4	6.3	7.2	6.9
Imports of goods and services (% change)	6.1	6.1	2.2	0.4	5.2	6.1	7.5	7.2
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	2.6	2.6	1.0	1.1	1.7	2.8	3.4	3.2
- Change in inventories	0.7	0.7	-0.4	-0.7	0.0	0.0	0.0	0.0
- Net exports	0.7	0.7	-0.3	0.0	0.4	0.5	0.4	0.3
Output gap ¹	0.4	0.9	-1.0	-1.9	-0.6	-1.8	-1.2	-0.7
Employment (% change)	2.2	2.1	0.1	-0.1	0.4	0.3	1.4	1.7
Unemployment rate (%)	7.5	7.5	7.7	7.8	7.7	7.7	6.9	5.7
Labour productivity (% change)	1.7	2.2	0.1	0.4	1.7	3.0	2.4	1.9
HICP inflation (%)	1.4	1.4	1.1	0.9	1.5	1.1	1.2	1.4
GDP deflator (% change)	1.0	1.0	1.0	0.9	1.3	1.2	1.4	1.5
Comp. of employees (per head, % change)	0.8	1.1	2.9	2.8	3.1	3.3	3.6	3.5
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	7.1	8.4	5.7	6.3	5.8	6.4	6.3	6.2
<p>Note:</p> <p>¹In percent of potential GDP, with potential GDP growth according to the programme as recalculated by the Commission.</p> <p>Source:</p> <p>Commission spring 2012 forecast (COM); Convergence programme (CP).</p>								

Table III. Composition of the budgetary adjustment

(% of GDP)	2011	2012		2013		2014	2015	Change: 2011-2015
	COM	COM	CP	COM	CP	CP	CP	CP
Revenue	51.4	51.8	51.7	51.8	51.2	50.8	50.8	-0.6
<i>of which:</i>								
- Taxes on production and imports	18.4	18.6	18.7	18.6	18.6	18.4	18.3	-0.1
- Current taxes on income, wealth, etc.	18.7	18.7	18.9	18.8	18.8	18.9	19.1	0.4
- Social contributions	7.6	7.7	7.6	7.7	7.5	7.5	7.5	-0.1
- Other (residual)	6.7	6.8	6.5	6.7	6.3	6.0	5.9	-0.8
Expenditure	51.1	52.1	51.7	51.8	50.7	49.1	47.8	-3.3
<i>of which:</i>								
- Primary expenditure	50.1	51.1	50.7	50.7	49.7	48.1	47.0	-3.1
<i>of which:</i>								
Compensation of employees	14.0	14.3	14.1	14.3	13.8	13.5	13.3	-0.7
Intermediate consumption	9.2	9.1	9.2	8.7	9.0	8.7	8.4	-0.8
Social payments	17.7	18.2	18.2	18.2	18.0	17.4	16.9	-0.8
Subsidies	1.5	1.5	1.5	1.5	1.4	1.3	1.3	-0.2
Gross fixed capital formation	3.4	3.5	3.4	3.5	3.3	3.1	3.1	-0.3
Other (residual)	4.3	4.5	4.3	4.5	4.2	4.1	3.9	-0.4
- Interest expenditure	1.0	1.1	1.0	1.1	1.0	1.0	0.8	-0.2
General government balance (GGB)	0.3	-0.3	-0.1	0.1	0.5	1.7	3.0	2.7
Primary balance	1.3	0.8	0.9	1.2	1.5	2.6	3.8	2.5
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	0.3	-0.3	-0.1	0.1	0.5	1.7	3.0	2.7
Output gap ²	0.4	-1.0	-1.9	-0.6	-1.8	-1.2	-0.7	-1.2
Cyclically adjusted balance ²	0.0	0.3	1.0	0.4	1.6	2.4	3.4	3.4
Structural balance³	0.0	0.3	1.0	0.4	1.6	2.4	3.4	3.4
<i>Change in structural balance</i>		<i>0.2</i>	<i>0.9</i>	<i>0.1</i>	<i>0.6</i>	<i>0.8</i>	<i>1.0</i>	
Structural primary balance³	1.1	1.4	2.0	1.5	2.6	3.4	4.2	3.2
<i>Change in structural primary balance</i>		<i>0.3</i>	<i>0.9</i>	<i>0.1</i>	<i>0.6</i>	<i>0.8</i>	<i>0.8</i>	
Expenditure benchmark								
Public expenditure growth ⁴ (real)		2.25	2.02	1.51	1.51	0.35	0.84	-
Reference rate ^{5,6}		1.84	1.84	1.84	1.84	1.84	1.84	-
Lower reference rate ^{5,7}		0.85	0.85	0.85	0.85	0.85	0.85	-
Deviation in % of GDP		0.20	0.09	-0.16	-0.16	-0.71	-0.46	-
from applicable reference rate								
Two-year average deviation in % of GDP		n.a.	n.a.	0.02	-0.03	-0.44	-0.59	-
from applicable reference rate								
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 the Commission on the basis of the information in the programme.								
³ Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.								
⁴ Modified expenditure aggregate used for the expenditure benchmark, growth rates net of non-discretionary changes in unemployment benefit and of discretionary measures.								
⁵ The reference rates applicable to 2014 onwards will be available from mid-2012. For illustrative purposes, the current reference rates have also been applied to the years 2014 onwards.								
⁶ The (standard) reference rate applies starting in the year following the one in which the country reaches its MTO.								
⁷ The lower reference rate applies as long as the country is adjusting towards its MTO, including the year in which it reaches the MTO.								
Source:								
Convergence programme (CP); Commission spring 2012 forecast (COM); Commission calculations.								

