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Assessment of the 2011 national reform programme and convergence programme for SWEDEN

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

on the National Reform Programme 2011 of Sweden and delivering a Council Opinion on the updated convergence programme of Sweden, 2011-2014

{SEC(2011) 826 final}

1. INTRODUCTION

Sweden has weathered the global recession well and is enjoying a strong and broad-based recovery with rapid employment growth. This good performance reflects the ambitious fiscal consolidation and structural reform agenda Sweden has followed since the mid-1990s. Nevertheless, the crisis of 2008-2009 also revealed remaining structural weaknesses. In order to tackle these challenges and to ensure long-term prosperity, the Government adjusted its fiscal and structural reform agenda for the coming years. The continued reform determination and fiscal prudence of the Government is confirmed in the National Reform Programme (NRP) and the Convergence Programme (CP) submitted to the Commission on 29 April 2011.

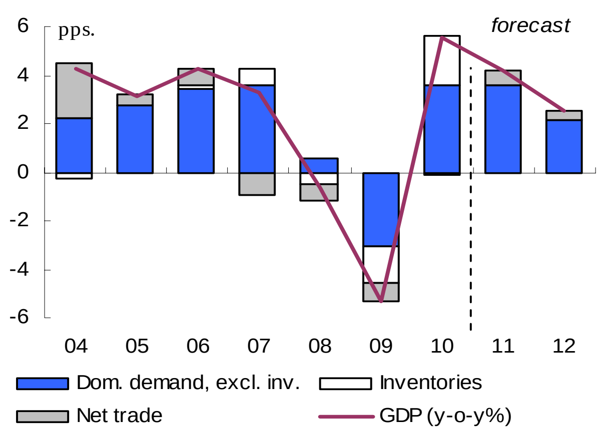
2. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1. RECENT ECONOMIC DEVELOPMENTS

Before the economic crisis of 2008-2009, the Swedish economy had enjoyed more than a decade of strong growth driven by both domestic demand and net exports. As a small, export-oriented economy with a sizeable financial sector, the impact of the slump in external demand and turbulence in financial markets in 2008 was strong. From peak to trough, GDP contracted by a cumulative 6.6% (5.1% on an annual basis in 2009) and the unemployment rate increased from about 6 to above 9%.

The recession was deep but rather short-lived, followed by a very strong and broad-based recovery in 2010. Growing optimism among households and businesses, fostered by expansionary monetary and fiscal policy, strong public finances and rising asset prices, led to a sharp pick-up in consumption and investment. Exports rebounded vigorously amidst a revival in world trade, although the pick-up in imports was even more pronounced. As business sentiment improved, both temporary and permanent employment growth resumed and the unemployment rate fell to below 8% by March 2011. Overall, real GDP grew by 5.5% in 2010 and had almost returned to its pre-crisis level at end-2010.

Chart 1: GDP growth and contributions



The main factor behind the remarkably quick recovery of the Swedish economy was the sound starting position without the need for large adjustments in the household, banking and public sectors. Households entered the crisis with a high savings ratio and a comfortable net asset position, with assets of more than three times the size of debts. The non-financial corporate sector also recorded strong balance sheets prior to the crisis, with financial assets more than twice the size of liabilities, and the financial sector was relatively well capitalised. Strong public finances, with a budget surplus of 3.6% of GDP and public debt at 40% of GDP in 2007, allowed fiscal policy to play an active role during the downturn without imposing a burden on growth in the medium term. Given the sound economic fundamentals, the economic crisis hit Sweden primarily via an exogenous, temporary trade shock. The fall in output was mainly concentrated in the export-oriented manufacturing sector, whereas contagion to public and household consumption was limited.

The policy response also contributed to a quick normalisation of economic activity. The government's reaction to the financial market turbulence helped to restore confidence in the banking sector, despite considerable credit losses incurred by Swedish banks in the Baltic and Nordic regions. The central bank contributed to the stabilisation of financial markets by extensive liquidity-support measures and by cutting policy rates by 4.5 percentage points to 0.25% in less than a year. A sharp depreciation of the krona, by almost 20% in nominal effective terms between autumn 2008 and spring 2009, also contributed to looser monetary conditions. On the fiscal side, several discretionary packages of approximately 1.75% GDP were adopted by the government aiming to maintain households' purchasing power (income tax cuts, reduced tax for pensioners, higher social benefits for certain groups) and to prevent permanent employment losses (increased transfers to local governments, employment schemes). Due to the economic recession and discretionary measures, the fiscal balance decreased from a surplus of 3.7% of GDP in 2007 to a deficit of 0.9% of GDP in 2009.

2.2. OUTLOOK

The outlook for 2011 and 2012 indicates continued broad-based expansion, with investment picking up and household consumption and exports continuing to grow rapidly. The Commission services' 2011 spring forecast foresees annual real GDP growth of 4.2% and 2.5% in 2011 and 2012, respectively. Household optimism, driven by continued improvement in the labour market and remaining wealth effects from previous property and financial asset price appreciation, suggests that private consumption is likely to remain strong in the short term. As unused resources are absorbed and capacity utilisation normalises, the need of companies to invest in fixed capital will increase. Housing investment is also likely to remain strong in 2011 as a result of still favourable financing terms and strong housing demand. Swedish exports, largely specialising in investment goods and intermediate inputs, will benefit from the current rebound in global demand for these goods. The positive effect on competitiveness stemming from subdued unit labour costs is expected to continue in 2011. As a result of strong growth, the output gap is expected to close by the end of 2012.

While the overall outlook is benign for the current year and next year, the economy faces a number of headwinds. On the one hand, underlying inflation is likely to pick up along with increasing demand, fading effects of the earlier currency appreciation and higher wage pressures, which may result from the next wage bargaining round to be concluded in 2012 in a tightening labour market. On the other hand, the announced normalisation of the policy rate by the central bank is likely to weigh on household consumption as debt servicing becomes increasingly burdensome with higher interest rates. Moreover, any possible correction of house prices would further limit consumption due to wealth effects. High oil and food prices will reduce disposable income and have a dampening effect on economic activity. On the fiscal side, the gradual winding-up of the crisis-related fiscal stimulus is also likely to have a limiting effect on consumption, although to a lesser extent than in many other countries.

