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Recommendation for a

COUNCIL RECOMMENDATION

on the 2015 National Reform Programme of Sweden

and delivering a Council opinion on the 2015 Convergence Programme of Sweden

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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 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. The strategy focuses 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 it adopted a decision on guidelines for the employment policies of the Member States. Together these form

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 COM(2015) 276.
4 P8_TA(2015)0067, P8_TA(2015)0068, P8_TA(2015)0069.

the ‘integrated guidelines’ which Member States were invited to take into account in their national economic and employment policies.

(3) On 8 July 2014, the Council adopted a Recommendation on Sweden’s National Reform Programme for 2014 and delivered its opinion on Sweden’s updated Convergence Programme for 2014.

(4) On 28 November 2014, the Commission adopted the Annual Growth Survey[5], marking the start of the 2015 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.

(5) On 18 December 2014, the European Council endorsed the priorities for boosting investment, accelerating structural reforms and pursuing responsible growth-friendly fiscal consolidation.

(6) On 26 February 2015, the Commission published its 2015 country report for Sweden[7]. This assessed Sweden’s progress in addressing the country-specific recommendations adopted on 8 July 2014. The country report also includes the results of the in-depth review under Article 5 of Regulation (EU) No 1176/2011. The Commission’s analysis leads it to conclude that Sweden is experiencing macroeconomic imbalances which require policy action and monitoring. In particular, household debt remains at very high levels and continues to expand as a result of increasing house prices, persistently low interest rates and strong tax incentives and housing supply constraints. Macroeconomic developments linked to private debt continue to merit attention.

(7) On 23 April 2015, Sweden submitted its 2015 National Reform Programme and on 24 April 2015 its 2015 Convergence Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Sweden is currently in the preventive arm of the Stability and Growth Pact. In its 2015 Convergence Programme, the Government plans that the headline deficit gradually improves to 1.4% of GDP in 2015 and reaches balance in 2018, and that the medium-term objective - a structural deficit of 1% of GDP – continues to be met throughout the programme period. The government debt-to-GDP ratio is expected to peak in 2015 at 44.2 % and to gradually decline to 40.0% in 2018. The macroeconomic scenario underpinning these budgetary projections is plausible. However, measures to support the planned deficit targets from 2016 onwards will need to be specified. Based on the Commission’s 2015 spring forecast, the structural balance is forecast to be at the medium-term objective of -1% in 2015 and improve to -0.9% of GDP in 2016. Based on its assessment of the Convergence Programme and taking to account the Commission’s 2015 spring forecast, the Council is of the opinion that Sweden is expected to comply with the provisions of the Stability and Growth Pact.

(9) Unlike in many other Member States, house prices in Sweden have not suffered any major correction and have been growing strongly again since mid-2013. The in-depth review conducted by the Commission suggest that Swedish house prices appear to be

[5] COM(2014) 902.
[6] COM(2014)904.
[7] SWD(2015) 46 final.

above their fundamental values. This is partly due to favourable fundamentals such as higher disposable income, low interest rates and strong demographics. However, the country report has identified both demand-side and supply-side drivers of house prices. On the demand side, credit incentives have been particularly favourable. In addition, Sweden's taxation system, which provides one of the strongest tax incentives for home ownership in the Union, tends to push up house prices. In turn, this has also fuelled the rise in household debt in Sweden, which is high and growing faster than in the rest of the EU. Even if households' total assets are high and disposable incomes have grown over recent years, the household sector is more vulnerable than before and the high level of household indebtedness constitutes a risk for macroeconomic stability. The effects of the debt bias in personal income taxation should be tackled by gradually limiting the tax deductibility of interest payments on mortgages or by increasing recurrent property taxes. In addition, efforts are needed to increase the low pace of amortisation of mortgages with a view to reducing the growth in household indebtedness.

(10) On the supply side, structural inefficiencies are leading to a housing shortage and contributing to house price growth. These constraints are limiting labour mobility and creating social challenges for vulnerable groups. Supply is being held back by ineffective use of the existing housing stock as well as by structural under-investment in new construction. In particular, the incentives for municipalities to actively promote investment in construction and address the housing needs of vulnerable groups should be strengthened. Competition in the construction sector needs to be encouraged and for this fully transparent public procurement procedures should be ensured. Planning and appeals processes are lengthy and complex and should be streamlined. Rigidities in the rental market, which does not seem to fulfil its role in alleviating house price pressure or to support mobility needs, are blamed mainly on the high level of rent control. They should be tackled through a gradual reform of the rent-setting system. This should allow wider divergence in rent levels — which could lead to more effective use of the existing housing stock — and greater freedom in contracts between individual tenants and landlords.

(11) The Government is taking steps to improve school outcomes, after a marked deterioration in the last decade which contributes to relatively high youth unemployment. The Government is also taking measures to facilitate the transition from education to the labour market and to improve the labour market integration of low-educated young people and people with a migrant background. Progress in this area will need to be monitored.

(12) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Sweden's economic policy and published it in the 2015 country report. It has also assessed the Convergence Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Sweden in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Sweden but also their compliance with EU rules and guidance, given the need to strengthen the overall economic governance of the European Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendation 1 below.

(13) In the light of this assessment, the Council has examined Sweden's Convergence Programme, and is of the opinion[8] that Sweden complies with the Stability and Growth Pact.

(14) 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 recommendation 1 below.

RECOMMENDS that Sweden take action in 2015 and 2016 to:

1. Address the rise in household debt by adjusting fiscal incentives, in particular by gradually limiting the tax deductibility of mortgage interest payments or by increasing recurrent property taxes, and by increasing the pace of mortgage amortisation. To alleviate the structural under-supply of housing, foster competition in the construction sector, streamline the planning and appeals procedures for construction and revise the rent-setting system to allow more market-oriented rent levels.

Done at Brussels,

For the Council
The President

[8] Under Article 5(2) of Council Regulation (EC) No 1466/97.