EUROPEAN
COMMISSION

Brussels, 2.6.2014
COM(2014) 428 final

Recommendation for a

# COUNCIL RECOMMENDATION

## on Sweden's 2014 national reform programme

## and delivering a Council opinion on Sweden's 2014 convergence programme

{SWD(2014) 428 final}

Recommendation for a

**COUNCIL RECOMMENDATION**

**on Sweden's 2014 national reform programme**

**and delivering a Council opinion on Sweden's 2014 convergence programme**

THE COUNCIL OF THE EUROPEAN UNION,

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

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

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

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

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

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

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

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

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 COM(2014) 428 final.
4 P7_TA(2014)0128 and P7_TA(2014)0129.

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

(4) On 9 July 2013, the Council adopted a recommendation on Sweden's national reform programme for 2013 and delivered its opinion on Sweden's updated convergence programme for 2012-2016.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey[5], marking the start of the 2014 European Semester of economic policy coordination. On the same day on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report[6], in which it identified Sweden as one of the Member States for which an in-depth review would be carried out.

(6) On 20 December 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(7) On 5 March 2014, the Commission published the results of its in-depth review for Sweden[7], under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Sweden continues to experience macroeconomic imbalances, which require monitoring and policy action. In particular, developments regarding household indebtedness, coupled with inefficiencies in the housing market, continue to warrant attention. Although the large current account surplus does not pose risks similar to large deficits, and is partly linked to the need for deleveraging, the Commission will follow the current account developments in Sweden in the context of the European Semester.

(8) On 16 April 2014, Sweden submitted its 2014 national reform programme and its 2014 convergence programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) The objective of the budgetary strategy outlined in the 2014 Convergence Programme is to ensure a general government surplus of 1% of GDP on average over the business cycle, as foreseen by the Swedish fiscal framework. The programme confirms the medium-term objective set in the previous programme of a structural deficit of 1% of GDP, which reflects the requirements of the Stability and Growth Pact. Based on the (recalculated) structural balance, the Convergence Programme plans an outcome that more than fulfils the medium-term objective throughout the programme period. According to the programme, government debt, which remains well below the 60% of GDP reference value, is projected to decrease from 41.5% of GDP in 2014 to 35% in 2017. Overall, the budgetary strategy outlined in the programme is in line with the requirements of the Stability and Growth Pact. The macroeconomic scenario underpinning the budgetary projections in the programme is

---

[5] COM(2013) 800 final.

[6] COM(2013) 790 final.

[7] SWD(2014) 90 final.

plausible. Regarding the long-term sustainability of public finances, a high share of GDP is spent on long-term care and a significant increase in spending is foreseen over the long-term to take sufficient account of the ageing of the population, bringing spending in Sweden in 2060 to 6.4% of GDP. Sweden would need to address this by ensuring sufficient primary surpluses and further containing age-related expenditure growth to ensure long-term fiscal sustainability. Based on its assessment of the 2014 Convergence Programme and the Commission forecast, pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that Sweden's programme is in compliance with the rules of the Stability and Growth Pact and that the risks to the budgetary targets are limited.

(10) The high indebtedness of the private sector, and in particular of Swedish households, remains a matter of concern. Moreover, the financial sector's exposure to households, as opposed to the corporate sector, has been increasing in line with household sector debt, which currently stands at 83% of GDP or roughly 160% of disposable income. The indebtedness is spurred by continued credit growth and a slow pace of mortgage amortisation. In the event of interest rate increases, house price falls and/or an adverse macroeconomic development, the high household sector indebtedness would be a risk factor. Such evolutions would affect households and their consumption patterns. It could also have adverse second round effects on the banking sector, by increasing the number of non-performing loans and the cost of market funding. Sweden has neither announced nor adopted any measures to address the debt bias in taxation linked to housing which could be done in the context of a tax shift, without increasing the overall tax burden. However, Sweden has taken some action to foster prudent lending through the introduction of the 15% risk weight floor for mortgage exposures in May 2013 and a further increase has also been announced. Nevertheless, amortisation practices remain relaxed with very long amortisation periods below 75% loan-to-value ratios and strong measures in this regard have not been taken, considering the voluntary nature of the October 2013 recommendation on individual amortisation plans. The Swedish Bankers' Association strengthened its recommendation in March 2014, calling for amortisation down to 70% of the loan-to-value ratio. Finally, Sweden has addressed the corporate taxation debt bias by further strengthening restrictions on interest deductibility, extending them to all types of intra-group loans as of January 2013 and introducing a so-called investors' deductibility that might alleviate the debt bias in taxation. The corporate income tax was also lowered from 26.3% to 22% as from the beginning of 2013.