Table IV. Debt dynamics

(% of GDP)	Average 2006-10	2011	2012		2013		2014	2015
			COM	CP	COM	CP	CP	CP
Gross debt ratio¹	41.3	38.4	35.6	37.7	34.2	35.4	31.8	27.5
Change in the ratio	-2.2	-1.1	-2.7	-0.7	-1.5	-2.3	-3.6	-4.3
<i>Contributions²:</i>								
1. Primary balance	-2.9	-1.3	-0.8	-0.9	-1.2	-1.5	-2.6	-3.8
2. 'Snow-ball' effect	-0.3	-0.8	0.6	0.5	-0.1	-0.6	-0.8	-0.8
<i>Of which:</i>								
Interest expenditure	1.4	1.0	1.1	1.0	1.1	1.0	0.9	0.8
Growth effect	-0.7	-1.5	-0.1	-0.2	-0.7	-1.2	-1.2	-1.1
Inflation effect	-0.9	-0.4	-0.4	-0.3	-0.4	-0.4	-0.5	-0.5
3. Stock-flow adjustment	1.0	1.1	-2.5	-0.3	-0.2	-0.2	-0.2	0.3
<i>Of which:</i>								
Cash/accruals diff.				-0.4		-0.4	-0.4	-0.4
Accum. financial assets								
<i>Privatisation</i>				-0.2		-0.2	-0.1	0.4
Val. & residual effects				0.4		0.4	0.3	0.3
(% of GDP)	average 2006-10	2011	2012		2013		2014	2015
			COM/CP ³	CP ⁴	COM/CP ³	CP ⁴	CP ⁴	CP ⁴
Gap to the debt benchmark^{5,6}	-	-	-	-	-	-	-	-
Structural adjustment⁷	-	-	-	-	-	-	-	-
<i>To be compared to:</i>								
Required adjustment ⁸	-	-	-	-	-	-	-	-
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, the accumulation of financial assets and valuation and other residual effects								
³ Assessment of the consolidation path set in the 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 during the excessive deficit procedures that were ongoing in November 2011 and in the three years following the correction of the excessive deficit.								
⁶ If positive, the projected gross debt 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 excessive deficit procedures that were ongoing in November 2011.								
⁸ Remaining annual structural adjustment assuming that the COM (CP) budgetary projections are achieved.								
Source:								
Convergence programme (CP); Commission spring 2012 forecast (COM); Commission calculations.								

