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From: General Secretariat of the Council

To: Permanent Representatives Committee/Council

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Subject: COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Sweden

Delegations will find attached the above-mentioned draft Council Recommendation, as revised and agreed by relevant Council committees, based on the Commission Proposal COM(2026) 227 final.

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Sweden

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97¹, and in particular Article 3(3) 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 imbalances², and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

¹ Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30.4.2024, ELI: <http://data.europa.eu/eli/reg/2024/1263/oj>).

² 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 (OJ L 306, 23.11.2011 ELI: <http://data.europa.eu/eli/reg/2011/1176/oj>).

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) Regulation (EU) 2024/1263 specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, as well as preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the Treaty on the Functioning of the European Union (TFEU). The European Semester includes, in particular, the formulation and the surveillance of the implementation of country-specific recommendations.
- (2) On 16 July 2025, the Commission adopted its proposal for a regulation establishing the European Fund for economic, social and territorial cohesion, agriculture and rural, fisheries and maritime, prosperity and security for the period 2028-2034 and amending Regulation (EU) 2023/955 and Regulation (EU, Euratom) 2024/2509³. The proposal aims to increase the effectiveness of Union funding by reducing the fragmentation of the financial architecture and to support Member States' in the coordination of their economic policy in line with Article 175 TFEU.

³ Proposal for a Regulation of the European Parliament and of the Council establishing the European Fund for economic, social and territorial cohesion, agriculture and rural, fisheries and maritime, prosperity and security for the period 2028-2034 and amending Regulation (EU) 2023/955 and Regulation (EU, Euratom) 2024/2509 - COM(2025)565 final. The proposed Regulation is currently the subject of negotiations with the co-legislators.

- (3) On 25 November 2025, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2026 Alert Mechanism Report, in which it identified Sweden as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area⁴, a recommendation for a Council recommendation on human capital in the European Union, and a proposal for the 2026 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area⁵ on 21 April 2026, and the Joint Employment Report, and the Recommendation on human capital on 9 March 2026.
- (4) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the Union's global competitiveness over the next five years. It identifies the three transformational imperatives of innovation, decarbonisation and competitiveness, and security as critical pillars for sustainable economic growth. The European Semester is aligned with the Competitiveness Compass, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

⁴ OJ C, C/2026/2434, 28 April 2026, ELI: <http://data.europa.eu/eli/C/2026/2434/oj>.

⁵ Council Recommendation of 21 April 2026 on the economic policy of the euro area (OJ C, C/2026/2434, 28 April 2026, ELI: <http://data.europa.eu/eli/C/2026/2434/oj>).

- (5) In 2026, the European Semester for economic policy coordination continues to develop alongside the final stage of Recovery and Resilience Facility (RRF) implementation⁶. Recovery and resilience plans (RRPs), along with cohesion policy funding, have been essential for delivering on the policy priorities under the European Semester, as the plans were required to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent cycles, and programmes funded by the European cohesion policy were required to take country-specific recommendations into account. As the RRF approaches the end of its lifetime, it remains essential to sustain the reforms and investments supported and implemented under RRF, in particular those that contribute to addressing challenges identified in the country-specific recommendations.
- (6) On 3 June 2026, the Commission published the 2026 country report for Sweden. It assessed Sweden's progress in addressing the relevant country-specific recommendations and took stock of Sweden's implementation of the RRP. On the basis of that analysis, the country report identified the most pressing challenges Sweden is facing. It also assessed Sweden's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty and social exclusion reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

⁶ Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18 February 2021, p. 17, ELI: <http://data.europa.eu/eli/reg/2021/241/oj>).

(7) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Sweden. The main findings of the Commission's staff assessment of macroeconomic vulnerabilities for Sweden for the purposes of that Regulation were published on 20 May 2026⁷. On 3 June 2026, the Commission concluded that Sweden is no longer experiencing macroeconomic imbalances. In particular, vulnerabilities related to its real estate market and high levels of private debt remain but their gravity has lessened recently. While the Swedish economy is highly sensitive to interest rates due to the widespread use of variable-rate mortgages, it proved resilient to the higher interest rates in 2022 and 2023, which caused house prices to drop. Since then, house prices have been stable and seem less overvalued than before. The large commercial real estate sector showed signs of improved refinancing capacity as interest rates eased and capital market access improved. Household debt as a share of GDP, which had been falling since the pandemic, levelled off in 2025 and is expected to stay steady. Going forward, housing shortages, coupled with looser borrower requirements, could push house prices and household debt up. Banks remain strong, profitable, and with low non-performing loans. Some measures have recently been taken aimed at making the rental market more flexible, and the regulatory framework for building permits was tweaked in late 2025. Looking ahead, effectively increasing housing supply and tackling tax incentives favouring debt-financed house buying, together with judicious use of macroprudential measures, would help further dampen house price growth and reduce household debt in a lasting way. The European Semester will provide the framework for monitoring progress on housing reforms.

