

European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

PURPOSE: draft 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.

BACKGROUND: the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

CONTENT: 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.

Based on the assessment of the convergence programme, 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 debt ratio is below 60% of GDP and, according to the programme, is projected to continue to decrease over the programme period.

According to the Commission, the **main policy challenges** for the country are as follows:

- The Commission's in-depth review under 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.

- 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.
- 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.

Recommendations proposed for Sweden for the period 2012-2013:

Budgetary measures:

- 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.

Housing market:

- 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.

Labour market:

- 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.

Research and innovation:

- 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.

These recommendations should be endorsed by the European Council on 28-29 June 2012 and formally adopted by the Council in July 2012.