3. MONITORING, PROCEDURAL ISSUES AND GOVERNANCE

Sweden has ensured close coherence between its National Reform Programme and its Convergence Programme. The two documents outline in an integrated manner the fiscal consolidation efforts on the one hand and key structural reforms and reforms underpinning macro-economic stabilisation on the other. In the National Reform Programme, Sweden has outlined its national targets in the field of employment, R&D, education, energy and climate change and poverty reduction. These targets set out a more long-term development trajectory for the Swedish economy up to 2020.

Table 1: Swedish Europe 2020 targets

EU 2020 targets	**Current situation in Sweden**[1]	**Swedish Europe 2020 target in the NRP**
R&D investment in % of GDP	3.8% (2010)	4%
Employment rate (in %)	78.7 (2010)	Well over 80%
Early school leaving (in %)	11%	Less than 10%
Tertiary education attainment (in %)	44%	40-45%
Reduction of people in or at risk of poverty or exclusion	1.4 million people at risk of poverty or exclusion The number of people in the age group 20–64 who do not work and for various reasons do not look for work, are long-term unemployed or are on long-term sick leave is estimated at about 760,000 or about 14% of the population age group	Reducing the % of women and men who are not in the labour force (except full-time students), long-term unemployed or those on long-term sick leave to well under 14% by 2020.
Energy efficiency – reduction of energy consumption in MToe [2]		Reduction in primary energy consumption: 12.8 Million tons of oil
Reduction in greenhouse gas emission reduction targets (compared to 2005 levels)	-4%[3]	-17%[4]
Renewable energy (% of total energy use)	44% (2008)	49%

The Swedish Government has held consultations with social partners on Europe 2020 matters. In spring 2011, two consultations were held to discuss the Europe 2020 targets and their implementation in Sweden. In order to bring the dialogue with the social partners more in line with the European semester's annual cycle and the national decision-making process, the Swedish Government intends to establish a reference group with representatives from the relevant ministries and the social partners, including the association of local authorities and regions. While this is welcome, a closer involvement of all relevant stakeholders would help ensure a well-coordinated implementation of the Swedish NRP.

4. POLICY CHALLENGES AND ASSESSMENT OF POLICY AGENDA

[1] Eurostat figures 2009 unless stated.
[2] Estimated by the European Commission. Mtoe = Million tonnes of ol equivalent
[3] This quantity corresponds to the 2005-2008 trend in the emissions not covered by the EU Emissions Trading System. As the scope of the Emissions Trading System evolved between 2005 and 2008, these emissions are estimated on the basis of the main relevant UNFCCC source categories (as opposed to the difference between total emissions and EU ETS verified emissions).
[4] The national emissions limitation target defined in Decision 2009/406/EC (or "Effort Sharing Decision") concerns the emissions not covered by the EU Emissions Trading System. It is expressed as the minimum relative decrease (if negative) or the maximum relative increase (if positive) compared to 2005 levels.

4.1. CHALLENGES

Despite the absence of major imbalances and the overall positive short-term outlook, Sweden faces a set of inter-linked policy challenges to sustainable macroeconomic development, namely:

- Housing market and household debt: After a short-lived and mild correction at the height of the financial crisis, house prices in Sweden resumed the strong upward trend observed since the second half of the 1990s and are now at a record high. The strong performance of house prices has gone hand in hand with rising household indebtedness, which had grown to around 170% of disposable income by mid-2010. As a large share of household mortgage debt has been taken at variable rates with little amortisation, Swedish households are particularly vulnerable to higher interest rates or set-backs in the employment outlook. A marked correction in the housing market could have negative repercussions for macroeconomic and financial stability by making households rein in consumption and through higher financing costs for banks due to confidence effects.

- The financial sector: The Swedish banking sector is relatively vulnerable to adverse international financial market developments, because of its very high international exposure in terms of both lending operations and funding, which is largely short-term and foreign currency-denominated. The high level of household indebtedness is another source of potential instability. Therefore, it is important to improve the ability of the financial sector to deal with possible adverse developments in the international financial market and risks stemming from a high and rising level of household sector debt.

- Labour market integration: Despite a very high employment rate, some segments of the labour market lag behind. The youth unemployment rate in Sweden is above the EU average and the employment rate of non-EU nationals is far below the EU average. In particular, foreign-born women have a very weak foothold on the labour market and their employment rate continues to decrease despite a general rebound in employment and numerous measures taken by the government. Further improvement of the position of these groups in the labour market is essential in order to raise the overall employment rate and to improve the labour supply in the long term to meet the demographic challenge of an ageing population. Early school leaving plays an important role in labour market exclusion, which further translates into social exclusion. Therefore, addressing early school-leaving would contribute to raising the participation rate and to combating social exclusion and poverty.

- Labour market bottlenecks: There is some evidence that certain distortions in the functioning of the labour market contribute to relatively high structural unemployment in Sweden. Possible reasons include labour mismatches, relatively high wage levels at the lower end of the wage scale, the high level of employment protection and differences in job protection between regular and temporary workers.

- Research, development and innovation (RDI): While R&D expenditure as a share of GDP is among the highest in the EU, the outcome in terms of growth-enhancing productive innovations is proportionally smaller (e.g. the number of patent applications). Hence, there seems to be scope to improve the commercialisation of research results.

- Business environment: The overall birth rate of new firms in Sweden is low compared to other European countries and relatively few companies grow from small to large. At the same time, there are shortcomings in the level of competition in some areas, such as markets where private and public companies compete with each other, and in public procurement. For Swedish SMEs, the extent of the administrative burden remains problematic, forcing enterprises to set aside substantial resources to comply with reporting obligations and other requirements, and distracting them from their core activities. The effect of the administrative burden is also noticeable within the field of public procurement, where big lots and complex administrative procedures make it difficult for SMEs to participate in that market.

4.2. ASSESSMENT OF THE POLICY AGENDA

4.2.1. Macroeconomic policies

4.2.1.1. Public finances

The updated Convergence Programme of Sweden (hereafter referred to as "the programme") contains one main macroeconomic scenario (hereafter referred to as the "reference scenario"), which is also the main scenario of the National Reform Programme[5]. It foresees that real GDP growth will gradually decelerate from 4.6% in 2011 to 2.8% in 2014. The macroeconomic scenario underpinning the budgetary projections is broadly plausible, except for 2012 which is favourable. For both 2011 and 2012, the programme foresees more rapid growth in household consumption and, for 2012, also in investment. Whereas the spring forecast is based on household consumption gradually softening as monetary policy tightens, the programme foresees consumption growth continuing to accelerate in 2011 and 2012 before slowing down in the outer years of the programme period. While nominal wages are assumed to grow at a similar pace, HICP inflation is higher in the Commission services' forecast and real wage growth is therefore lower. The programme also foresees employment growth to be somewhat higher in 2011-12. For the outer years, the programme foresees above-potential real GDP growth, albeit at a declining pace.