⁷ SWD(2026) 143 final.

- (8) On 21 January 2025, the Council, upon the assessment and recommendation of the Commission, adopted a Recommendation endorsing the national medium-term fiscal-structural plan of Sweden⁸. The plan covers the period from 2025 until 2028 and sets a budgetary constraint in the form of a maximum net expenditure growth rate over four years. The Council recommended the following maximum growth rates of net expenditure: 4.0% in 2025, 4.4% in 2026, 4.4% in 2027 and 4.6% in 2028, which correspond to the maximum cumulative growth rates calculated by reference to the base year of 2023 of 10.7% in 2025, 15.5% in 2026, 20.6% in 2027 and 26.1% in 2028.
- (9) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission has invited Member States to request the activation of the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending⁹ and this proposal was welcomed by the European Council of 6 March 2025. Member States may still request the activation of the national escape clause at any time until 2028, if they fulfil the criteria set in Article 26 of Regulation (EU) 2024/1263.

⁸ Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Sweden (OJ C, C/2025/644, 10 February 2025), ELI: <http://data.europa.eu/eli/C/2025/644/oj>.

⁹ Communication from the Commission, 'Accommodating increased defence expenditure within the Stability and Growth Pact', Brussels, 19 March 2025, C(2025)2000 final.

- (10) On 30 April 2026, Sweden submitted its 2026 Annual Progress Report¹⁰ on adherence to the recommended maximum growth rates of net expenditure and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Sweden's biannual reporting on the progress made in implementing its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.
- (11) Real GDP growth in 2025 was 1.5% and HICP inflation stood at 2.6%. The Commission Spring 2026 Forecast projects real GDP to grow by 1.8% in 2026 and 2.2% in 2027, and HICP inflation to stand at 1.5% in 2026 and 1.8% in 2027.
- (12) Based on data provided by Eurostat¹¹, Sweden's general government deficit decreased from 1.5% of GDP in 2024 to 1.3% of GDP in 2025. Based on policy measures known by the cut-off date of the forecast, the Commission Spring 2026 Forecast projects a deficit of 2.8% of GDP in 2026 and 2.5% of GDP in 2027. The increase in 2026 mainly reflects relatively significant discretionary fiscal spending, especially in the area of defence.

¹⁰ The 2026 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en.

¹¹ Eurostat-Euro Indicators, 22 April 2026.

- (13) Based on the Commission's estimates, the fiscal stance¹², which includes both nationally and EU financed expenditure, was contractionary, by 0.3% of GDP, in 2025. It is projected to be expansionary, by 1.9% of GDP, in 2026, and contractionary, by 0.6% of GDP, in 2027.
- (14) Based on data provided by Eurostat¹³, Sweden's general government debt increased from 34.2% of GDP at the end of 2024 to 35.1% of GDP at the end of 2025. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2026 Forecast projects the debt-to-GDP ratio to increase to 36.6% by the end of 2026 and to further increase to 37.7% by the end of 2027. The debt ratio increase in 2026 mainly reflects the increase in the deficit.
- (15) Based on Eurostat data¹⁴, total general government defence expenditure in Sweden amounted to 2.9% of GDP in 2025. According to the Commission Spring 2026 Forecast, it is projected at 3.8% of GDP in 2026.

¹² The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

¹³ Eurostat-Euro Indicators, 22 April 2026.

¹⁴ Eurostat, government expenditure by classification of functions of government (COFOG).