Table V. Long-term sustainability indicators

	SE		EU27	
	no-policy change scenario	CPs scenario	no-policy change scenario	SCPs scenario
S2	1.8	0.6	2.9	0.7
of which:				
Initial budgetary position (IBP)	-1.1	-3.9	0.7	-1.6
Long-term change in the primary balance (LTC)	2.9	4.4	2.3	2.4
of which:				
pensions	0.3	0.4	1.1	1.2
care (health care and long-term)	2.4	3.7	1.5	1.5
other	0.2	0.3	-0.3	-0.3
S1 (required adjustment)*	-2.9	-7.2	2.2	-0.1
Debt, % of GDP (2011)	38.4		82.8	
Age-related expenditure, % of GDP (2011)	27.6		25.8	

Source: Commission, 2012 stability and convergence programmes.

Note: The 'no-policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the spring 2011 forecast until 2013. The 'convergence programme' 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.

Figure I. Medium-term debt projections

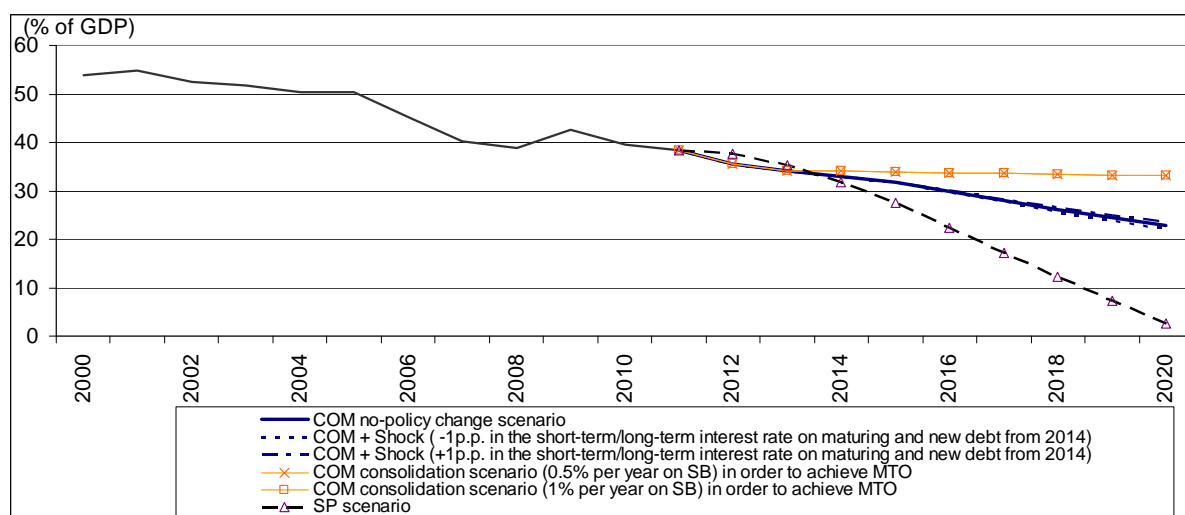


Table VI. Taxation indicators

	2001	2005	2007	2008	2009	2010
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	49.4	48.9	47.3	46.4	46.7	45.8
Breakdown by economic function (% of GDP) ¹						
Consumption	12.5	12.7	12.4	12.7	13.3	13.3
of which:						
- VAT	8.7	9.0	9.0	9.3	9.7	9.8
- excise duties on tobacco and alcohol	0.8	0.7	0.7	0.7	0.7	0.7
- energy	2.4	2.4	2.2	2.2	2.3	2.2
- other (residual)	0.6	0.6	0.6	0.6	0.6	0.6
Labour employed	26.9	24.8	23.4	24.0	23.5	22.4
Labour non-employed	3.9	4.2	3.8	3.7	3.9	3.5
Capital and business income	4.3	5.5	6.2	4.7	4.6	5.3
Stocks of capital/wealth	1.8	1.7	1.4	1.3	1.4	1.4
<i>p.m.</i> Environmental taxes ²	2.8	2.9	2.6	2.7	2.8	2.8
VAT efficiency ³						
Actual VAT revenues as % of theoretical revenues at standard rate	52.5	54.9	57.2	58.3	57.5	59.4
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 (2012), 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 (2011), Tax reforms in EU Member States, European Economy 5/2011, for a more detailed explanation.						
Source: Commission						