The implied cyclical conditions, as measured by the output gap in the programme (as recalculated by Commission services based on the information in the programme, following the commonly-agreed methodology) points to some remaining slack in the Swedish economy. However, the output gap is almost closed by 2012 and turns positive thereafter, indicating that the economy may be operating above its potential in those years.[6]

The budgetary outcome in 2010 was much better than targeted in the previous Convergence Programme of 2009, with the general government budget returning to balance, compared with an initial target of -3.4% of GDP. About half of the difference was due to a different starting position at the end of 2009, with lower initial expenditure levels more than compensating for somewhat lower revenue levels. The other half was mainly due to revenue growth surprising on the upside in 2010, which could be explained by economic growth being more tax-revenue-rich than anticipated.

[5] The updated Convergence programme also contains two so-called "alternative scenarios". Neither scenario is, however, sufficiently developed to be considered "a reference scenario".

[6] The output gap in the updated programme, taken at face value, is -1.9%, -0.7%, -0.1% and 0.1% of potential GDP in the respective years of the programme period, i.e. 0.8, 0.6, 0.9 and 0.8 percentage points below the recalculated output gap.

The Commission services' spring forecast for 2011 also projects that the general government balance would be around 3% of GDP better than targeted in the previous programme. This is entirely due to a better starting position at the end of 2010, whereas stronger expected revenue and expenditure growth in 2011 are expected to almost offset each other.

The programme's medium-term budgetary strategy aims at achieving the Medium-Term Objective (MTO) of a general government surplus of 1% of GDP over the cycle. The authorities rely on a number of indicators to measure target fulfilment. Measured by the recalculated general government structural balance, the target has already been fulfilled and is expected to continue to be achieved over the programme period with a recalculated structural balance of 1.2% and 2.0% of GDP in 2011 and 2012, respectively.

According to the programme, which is based on a no-policy-change assumption, the headline general government balance is expected to improve over the programme period, increasing from a zero balance in 2010 to a surplus of 3.7% of GDP in 2014. This differs significantly compared to the previous programme, which was based on a less benign macroeconomic scenario. The pace of improvement is stronger in the early years of the programme period in line with gradually moderating GDP growth. The primary balance follows a similar profile, as interest expenditure is expected to rise only marginally over the programme period, with higher interest rates being more or less matched by declining debt. The structural balance is also expected to improve, with the largest increase expected in 2012, reflecting the continued phasing-out of temporary stimulus measures and the built-in trend – under a no-policy change assumption – of an improving balance as a result of some expenditure items not being fully indexed to inflation or income growth. Previous reforms of the sickness insurance system might also continue to rein in expenditure. Overall, this means that the improvement in the general government balance is mainly due to expenditure declining from 51.3% of GDP in 2011 to 48.2% of GDP in 2014, whereas the level of revenue should more or less follow income developments with the revenue to GDP ratio remaining broadly stable. Virtually all the improvement in the overall balance stems from an improvement in the central government balance, whereas the balance of the other government sub-sectors shows little change. At local level, an improving tax base is more or less matched by a decrease in state transfers to local governments.

The updated programme does not contain any firm plans for discretionary measures over the programme period. It only states that, provided the economic situation allows it and important reforms in the welfare and education fields can be made, the government intends to implement large parts of the tax cuts presented as reform ambitions in the 2011 Budget Bill. These include a fifth step in the so-called in-work tax credit, a further increase in the threshold for paying state tax, tax cuts for people older than 65 and a possible halving of VAT on restaurant and catering services. In the 2011 Budget Bill, a preliminary fiscal space of about 1.5% of GDP was estimated for the period 2012-14, of which around one third would already be available in 2012. In the Spring Bill from April 2011, the fiscal space for 2012 is estimated to have increased. However, given the uncertainties in the calculation of the structural balance and the macroeconomic outlook, the government stated in both the 2011 Budget Bill and the 2011 Spring Bill that it wishes to achieve a sufficient margin to the structural surplus target before committing itself firmly to any further expansionary measures. Given that the output gap is expected to be more or less closed by 2012, introducing further stimulus at this stage could be pro-cyclical. Unless the immediate supply-side effects of the measures are significant, a stimulus could add to inflationary pressures and lead to overheating. This could be even more of an issue in 2013 and 2014, when the economy is deemed to operate above capacity according to the recalculated output gap.

The main risk to the budgetary targets stems from the macroeconomic outlook, which at least from 2012 looks somewhat optimistic. The outlook is based on the government's assessment that implemented reforms will increase employment by about 5% in the long run. These estimates are subject to uncertainty, so expected gains may not fully materialise. Slower GDP growth would adversely affect the fiscal balance. However, despite the relatively favourable macroeconomic assumptions, the budgetary forecast is plausible, in particular in the short term. This seems to be due to a rather cautious revenue forecast, in particular in 2011 and 2012.

The recession only temporarily halted the reduction of the debt-to-GDP ratio, which rose from around 38% of GDP in 2008 to around 42% in 2009. This was due to the combined effect of a negative public sector balance and negative nominal GDP growth. With the economic recovery and the improvement in the budgetary balance, the debt ratio fell back to slightly below 40% of GDP in 2010 and is expected to continue its downward path over the programme period. While the considerable debt reduction in the years prior to the recession was mainly driven by a strong fiscal balance and rapid nominal GDP growth, substantial stock-flow adjustments in the form of privatisation proceeds also played a role. The updated programme assumes privatisation proceeds, some of which have already materialised, to reach SEK 100 Billion (slightly above 3% of GDP) over the programme period. Actual privatisation revenue may be lower, as it is not clear whether there will be a parliamentary majority for further privatisations. Thanks to the financial assets of the public pension funds, general government net assets amounted to 21.6% of GDP at the end of 2010.