- (16) The Union continues to face risks of energy supply disruptions and elevated price volatility, exacerbated by geopolitical tensions which affect global oil and gas markets. Experience from the 2022–2023 energy crisis has shown that broad and untargeted measures entail large fiscal costs and are socially and economically inefficient. Since the outbreak of the war in the Middle East in February 2026, Sweden adopted fiscal policy measures to mitigate the impact of high energy prices on households and firms. These include untargeted reductions in excise duties on petrol and diesel set to expire on 30 September and 30 November 2026, respectively, and untargeted ex-post cash support to households for gas and electricity costs incurred during January and February 2026. According to the Commission Spring 2026 Forecast, the fiscal cost of these measures is projected to amount to 0.2% of GDP in 2026¹⁵. According to Commission estimates, if these measures were to remain in force until end-2026, their fiscal cost would amount to 0.4% of GDP in 2026.
- (17) Based on the Commission’s calculations, net expenditure in Sweden grew by 2.2% in 2025 and 8.2% cumulatively over 2024 and 2025. The net expenditure growth in 2025 is below the recommended maximum growth rate. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also below the recommended maximum growth rate.

¹⁵ This reflects the situation at the cut-off date of the Commission Spring 2026 Forecast (4 May 2026).

- (18) Based on the Commission’s calculations, net expenditure in Sweden is projected to grow by 6.5% in 2026, and 15.3% cumulatively over 2024, 2025 and 2026. The projected net expenditure growth in 2026 is above the recommended maximum growth rate, corresponding to a deviation of 1.0% of GDP in annual terms. When considering 2024, 2025 and 2026 together, the projected cumulative growth rate of net expenditure is below the recommended maximum growth rate. The systematic, meaningful and timely involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the Union’s funding instruments, as well as in the context of the European Semester.
- (19) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF) and the European Social Fund Plus (ESF+) in Sweden, is above the average pace at EU level, both in terms of project selection and payments. It is important to keep current momentum, while maximising the impact of investments on the ground. Sweden is already taking action under its cohesion policy programmes to boost competitiveness and growth. Nevertheless, some areas may require further attention in implementation, such as sustainable urban development and circular economy. It is essential to ensure that the new investments identified by Sweden in its mid-term review of the cohesion policy funds, notably those linked to the five priorities identified in the Mid-Term Review Regulation¹⁶, are deployed rapidly and effectively.

¹⁶ Regulation (EU) 2025/1914 of the European Parliament and of the Council of 18 September 2025 amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review.

- (20) Sweden faces several challenges related to the housing market and high debt levels, the reduction of greenhouse gas emissions, the deployment of renewables linked to power grid capacity and transmission constraints, the education system and the deteriorating educational outcomes of pupils, and skills gaps, which are most pronounced for people from disadvantaged socio-economic and migrant backgrounds.
- (21) Rental controls in Sweden are the strictest in the OECD with the market divided between regulated apartments with below-market rents and newer units with market-aligned rents. This structure generates long waiting lists for regulated apartments with limited distribution mechanisms for those most in need, hampers housing construction, and restricts labour mobility. Building-permit data confirm the severity of the construction downturn and point to a stabilisation at low levels. A significant increase in construction, particularly in urban areas, would be needed to prevent a widening of the housing supply gap, along with efforts to reduce average zoning and permitting lead times that build on and extend recent efforts in that area. Private debt levels are amongst the highest in the EU. The favourable taxation of mortgages, in particular significant mortgage interest deductibility, continues offering extensive incentives for household borrowing. Effective reforms could reduce incentives for debt accumulation and improve affordability.

- (22) With its current policies, Sweden is not on track to meet its 2030 EU targets to reduce greenhouse gas emissions. The country's greenhouse gas emissions increased in 2024, chiefly from road transport and non-road mobile machinery. In particular, this shortfall reflects recent policy changes, including lower biofuel blending obligations and reduced taxes on liquid fuels, which have led to an increase in greenhouse gas emissions. Moreover, Sweden's carbon removals continue to fall short of meeting the 2030 EU target for land use, land use change and forestry. Further policy action would be needed to reach these targets, including via fuels taxation and incentives for sustainable forest management.
- (23) Sweden continues to be the Member State with the highest share of renewables in its final energy consumption. However, constraints in power grid capacity and transmission hinder the further deployment of renewable energy sources. Removing these constraints is pivotal, as Sweden's final electricity consumption is expected to rise significantly in the period to 2045, driven by the increased electrification needs of industry and transport. Improving access to Sweden's untapped potential for renewables could accommodate the ongoing electrification of industries in the south of the country and support the innovative and green industrial development and decarbonisation in the north.

