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Recommendation for a

COUNCIL RECOMMENDATION

on Sweden’s 2012 national reform programme

and delivering a Council Opinion on Sweden’s convergence programme for 2012-2015

{SWD(2012) 328 final}

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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 5(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,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the European Commission's proposal to launch a new strategy for jobs and growth, 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 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

1 OJ L 209, 02.08.1997, p. 1
2 OJ L 306, 23.11.2011, p. 25
3 COM(2012)328 final
4 P7_TA(2012)0048 and P7_TA(2012)0047

Member States[5], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 12 July 2011, the Council adopted a recommendation on Sweden's national reform programme for 2011 and delivered its opinion on Sweden's updated convergence programme for 2011-2014.

(4) On 23 November 2011, the Commission adopted the second Annual Growth Survey, marking the start of the second European Semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy. On 14 February 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, 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.

(5) On 2 March 2012, 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.

(6) On 20 April 2012, Sweden submitted its convergence programme covering the period 2012-2015 and its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time. The Commission has also assessed, in an in-depth review under Article 5 of Regulation (EU) No 1176/2011, whether Sweden is affected by macroeconomic imbalances. The Commission concluded in its in-depth review[7] that Sweden is experiencing imbalances, although not excessive.

(7) Based on the assessment of the convergence programme pursuant to Article 5(1) of Council Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible for 2012 and optimistic in 2013-15, when GDP growth is expected to average around 3.5%. The Commission's 2012 spring forecast foresees GDP growth of 2.1% in 2013. The objective of the budgetary strategy outlined in the 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% of GDP reference value. The programme has changed the medium-term budgetary objective (MTO) from a general government surplus of 1.0% of GDP to a deficit of 1.0% of GDP. The new MTO adequately reflects the requirements of the Stability and Growth Pact. Due to the change, the MTO is, based on the (recalculated) structural budget balance,[8] likely to be

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5 Council Decision 2012/238/EU of 26 April 2012

6 COM(2012) 68 final

7 SWD(2012)160 final

8 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.

met over the programme period, even taking into account the likelihood of further expansionary discretionary measures in 2013 or 2014, which could derive from a need to restore the real value of non-indexed government expenditure. Certain downside risks to budgetary projections from 2013 onwards are linked to the optimistic macroeconomic assumptions. After a temporary breach of the expenditure benchmark in 2012, the planned growth rate of government expenditure, taking into account discretionary revenue measures, would comply with the expenditure benchmark of the Stability and Growth Pact as from 2013. The debt ratio is below 60% of GDP and, according to the programme, is projected to continue to decrease over the programme period.

(8) The Commission's in-depth review under Article 5 of Regulation (EU) No 1176/2011 confirmed that Sweden has a rather high level of household debt. While the situation in the housing and mortgage market stabilised in 2011, several structural distortions persist that threaten the stability of these markets in the long-term. Relevant measures have been taken to strengthen the resilience of the financial sector. However, there are currently a number of policies in place that may contribute to the volatility of the Swedish housing market and mortgage debt accumulation, which have received less attention: generous tax deductibility of interest payments and low property taxes, little amortisation and stringent rent regulation. On the supply side, local planning monopoly, lengthy zoning processes and a lack of competition hinder the flexibility of housing supply.

(9) Despite a general improvement on the labour market during 2011, the unemployment rates for young people and vulnerable groups remain high, in particular for people with migrant background. Sweden is currently implementing several active labour market policy measures and education reforms to address this situation. Most of these measures seem relevant and credible, although it is too early to assess their impact. However, the relevance and effectiveness of the main measure targeted at youth employment — the VAT reduction for restaurants and catering services — is uncertain and needs to be assessed. In addition, the level of ambition could be increased if the challenges were tackled in a more comprehensive way, by also addressing relatively high wages at the lower end of the wage scale and differences in employment protection between regular and temporary workers.

(10) Sweden has the second highest R&D expenditure as a share of GDP in the EU and is considered an innovation leader according to the Innovation Union Scoreboard. However, as regards the commercialisation of innovative products, Sweden performs below the EU average and shows a negative trend. Moreover, Sweden appears to be lagging behind in creating fast-growing innovative enterprises. Furthermore, Sweden's overall strong position in R&D is vulnerable due to its strong dependence on a few large multinational companies, which are increasingly relocating their R&D activities away from Sweden. These issues should be addressed in the new research and innovation bill due in autumn 2012.

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

providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (4) below.

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

(13) In the light of the Commission's in-depth review and this assessment, the Council has examined Sweden's 2012 national reform programme and its convergence programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in particular in recommendation (2) below,

HEREBY RECOMMENDS that Sweden should take action within the period 2012-2013 to:

1. Preserve a sound fiscal position in 2012 and beyond by implementing the budgetary strategy as envisaged and ensuring continued achievement of the medium-term budgetary objective, including meeting the expenditure benchmark.

2. Take further preventive measures to strengthen the stability of the housing and mortgage market in the medium term, including by fostering prudent lending, reducing the debt bias in the financing of housing investments, and tackling constraints in housing supply and rent regulations.

3. Take further measures to improve the labour market participation of youth and vulnerable groups by focusing on effective active labour market policy measures, encouraging increased wage flexibility, notably at the lower end of the wage scale, and reviewing selected aspects of employment protection legislation like trial periods to ease the transition to permanent employment. review the effectiveness of the current reduced VAT rate for restaurants and catering services in support of job creation.

4. Focus the upcoming research and innovation bill on measures to improve the commercialisation of innovative products and the development of new technologies to support high-growth innovative firms.

Done at Brussels,

For the Council
The President

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