Sweden is at low risk with regard to the long-term sustainability of public finances. The long-term cost of ageing is below the EU average. The current budgetary position offsets the cost of ageing. Based on the current fiscal position, debt should fall to 3% of GDP by 2020. The full implementation of the programme would reduce debt further. The large assets accumulated by the public pension schemes will help finance part of the future increase in pension expenditure and reduce sustainability risks. Ensuring primary surpluses over the medium term would contribute to limiting the low risks to the sustainability of public finances.

The fiscal framework has been reinforced by the adoption in 2010 of a law requiring a general government balance target to be defined and requiring the government to specify an expenditure ceiling for the coming three years.

4.2.1.2. Financial sector

Although the Swedish financial sector appears to be in a good shape, some characteristics of the banking sector point to a need for continued vigilance. First, the Swedish banking sector has a very high international exposure: banks' assets abroad account for half of total assets, which is the highest share in the EU. At the same time, about half of the market funding (or one third of total funding) takes place in foreign currencies and is largely short-term. This makes Swedish banks substantially exposed to developments in international financial markets. While the national stress tests indicate that regulatory capital requirements continue to be comfortably met by all major Swedish banks, they also reveal higher liquidity risks due to large proportions of short-tem funding and illiquid assets (mortgages).

Against this background, another source of concern is the currently high and increasing level of household indebtedness (above 170% of disposable income in mid-2010). While the risk of defaults on mortgages seems to be limited given large and diversified household asset holdings (about 500% of disposable income), a strong social security system and a large share of double-income households, a marked correction in the housing market could deteriorate access to funding for Swedish banks as weaker foreign investor confidence could make mortgage refinancing more difficult and more expensive. The fact that Sweden has one of the largest banking sectors in Europe relative to GDP (with assets exceeding 400% of GDP) amplifies the potential consequences for the real economy should the above risks materialise.

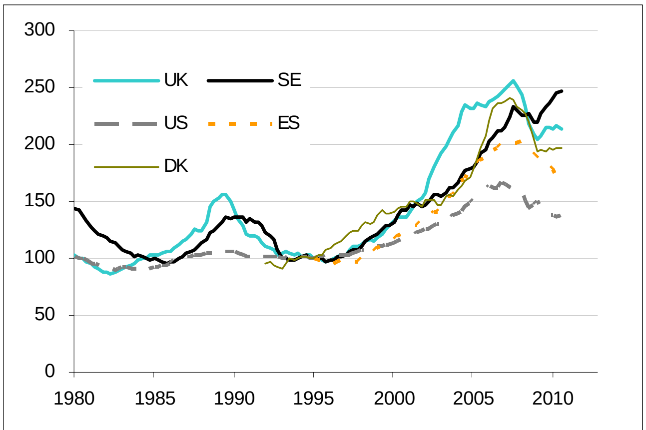
Swedish authorities have taken a number of measures in the last few years to tackle the challenges in the financial sector. In order to limit the vulnerabilities stemming from the large international exposure of Swedish banks, Sweden together with the other Nordic and Baltic countries signed a cooperation agreement on cross-boarder financial stability in 2010 in order to be able to better respond to any possible crisis of one of the banking groups operating in the region. In order to mitigate the effects of future financial disruptions, a stabilisation fund was established in 2009 to finance any possible government intervention in the financial system. The fund is financed by a special annual fee for all credit institutions and should over the next 15 years bring together a buffer amounting to about 2.5% of GDP. The bank resolution law of 2008 provides a framework for crisis management via nationalisation.

While recognising the importance of financial stability for the well-functioning of the economy, the National Reform Programme does not address financial stability explicitly as a challenge and remains vague as to possible measures to further strengthen the resilience of the financial sector. It states that measures to foster the stability of the financial sector will be considered to counter risks associated with household debt and foreign exposure. However, apart from the possibility of increasing banks' capital requirements, the Programme does not specify what the measures could be. Although risks to financial stability do not seem to be immediate, identification of the type and possible timing of the measures, as well as a clear delineation of responsibilities of the relevant institutions, would be appropriate to improve the ability of the Swedish financial sector to face any possible financial stress in the future.

4.2.1.3. Other macro-economic issues

In the context of macroeconomic stability, the current situation in the housing and mortgage markets is a source of potential instability. After a short-lived and mild correction at the height of the financial crisis, house prices in Sweden – in contrast to other countries - resumed the strong upward trend observed since the second half of the 1990s and are now at a record high (see the adjacent chart). Possible reasons behind this persistent real estate appreciation include a decline in mortgage rates, rising disposable income, lower property taxes and generous tax deductions for interest payments, but also supply-side factors such as constraints on residential construction and regulation of the rental market. The strong increase in house prices has gone hand in hand with ever rising household indebtedness (see 4.2.1.2). Moreover, a large share of mortgage

Chart 2: House prices (1995 = 100)



Source: Ecowin

debt has been assumed at variable rates with little amortisation. This makes Swedish households particularly vulnerable to interest rate hikes or set-backs in the employment outlook.

While house price inflation and mortgage lending to households have slowed down in recent months, they still constitute a possible risk for sustainable growth. To the extent that the previous house price boom resulted in overvaluation (see Box 1), there would be a clear risk of a house price correction, which in turn could trigger a consumer-led slowdown, as households would have to rebuild their balance sheets.

Box 1. Are Swedish houses overvalued?

Calculations of the real value of houses in Sweden yield very different results depending on the assumptions made, most notably about the level of long-term interest rates. Using an unadjusted price-to-rent ratio, Swedish house prices were grossly over-valued at end-2010 (more than 40%). Looking at various measures of affordability, such as house prices in relation to disposable income, GDP/capita or earnings, a fairly high degree of over-valuation (around 30%) is also indicated. However, these valuations are based on historical average values. If one assumes that the fall in long-term interest rates over the last 20 years is structural, these measures would tend to overstate the degree of over-valuation. In this sense, an adjusted price-to-rent ratio taking into account the evolution of the user cost of home ownership[7], would reduce the estimated over-valuation to around 10-20%. One recent study[8] found no evidence of over-valuation, citing strong income growth, a structural decline in real interest rates on mortgages, easier access to mortgage finance due to lower down payment requirements, lower property taxation and subdued construction of new houses over the last decade as the main explanatory factors. Other available literature on the topic suggests overvaluation ranging from zero to more than 40%.