- (24) The current permitting procedures hamper new large-scale clean industry projects and the expansion of Sweden's renewable energy production capacity. Drawn-out and complex procedures create, among other things, investment uncertainty and hinder the uptake of offshore and onshore wind energy projects. Sweden would benefit from extending and building on the recently decided targeted local compensation schemes and from further reducing barriers emanating from inefficient permitting procedures and veto rights of municipalities.
- (25) In light of the crucial role of human capital in enhancing the Union's competitiveness and strategic autonomy, in 2026 the Council recommended that Member States take action to urgently address human capital related structural challenges in the areas of skills, education and training, which hamper competitiveness. The 2026 country-specific recommendations addressed to Sweden can contribute to the implementation of the Council Recommendation on human capital in the Union.

(26) While Swedish students perform above the EU average in basic and digital skills, education outcomes in basic skills have declined since 2018.¹⁷ The school system does not ensure equity, which is manifested by the underachievement in basic skills being especially high for students with a migrant or disadvantaged socio-economic background, who also are more likely to be concentrated in certain schools. Students from disadvantaged backgrounds are also underrepresented in privately operated schools, which on average are more generous in their grading and whose pupils thus are given greater chances of qualifying for further studies. A significant share of students finish compulsory school with grades that are too low or incomplete, excluding them from qualifying directly for a national programme in upper secondary school. The shortage of qualified teachers, especially in schools and early childhood education and care with a high number of disadvantaged students, poses a risk to the quality and equity of the education system and further aggravates the declining education outcomes. Sweden would benefit from building on recent reform proposals that aim to address the underlying causes of adverse trends in equity and performance.

¹⁷ According to PISA results.

(27) Despite efforts, labour and skills shortages continue to persist in certain sectors and occupations, such as the healthcare, IT and education professions, and are further exacerbated by mismatches between education and training, and labour market demands. This has a negative impact on Sweden's competitiveness and leads to structural unemployment. There are several regions, such as in the northern sparsely populated areas with labour shortages, while labour is in surplus in other regions, which shows the need for improving labour mobility and improving public services and infrastructure to enable workers to relocate to regions where the available job opportunities better match their skills. Despite the growing participation in vocational education and training (VET), it continues to face challenges in adapting to the labour market needs and the percentage of graduates working in jobs that match their education and training has been declining. The impact of the measures taken to ensure the faster integration of people from vulnerable groups, particularly the individuals from disadvantaged and migrant backgrounds, into the labour market, has so far been limited and Sweden continues to have the highest EU unemployment rate for people born outside the EU. The lower educational attainment and limited skills of individuals from vulnerable groups further reduces their employability.

HEREBY RECOMMENDS that Sweden take action in 2026 and 2027 to:

1. In view of the material deviation projected for 2026 by the Commission vis-à-vis the recommended net expenditure ceiling, ensure that net expenditure respects the maximum growth rates recommended by the Council on 21 January 2025. Reinforce defence readiness while ensuring spending efficiency and gradually adapting the budget to sustain structurally higher defence spending. Ensure that any measures taken to mitigate the impact of the hike in energy prices are temporary, targeted at protecting vulnerable households or at addressing the needs of energy-intensive firms, preserve incentives for energy savings while ensuring that their fiscal cost is compatible with the commitments under the EU fiscal framework.
2. Ensure continuity of reforms and investments implemented under the Recovery and Resilience Facility. Sustain implementation momentum under cohesion policy programmes building, where appropriate, on the reallocation to strategic priorities agreed in the context of the mid-term review and the flexibilities provided in the cohesion policy framework.
3. Improve the efficiency of the housing market, including by introducing reforms in the rental market. Stimulate investment in residential construction and remove structural obstacles to ease shortages, particularly in urban areas. Reduce incentives for debt accumulation, including by eliminating or reducing the tax deductibility of mortgage interest.

4. Ensure the achievement of greenhouse gas emissions reduction and removal targets by reducing, in particular, emissions from road transport. Expand and upgrade energy transmission networks. Accelerate and streamline permitting procedures for deploying renewables, particularly for offshore and onshore wind energy, and avoid permitting approval reversals.
5. Improve educational outcomes, particularly of students from disadvantaged socioeconomic and migrant backgrounds, address the shortage of qualified teachers, ensure equity in the schooling system. Develop the skills of the labour force and address skills shortages and mismatches through targeted policy measures including active labour market policy measures, and through support and incentives to improve the integration particularly of individuals from disadvantaged socioeconomic and migrant backgrounds into the labour market.

Done at Brussels,

For the Council

The president