(11) The Swedish housing market, characterised by sharp price increases over the last two decades, remains a potential source of instability. Inefficiencies still weigh on the housing supply, particularly as a result of complex planning processes, limited competition within the construction sector and a high degree of rent control. Together with debt-inducing taxation, these inefficiencies tend to create upward bias in house prices. Sweden has taken some measures in the rental market, but these measures appear insufficient to address the underlying structural problem linked to the high degree of rigidity of the rent system. No measures addressing the rental market were included in the spring bill presented by the Swedish government on 9 April 2014. Sweden has adopted measures to address the inefficiencies of the zoning and planning process, as well as municipalities' planning monopoly, by requiring municipalities to take a regional perspective when defining housing needs. These measures go in the right direction; not all of them have been implemented yet, and no penalties are set out for failing municipalities.

(12) Despite high funding levels, there is evidence that learning outcomes in compulsory school as measured by international student assessments are worse than in the early 2000s, with Sweden now performing below both the EU and OECD averages in all three areas tested (reading, mathematics and science). Moreover, the relationship between socio-economic background and performance has become stronger, and differences between schools have increased. While the measures put forward by the government are steps in the right direction, it appears that more radical structural changes will be necessary. To that end, Sweden is about to carry out a review of the effectiveness of the school system to restore a high level of performance.

(13) The labour market situation of the young, the low-skilled and people with a migrant background remains weak. Youth unemployment remains above the EU average. While the Swedish government has taken steps to address these points, it appears that difficulties may be linked to problems in the education field, with the Swedish education system failing to supply a proportion of young people with the necessary skills for successful integration into the labour market. As regards labour market integration and education and training, Sweden has adopted measures to facilitate the transition from school to work (apprenticeships reform, including an 'apprentice salary') and help young people get work experience ('vocational introduction employment'). The transition has been *de facto* strengthened through the introduction of early measures for those most in need. However, coverage and outreach to unregistered people who are not in education, employment or training remains weak. Sweden is also working to speed up the integration of people with a migrant background, while challenges persist notably with people with a migrant background from outside the EU. Finally, Sweden is in the process of evaluating the effectiveness of the current reduced VAT rate for restaurants and catering services in support of job creation. The final evaluation is expected to be ready in January 2016.

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

(15) In the light of this assessment, the Council has examined Sweden's convergence programme, and its opinion[8] is reflected in particular in recommendation (1) below.

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

HEREBY RECOMMENDS that Sweden take action within the period 2014-2015 to:

1. Continue to pursue a growth-friendly fiscal policy and preserve a sound fiscal position, ensuring that the medium-term budgetary objective is adhered to throughout the period covered by the Convergence Programme, also with a view to the challenges posed on the long-term sustainability of public finances by an ageing population.

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

2. Moderate household sector credit growth and private indebtedness. To this end, reduce the effects of the debt bias in personal income taxation by gradually limiting tax deductibility of interest payments on mortgages and/or by increasing recurrent property taxes. Take further measures to increase the pace of amortisation of mortgages.

3. Further improve the efficiency of the housing market through continued reforms of the rent setting system. In particular, allow more market-oriented rent levels by moving away from the utility value system and further liberalising certain segments of the rental market, and greater freedom of contract between individual tenants and landlords. Decrease the length and complexity of the planning and appeal processes, by reducing and merging administrative requirements, harmonising building requirements and standards across municipalities and increasing transparency for land allotment procedures. Encourage municipalities to make their own land available for new housing developments.

4. Take appropriate measures to improve basic skills and facilitate the transition from education to the labour market, including through a wider use of work-based training and apprenticeships. Reinforce efforts to target labour market and education measures more effectively towards low-educated young people and people with a migrant background. Increase early intervention and outreach to young people unregistered with the public services.

Done at Brussels,

*For the Council*
*The President*