The authorities do not consider the risk of a housing market correction with its negative implications for consumption and growth as imminent. They foresee house price inflation and household debt accumulation slowing down as monetary policy rates increase. They also see a low risk of households losing their debt-servicing capacity given a long-term decline in the ratio of interest expenses to disposable income ratio. With a view to slowing down mortgage lending, a cap of 85% on the loan-to-value ratio was introduced in the autumn of 2010. The Swedish Bankers' Association issued recommendations on amortisation requirements for new mortgages.

The National Reform Programme and the Convergence Programme do not foresee any additional measures to curb mortgage lending or house price growth. Supply-side factors such as rent regulation or limited residential construction are not addressed as possible underlying reasons for previous house price increases. In order to better assess the risks stemming from the large mortgage burden, a more in-depth review of the mortgage market, including an analysis of the distribution of debt across households and on the extent of amortisation would be important.

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[7] The user cost of home ownership reflects the after-tax mortgage rate, the property tax, depreciation and expected capital gains/losses. If the user cost declines over time, as was the case in most countries due to a structural decrease in mortgage rates, this may imply a higher fundamental price-to-rent ratio. For further details on the approach see *"Recent house price developments: the role of fundamentals"*, N. Girouard, M. Kennedy, P. van den Noord and Ch. André, OECD, Economic Department Working Papers No.475, 2006.

[8] "*The price development in the Swedish housing market – a fundamental analysis*", L. Frisell and M. Yazdi,, Riksbank Economic Review, 3/2010.

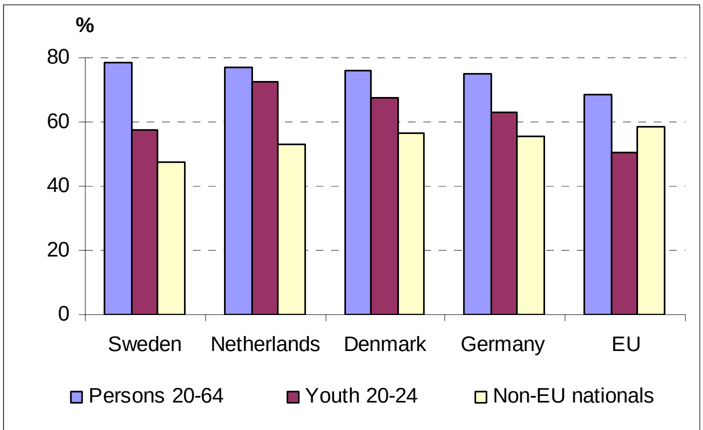
4.2.2. Labour market policies

Labour supply

In the case of Sweden, ensuring a high employment rate is particularly important to secure prosperity and the financing of a relatively generous welfare state as well as to face the challenge of population ageing. Having one of the highest employment rates in the EU (78.7%, 2010), Sweden has set itself the target of achieving a rate of more than 80% by 2020. Given the employment outlook, this seems feasible overall.

However, some segments of the labour market lag behind. The youth employment rate (57.3% in 2010 for persons between 20 and 24 years) is substantially below that of countries with similar overall employment rates (see Chart 3).[9] The youth unemployment rate in Sweden (25.2% in 2010 for persons under 25) is above the EU average (20.6%).[10] The employment rate for non-EU nationals (49.9% in 2009) is also below the EU-average (59.1%). Since non-EU nationals have become a substantial part of the Swedish labour market over the last years, their integration in the labour market is vital for improving the general employment rate. Among this group, women have the weakest foothold on the labour market, with a relatively low employment rate (37.4% in 2010) and a relatively high unemployment rate (30.8% in 2010). Both indicators continue to deteriorate despite a rebound in employment and numerous measures taken by the government.[11] Other segments of particular concern include the long-term unemployed, people returning from sickness leave and the relatively late entry into the labour market of people coming out of tertiary education.

Chart 3: Employment rates (2010)



Source: Eurostat

There is also a potential for increasing the overall employment rate by facilitating full-time labour force participation of women. The remaining gender employment gap (men 81.7%, women 75.7% in 2010) and the fact that women are more often engaged in part-time work

[9] The low employment rate for youth could by itself be due to the fact that a large proportion of young people are involved in tertiary education. Nevertheless, given the fact that the unemployment rate is relatively high, and the activity rate for this age group lags behind, there seem to be a significant group of young people who are neither in education nor in employment.

[10] It is to be noted, however, that according to national Swedish statistics approximately one third of the unemployed youth, as measured by the Labour Force Surveys, include full time students who are mostly looking for limited employment alongside their studies.

[11] According to data from Eurostat , the upward trend in unemployment for foreign-born women has been clearly higher than the trend in unemployment for women in general between 2008 Q2 and 2010 Q4. .

(women 41.2%, men 14.2%, 2009) may be partly explained by time restrictions in the availability of childcare facilities.

The government strives to further increase the employment rate by following two parallel tracks. One set of measures includes programmes for training, coaching and work placement schemes, which were reinforced considerably during the crisis in order to prevent unemployment from becoming persistent and to promote rapid absorption of the unemployed after the recession. The second channel includes longer-term reforms aimed at making work more attractive by lowering the tax wedge on labour, as well as by reforming the sickness and unemployment benefits. Since 2006, average and marginal taxes on earned income have been reduced in several steps by expanding the so-called in-work tax credit, raising the threshold for paying state income tax and by reducing social contributions. Within the sickness and disability benefit schemes, eligibility criteria have been tightened by regular reassessments of ability to work under stricter implementation rules and a more active rehabilitation process.

Bringing more people into employment is recognized as one of the main priorities in the National Reform Programme. It foresees continued or increased funding of measures already implemented, although the orientation of these measures will change. While in the acute phase of the crisis, the measures focused on preventing a general fall in employment, it is foreseen that the programmes from now on will gradually refocus towards specific groups with difficulties in integrating into the labour market. In 2011, this concerns measures focusing on young low-qualified people (increased funds for coaching, work-experience positions, vocational adult education, apprenticeship training, targeted wage subsidies) and non-EU nationals (state benefit for employed, more funds for step-in jobs). For the period 2012-2014, the NRP outlines a number of additional "reform ambitions", which will be implemented only if there is sufficient fiscal space. These conditional plans focus mainly on increasing labour supply and include a fifth step in the "in-work" tax credit, further raising the lower threshold for the state income tax, and a reduction in VAT for restaurants and catering services.

The proposed measures are extensive and mostly go in the right direction, although it remains to be seen whether they will be sufficient to tackle the challenges. This applies mainly to measures targeted at youth and non-EU nationals. With regard to non-EU nationals, stronger support measures for women would be warranted to stop the deterioration in both the employment and unemployment rate of this group over the last years.