Table VII. Financial market indicators

	2007	2008	2009	2010	2011
Total assets of the banking sector (% of GDP)	253.0	272.3	321.4	308.2	295.3
Share of assets of the five largest banks (% of total assets)	61.0	61.9	60.7	57.8	...
Foreign ownership of banking system (% of total assets)	10.0	10.6	6.8
Financial soundness indicators:					
- non-performing loans (% of total loans)	0.6	1.0	2.0
- capital adequacy ratio (%) ¹⁾	9.8	10.3	12.7
- return on equity (%) ^{1), 3)}	19.7	14.3	5.1	10.5	11.9
Bank loans to the private sector (year-on-year % change)	9.5	-5.9	8.9	21.9	6.1
Lending for house purchase (year-on-year % change)	6.4	-4.0	18.1	47.5	6.0
Loan to deposit ratio	228.3	223.4	222.1	217.6	215.6
CB liquidity as % of liabilities	0.1	4.9	4.0	0.0	0.0
Banks' exposure to countries receiving official financial assistance (% of GDP) ⁴⁾	5.3	6.9	6.0	4.5	3.5
Private debt (% of GDP)	122.0	116.5	144.3	146.4	...
Gross external debt (% of GDP) ⁵⁾					
- Public	...	12.9	16.0	17.8	15.6
- Private	...	62.5	78.2	70.4	66.1
Long term interest rates spread versus Bund (basis points)*	-4.9	-9.6	2.8	15.0	-0.3
Credit default swap spreads for sovereign securities (5-year)*	...	53.1	71.8	37.8	42.4
Notes:					
¹⁾ Four large banking groups. Latest December 2009.					
²⁾ The capital adequacy ratio is defined as total capital divided by risk weighted assets.					
³⁾ Net income to equity ratio. Four large banking groups. Latest March 2011.					
⁴⁾ Covered countries are IE, EL, PT, RO, LV and HU.					
⁵⁾ Latest data 2011 Q3.					
* 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), ECB (all other indicators).					

Table VIII. Labour market and social indicators

Labour market indicators	2006	2007	2008	2009	2010	2011
Employment rate (% of population aged 20-64)	78.8	80.1	80.4	78.3	78.7	80.0
Employment growth (% change from previous year)	1.9	2.5	1.2	-2.0	1.0	2.1
Employment rate of women (% of female population aged 20-64)	75.8	77.1	77.2	75.7	75.7	77.2
Employment rate of men (% of male population aged 20-64)	81.7	83.1	83.5	80.9	81.7	82.8
Employment rate of older workers (% of population aged 55-64)	69.6	70.0	70.1	70.0	70.5	72.3
Part-time employment (% of total employment)	24.8	24.8	27.2	27.7	27.1	26.6
Part-time employment of women (% of women employment)	39.2	39.0	42.1	41.9	41.0	40.2
Part-time employment of men (% of men employment)	11.8	11.9	13.7	14.6	14.4	14.2
Fixed term employment (% of employees with a fixed term contract)	17.3	17.5	16.1	15.3	15.8	16.4
Unemployment rate ¹ (% of labour force)	7.1	6.1	6.2	8.3	8.4	7.5
Long-term unemployment ² (% of labour force)	1.0	0.9	0.8	1.1	1.5	1.4
Youth unemployment rate (% of youth labour force aged 15-24)	21.5	19.2	20.2	25.0	25.2	22.9
Youth NEET ³ rate (% of population aged 15-24)	9.3	7.5	7.8	9.6	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)	13.0	12.2	12.2	10.7	9.7	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	39.2	39.9	40.8	42.4	42.3	:
Labour productivity per person employed (annual % change)	2.6	1.0	-1.5	-2.7	5.0	1.7
Hours worked per person employed (annual % change)	-0.4	0.8	0.3	-0.5	2.1	0.1
Labour productivity per hour worked (annual % change; constant prices)	2.9	0.2	-1.8	-2.2	2.8	1.6
Compensation per employee (annual % change; constant prices)	0.1	2.4	-1.6	-0.4	1.9	-0.2
Nominal unit labour cost growth (annual % change)	-0.5	4.2	3.1	4.4	-1.9	-0.9
Real unit labour cost growth (annual % change)	-2.4	1.4	-0.1	2.3	-2.9	-1.8
Notes:						
¹ According to ILO definition, age group 15-74)						
² Share of persons in the labour force who have been unemployed for at least 12 months.						
³ NEET are persons that are neither in employment nor in any education or training.						
Sources:						
Commission (EU Labour Force Survey and European National Accounts)						