On the other hand, the reforms aimed at increasing the overall labour supply already seem to be bearing some fruit. After a temporary stagnation in the wake of the crisis, the labour force resumed its pre-crisis pace of growth in 2010 of more than 1% in annual terms.[12] The sickness insurance reform has clearly resulted in a lower number of people on long-term sick leave and disability schemes (by 15-20% since 2006) and shorter periods of illness. Positive employment effects of the cut in VAT on restaurant and catering services are more contested.[13]

[12] Apart from past labour market reforms, this may also be due to a typical post-crisis rebound in labour supply (which benefits mainly young generations) and demographic factors, with a relatively large cohort of young people reaching working age.

[13] The government has cut its initial estimate of the possible employment gains from this measure to 3 500 full-time equivalents. The National Institute of Economic Research considers the 3500 estimate on the high side, as it both assumes full pass-through to prices in the long run and does not fully incorporate likely crowding-out effects. A lower effect would make the fiscal cost per job created correspondingly higher.

Education

Early school-leaving plays an important role in labour market exclusion, as both youth and adult unemployment rates are more than twice as high for persons without upper secondary education[14]. Reducing early school leaving is an obvious way to decrease unemployment and make the labour force more productive. The incidence of early school leaving has, however, not diminished during the last decade (2000: 7.3%, 2009: 10.7%), but the trend is more positive since 2006.[15] According to the national target, the percentage of 18-24-years-olds who have not completed upper-secondary school and who are not studying is to be less than 10% by 2020. Combined with a decline in educational quality, as revealed by the PISA tests, and the low attractiveness of the teaching profession, early school leaving can lead in the long run to skills shortages and become a bottleneck for growth in a highly open and export-oriented economy. The National Reform Programme includes ongoing reforms which can have an impact on early school leaving, notably the reform of upper secondary education, by stronger differentiation of the vocational and academic tracks, the introduction of an apprenticeship scheme, and strengthening support at the transition between lower and upper secondary education. However, the ongoing reforms would benefit from a more coherent strategy to reduce early school-leaving, monitoring and evaluating the impact of measures taken, and a stronger focus on groups at risk, such as migrant youth or boys.

With regard to tertiary education, Sweden has a tertiary attainment (43.9%, 2009) well above the EU 2020 headline target. However, drop-out rates from higher education are rather high and the throughput of university students is slow, showing that there is scope for increasing efficiency in higher education.

Labour market bottlenecks

There is some evidence that certain distortions to the functioning of the labour market contribute to relatively high structural unemployment in Sweden.[16] The fact that there are signs of labour shortages in certain sectors in Sweden (e.g. construction industry or services) at the same time as unemployment is still relatively high (7.7% in March 2011) suggests that labour mismatches are once again becoming more noticeable in the Swedish labour market. Apart from mismatches, other possible reasons for persistent structural unemployment include relatively high wage levels at the lower end of the wage scale, the high level of employment protection and the differences in protection between regular and temporary workers. The National Reform Programme does not include any analysis of these structural issues, but includes measures to diminish skill mismatches.[17]

Poverty and social inclusion

In 2009, 15.9% of the population was at risk of poverty or exclusion in Sweden (against 23.1% in the EU), but this percentage has been slightly increasing since the mid-2000s. The main policy of the Swedish Government, as reflected in the National Reform Programme, is

[14] Unemployment rates among persons with less than upper secondary education are more than double the corresponding rate for those who complete upper secondary education in both the youth segment (33.4% vs 15.4% in Q4 2010) and among adults (11.3% vs. 5.6%).
[15] However, the statistics has to be taken with caution due to breaks in the series for this indicator.
[16] Even at the peak of the cycle in 2007-2008, unemployment did not fall far below 6% of the labour force.
[17] A government agency was mandated in 2009 to ensure that training programmes at vocational colleges would meet the need for skilled labour and to develop a pool of qualified professionals in certain narrow occupational areas.

to reduce social exclusion through stronger integration into the labour market. The NRP qualifies the national target in this field as promoting social inclusion by reducing the percentage of women and men aged 20-64 who are not in the labour force (except full-time students), long-term un-employed or on long-term sick leave to well under 14 %[18] by 2020. According to the NRP, the measures proposed – which are mostly employment measures – should be sufficient to meet the target within the Programme period. However, for some groups (elderly women with low pension levels, single parents with children) strengthened labour market inclusion is not always a realistic or effective method of reducing the risk of poverty. Moreover, the definition of the target – and thereby the policy focus – excludes the growing group of people older than 64 years.

Pension system

Sweden reformed its pension system in 1999 and the latest EPC-SPC report on pensions shows that the Swedish pension system is one of the most financially sustainable in the EU. In the longer term, there could be an increasing adequacy challenge as theoretical replacement rates would, according to the report, drop from 65% in 2008 to 48.2 % in 2048 for a person working up to the age of 65. However, as the pension system provides strong incentives for people to work longer and there is a compulsory premium pension scheme with personal accounts in funds to top up the pension from the public sector, this challenge should be manageable. If it turns out that more groups end up with the guarantee pension, action would be needed to reduce the risk of poverty for these groups of retirees without, however, blunting the incentives of the pension system to postpone the retirement age.

4.2.3. Growth-enhancing structural measures

Sweden ranks among the most competitive economies in the world, taking into account factors such as labour productivity, knowledge and skills levels, eco-efficiency, innovation capacity and the business environment. In all these areas, Sweden is above the EU average. While there are no notable major challenges, there are still areas where further action could be taken to further improve the business climate. In particular, these relate to the further promotion of competition, the reduction of administrative burden to reach the national target, and the establishment of a more coherent national framework for research and innovation funding.

Competition

Several shortcomings remain in the competition field. In 2008, the government instructed the Swedish Competition Authority to undertake a broad review of the competitive situation and propose how to improve the existing situation. In 2009, the Competition Authority delivered its report, including an assessment of the state of play and 59 proposals for the government to consider. The government and the parliament have since acted on a number of proposals, notably to phase out the exclusive rights of SJ AB to operate profitable passenger train services; liberalise the sale of non-prescription drugs; the free right of establishment in home care for the elderly; and giving the Competition Authority the right to take legal action. Most of the 59 proposals have, however, not yet resulted in concrete action.

In Sweden, there is a number of areas where commercial activities are run by the municipalities. Publicly-owned companies may enter into unfair competition with private

[18] 14 % is the actual level of the indicator in 2010. See NRP page 30.

actors, including in public procurement. Rules to limit public authorities' commercial activities in the market were introduced in the Competition Act and entered into force in 2008. While a number of cases will apparently soon be taken to court, it is important to ensure a vigorous application of the new act. The NRP is silent on the progress in this matter, but mentions an on-going review aiming to improve the applicability of the rules for state support.

As regards the electricity market, the Swedish competition authority has highlighted risks for oligopolistic behaviour, given today's situation of only three energy companies owning 90% of power production in Sweden and being engaged in 70% of electricity trade. To remedy this situation, the authority has called for further integration with other electricity markets, notably the Nordic power market, including assessing the need for infrastructure investments. While this issue is not mentioned in the NRP, it deserves attention given its impact on business competitiveness and households.

Administrative burdens

In 2006, the Swedish government set out to reduce administrative burdens for businesses by 25% in 2010. However, the latest available information points to a reduction of merely 7%. In addition, new legislation has meanwhile entered into force (in particular in the financial area), which means that the actual administrative burden has remained relatively unchanged for many enterprises.

The 2011 Spring Fiscal Policy Bill recognised the need to continue the efforts to reduce the administrative burden on enterprises and to set a new target date (2012) for the 25% reduction. An extension until 2014 of the mandate of the Regulatory Council has also been granted. Consisting of representatives from academia, senior judges, as well as the Board of Swedish Industry and Commerce for Better Regulation, its role is to scrutinise new and proposed legislation which may have an effect on the competitiveness of enterprises, and to assist policy-makers in further simplifying the situation of enterprises and make sure that the 25% target is reached. Public procurement is judged to be an area where administrative burdens can be reduced, given rather complex administrative procedures which may limit participation of SMEs.

Energy and climate change

The recent evolution of Swedish greenhouse gas emissions does not appear incompatible with the 2020 national target defined at the European level (-17% compared to 2005 levels) but it may be partly due to the cyclical downturn. Given their weight in the national emissions and current trends, road transportation and agriculture pose particular challenges.

While the Swedish Government believes that the existing and proposed emissions reduction measures are sufficient to reach the 2020 targets, this is not supported in the NRP by any quantitative assessments or operational targets, which would facilitate an effective monitoring. Moreover, the NRP does not mention which priority measures are needed to reach the emissions reduction target, including in road transportation and agriculture sectors, making it difficult to assess the credibility of the foreseen reduction path.

Sweden has set a national energy efficiency target of a reduction in energy intensity by 20 per cent between 2008 and 2020. This is supported by general measures, such as the emission trading scheme, energy and carbon taxes, as well as specific measures. Sweden has allocated SEK 575 million in the period 2010–2012 for initiatives at the local and regional level and supports with SEK 300 million annually the financing of a programme (2010-2014) in support of technical procurement and market introduction of energy efficient technologies, particularly focussing on SMEs. Sweden has made considerable progress in renewable energy sources. However the NRP does not sufficiently address the issue of grid connection and expansion processes that are needed to ensure efficient electricity transmission.

R&D and innovation

According to the European Innovation Scoreboard, Sweden is the innovation leader of Europe. The Swedish research and innovation (R&I) system shows clear strengths in many areas: a well educated workforce, a handful of R&I intensive multinational corporations, ambitious public investment in activities related to R&I, as well as a strong scientific performance. These strengths are reinforced by Sweden’s integration into global markets.

The most recent figures for Sweden on R&D intensity are 3.6% (1.06% public and 2.54% private). For 2020, Sweden has set a national R&D target of 4% of GDP. Given the trend scenario presented below, this target appears realistic although not extremely ambitious given that both public and private R&D investments are increasing.

However, while R&D expenditure as a share of GDP is the second highest in the EU, the outcome in terms of growth-enhancing productive innovations is proportionally smaller. In spite of Sweden's strong knowledge-based economy, the business-sector knowledge intensity remains somewhat vulnerable, given its overall importance in the Swedish R&I system. Sweden benefits from expanding knowledge-based firm dynamics, with high R&I investment rate and new-to-the-market products by SMEs. However, similar countries have higher private R&I investment growth and more dynamic patenting activity, both for PCT patents and for SME patenting. The efficiency of the research system could also be further strengthened by opening it up and integrating it more fully into the European R&I sphere.

In the current research bill for the period 2009–2012, state funding for R&D will gradually rise by up to SEK 5 billion to 2012, representing the largest injections of additional resources made in any research bill in Sweden. According to the NRP, the overall policy objective lying behind this massive injection of funds is to strengthen Sweden’s R&I position and to enhance its competitiveness in a globalised world in order to contribute to higher sustainable economic growth and welfare in the country. The injection is complemented by various initiatives aimed at improving the framework conditions for private R&I, such as increasing the availability of risk capital, and internationalisation of the public research system is encouraged through reforms in the university funding system.

R&I being a cumulative process, continuous investment by Sweden in those activities should progressively yield higher returns, building on the country's well-educated labour force. To maximise returns, Sweden would benefit from further improving linkages between industrial and research priority-setting, to help leverage private R&D funding and to support the commercialisation of high-tech products and services. In addition, stronger cooperation between Swedish technology producers and European clusters and infrastructures would be beneficial.

Finally, a coherent framework within which future innovation and competitiveness can be built seems necessary in order to achieve a critical mass of investments and avoid overlaps or gaps in R&D and Innovation policy measures. Within such a framework, internal (among regions and between the regional and national level) and external (across borders) synergies can be pursued in a more systematic way.

5. SUMMARY

The budgetary strategy, as outlined in the updated convergence programme, is appropriate, as it would contribute to the continued fulfilment of Sweden's MTO of achieving a 1% of GDP surplus over the cycle. It would also provide some margin to allow automatic stabilisers to play fully in any future downturn without breaching the 3% of GDP reference value, as evidenced in the recent recession. Accordingly, the programme projects that the fiscal balance will show a surplus of 0.6% of GDP in 2011, which is expected to widen to 3.7% of GDP in the final year of the programme. This improvement is due mainly to assumed strong economic growth, as the programme does not envisage any consolidation efforts in these years. Certain downside risks to budgetary projections from 2012 onwards are linked to somewhat favourable macroeconomic assumptions. As the government has indicated that further expansionary fiscal measures could be envisaged as from 2012 if there is sufficient fiscal space, there is also a risk of a pro-cyclical fiscal policy stance in good times.