Expenditure on social protection benefits (% of GDP)	2005	2006	2007	2008	2009
Sickness/Health care	7.92	7.79	7.51	7.55	8.01
Invalidity	4.58	4.53	4.42	4.30	4.55
Old age and survivors	11.54	11.14	11.06	11.56	12.69
Family/Children	2.88	2.98	2.93	3.02	3.22
Unemployment	1.85	1.63	1.08	0.87	1.30
Housing and Social exclusion n.e.c.	0.53	0.51	0.47	0.46	0.48
Total	31.1	30.4	29.2	29.5	32.1
of which: Means tested benefits	0.88	0.84	0.78	0.78	0.86
Social inclusion indicators	2006	2007	2008	2009	2010
Risk-of-poverty or exclusion ¹ (% of total population)	16.3	13.9	14.9	15.9	15.0
Risk-of-poverty or exclusion of children (% of people aged 0-17)	18.5	14.9	14.6	15.1	14.5
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	11.9	10.4	15.5	18.0	15.9
At-risk-of-poverty rate ² (% of total population)	12.3	10.5	12.2	13.3	12.9
Value of relative poverty threshold (single household per year) - in PPS	9068	9545	10680	11258	10897
Severe material deprivation ³ (% of total population)	2.1	2.2	1.4	1.6	1.3
Share of people living in low work intensity households ⁴ (% of people aged 0-59 not student)	6.6	5.9	5.4	6.2	5.9
In-work at-risk-of poverty rate (% of persons employed)	7.4	6.5	6.8	6.9	6.5
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 households with zero or very low work intensity (LWI).					
² At-risk-of poverty rate: 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 work less than 20% of their total work-time potential during the previous 12 months.					
Sources:					
For expenditure on social protection benefits ESSPROS; for social inclusion EU-SILC.					

Table IX. Product market performance and policy indicators

Performance indicators	2002-2006	2007	2008	2009	2010	2011
Labour productivity ¹ total economy (annual growth in %)	3.2	1.0	-1.5	-3.2	4.5	2.2
Labour productivity ¹ in manufacturing (annual growth in %)	9.4	1.2	-5.4	-9.0	16.9	n.a.
Labour productivity ¹ in electricity, gas, water (annual growth in %)	-4.2	8.3	-6.7	-5.3	n.a.	n.a.
Labour productivity ¹ in the construction sector (annual growth in %)	0.2	-1.5	-12.3	-4.4	3.5	n.a.
Patent intensity in manufacturing ² (patents of the EPO divided by gross value added of the sector)	4.2	4.3	3.8	n.a.	n.a.	n.a.
Policy indicators	2002-2006	2007	2008	2009	2010	2011
Enforcing contracts ³ (days)	n.a.	508	508	508	508	508
Time to start a business ³ (days)	n.a.	15	15	15	15	15
R&D expenditure (% of GDP)	3.7	3.4	3.7	3.6	3.4	n.a.
Tertiary educational attainment (% of 30-34 years old population)	34.1	41.0	42.0	43.9	45.8	n.a.
Total public expenditure on education (% of GDP)	7.1	6.7	6.7	n.a.	n.a.	n.a.
	2005	2006	2008	2009	2010	2011
Product market regulation ⁴ , Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	1.3	n.a.	n.a.	n.a.
Product market regulation ⁴ , Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	0.5	n.a.	n.a.	n.a.
Product market regulation ⁴ , Network Industries ⁵ (Index; 0=not regulated; 6=most regulated)	1.8	1.8	1.7*	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 Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.						
³ The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology .						
⁴ The methodologies for 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 ETCR.						
*figure for 2007.						
Source :						
Commission, World Bank - <i>Doing Business</i> (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).						

Table X. Indicators on green growth

		2001-2005	2006	2007	2008	2009	2010
Green Growth performance							
<i>Macroeconomic</i>							
Energy intensity	kgoe / €	0.18	0.16	0.15	0.15	0.15	0.16
Carbon intensity	kg / €	0.24	0.21	0.20	0.19	0.19	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0.64	0.60	0.64	0.64	0.59	n.a.
Waste intensity	kg / €	n.a.	0.30	0.27	0.26	n.a.	n.a.
Energy balance of trade	% GDP	-1.4%	-1.8%	-1.7%	-2.0%	-1.3%	-1.7%
Energy weight in HICP	%	12	13	12	11	11	11
Difference between change energy price and inflation	%	5.72	8.6	-2.2	6.5	-0.4	2
Environmental taxes over labour taxes	ratio	9.5%	9.6%	9.6%	9.7%	10.3%	n.a.
Environmental taxes over total taxes	ratio	5.8%	5.6%	5.5%	5.8%	6.0%	n.a.
<i>Sectoral</i>							
Industry energy intensity	kgoe / €	0.23	0.20	0.19	0.19	0.23	n.a.
Share of energy-intensive industries in the economy	% GDP	11.8	11.5	11.4	11.6	10.7	n.a.
Electricity prices for medium-sized industrial users	€ / kWh	0.05	0.06	0.06	0.07	0.07	0.08
Public R&D for energy	% GDP	n.a.	0.03%	0.03%	0.03%	0.04%	n.a.
Public R&D for the environment	% GDP	n.a.	0.01%	0.01%	0.01%	0.02%	n.a.
Recycling rate of municipal waste	ratio	86.4%	96.1%	94.9%	96.1%	97.6%	n.a.
Share of GHG emissions covered by ETS	%	n.a.	29.6%	28.9%	31.6%	29.1%	n.a.
Transport energy intensity	kgoe / €	0.44	0.42	0.41	0.41	0.46	n.a.
Transport carbon intensity	kg / €	1.10	1.03	0.99	0.96	1.10	n.a.
Change in the ratio of passenger transport and GDP	%	-1.4%	-3.9%	0.3%	-0.2%	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	38.6%	37.8%	36.3%	37.9%	37.4%	n.a.
Diversification of oil import sources	HHI	n.a.	0.27	0.26	0.25	0.26	n.a.
Diversification of energy mix	HHI	0.29	0.28	0.29	0.29	0.28	n.a.
Share of renewable energy in energy mix	%	26.3%	28.5%	30.4%	31.3%	34.4%	n.a.

Country-specific notes:

The year 2011 is not included in the table due to lack of data.

General explanation of the table items:

Source: Eurostat unless indicated otherwise; ECFIN explanations given 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 EUR)

Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP

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 (in kgoe) divided by gross value added of industry (in EUR)

Transport carbon intensity: greenhouse gas emissions in transport divided by gross value added of the transport sector

Passenger transport growth : measured in %-change in passenger kilometres

Energy import dependency: net energy imports divided by gross inland energy consumption incl. of 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 of renewable energy in energy mix: percentage-share in gross inland energy consumption, expressed in tonne oil equivalents