Structural reforms presented in the National Reform Programme should create conditions for further enhancing Sweden's growth potential and ability to create jobs in the coming years. Most challenges are rightly recognised and properly addressed, in particular in the field of employment, where the government has undertaken a wide range of measures to make work pay and to reduce the cost of recruiting people who are only loosely attached to the labour market. The government has also started to address challenges in the fields of quality of education, competition, and research and innovation. The proposed reforms of education and the upcoming, new innovation strategy provide opportunities to make progress in addressing the challenges in question. However, other challenges did not receive appropriate attention in the NRP. In particular, the NRP does not provide a clear picture on how to tackle the risks associated with house price inflation and high household indebtedness, or how to strengthen the resilience of the financial sector. It is also unclear whether the proposed labour market measures will be sufficient to reverse the deterioration in both the employment and unemployment rate of foreign-born women over the last years.

STATISTICAL ANNEX

Table I. Macro economic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012
Core indicators							
GDP growth rate	3.4	3.0	2.5	-5.3	5.5	4.2	2.5
Output gap [1]	-1.8	0.6	2.5	-5.8	-2.5	-0.7	-0.2
HICP (annual % change)	1.4	1.9	1.8	1.9	1.9	1.7	1.6
Domestic demand (annual % change) [2]	2.6	2.0	2.9	-4.9	6.1	3.8	2.3
Unemployment rate (% of labour force) [3]	8.6	6.3	6.8	8.3	8.4	7.6	7.2
Gross fixed capital formation (% of GDP)	16.4	17.4	19.1	17.8	17.8	18.8	19.4
Gross national saving (% of GDP)	21.3	23.3	27.4	23.0	24.6	25.6	25.9
General Government (% of GDP)							
Net lending (+) or net borrowing (-)	**-2.1**	**0.7**	**2.6**	**-0.7**	**0.0**	**0.9**	**2.0**
Gross debt	**70.3**	**52.6**	**43.6**	**42.8**	**39.8**	**36.5**	**33.4**
Net financial assets	**-22.2**	**-0.8**	**16.5**	**24.5**	**n.a**	**n.a**	**n.a**
Total revenue	59.0	55.6	54.8	54.2	52.7	52.4	52.7
Total expenditure	61.1	54.9	52.2	54.9	52.7	51.5	50.6
of which: Interest	4.9	2.5	1.7	0.9	0.7	0.7	0.8
Corporations (% of GDP)							
Net lending (+) or net borrowing (-)	**3.8**	**2.2**	**2.7**	**1.3**	**1.6**	**0.7**	**-0.7**
Net financial assets; non-financial corporations	**-109.3**	**-110.9**	**-134.4**	**-156.0**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**12.9**	**0.7**	**5.5**	**12.5**	**n.a**	**n.a**	**n.a**
Gross capital formation	12.0	12.3	13.0	9.9	12.2	13.3	14.0
Gross operating surplus	22.6	20.0	21.4	17.6	20.4	20.5	19.7
Households and NPISH (% of GDP)							
Net lending (+) or net borrowing (-)	**1.9**	**2.5**	**2.4**	**6.2**	**4.7**	**4.8**	**4.8**
Net financial assets	**84.9**	**91.3**	**100.2**	**108.2**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	39.9	40.8	39.8	42.3	40.8	40.6	41.0
Net property income	3.1	2.5	2.7	3.2	3.2	3.4	3.5
Current transfers received	22.5	21.6	20.3	21.4	20.2	19.6	19.1
Gross saving	3.8	5.1	5.7	9.1	7.6	7.7	7.7
Rest of the world (% of GDP)							
Net lending (+) or net borrowing (-)	**3.8**	**5.6**	**7.9**	**6.6**	**6.1**	**6.1**	**5.8**
Net financial assets	**34.6**	**20.5**	**13.1**	**12.6**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	6.8	7.0	7.5	6.5	5.9	5.7	5.4
Net primary income from the rest of the world	-1.8	-0.1	2.0	1.8	1.8	2.0	2.0
Net capital transactions	-0.5	0.0	-0.2	-0.1	-0.1	-0.1	-0.1
Tradable sector	40.8	39.1	38.2	35.5	37.1	n.a	n.a
Non tradable sector	46.5	48.6	49.4	51.7	50.0	n.a	n.a
of which: Building and construction sector	3.8	4.0	4.5	4.6	4.7	n.a	n.a
Real effective exchange rate (index, 2000=100)	102.5	97.6	95.6	87.5	92.9	99.5	100.1
Terms of trade goods and services (index, 2000=100)	104.4	97.7	94.5	95.4	95.2	94.4	93.5
Market performance of exports (index, 2000=100)	97.8	99.8	101.2	100.7	102.2	104.2	103.9

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2000 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source:

Commission services' spring 2011 forecast

Table II. Macroeconomic scenario for the budgetary projections

	2010		2011		2012		2013	2014
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	5.5	5.5	4.2	4.6	2.5	3.8	3.6	2.8
Private consumption (% change)	3.5	3.5	3.0	3.9	2.3	4.0	3.3	2.7
Gross fixed capital formation (% change)	6.3	6.3	9.8	10.4	5.1	8.8	6.4	4.8
Exports of goods and services (% change)	10.7	10.7	7.6	9.2	5.1	7.0	7.0	6.4
Imports of goods and services (% change)	12.7	12.7	7.3	9.1	5.0	7.3	6.6	6.5
Contributions to real GDP growth:								
- Final domestic demand	3.6	3.6	3.6	4.0	2.2	3.7	3.0	2.4
- Change in inventories	2.1	2.1	0.0	0.0	0.0	-0.3	0.0	0.0
- Net exports	-0.1	-0.1	0.6	0.6	0.3	0.3	0.6	0.4
Output gap[1]	-2.5	-2.9	-0.7	-1.1	-0.2	-0.1	0.7	0.8
Employment (% change)	1.1	1.1	1.9	2.5	1.1	1.4	1.3	1.1
Unemployment rate (%)	8.4	8.4	7.6	7.3	7.2	6.6	5.8	5.2
Labour productivity (% change)	4.4	4.4	2.2	2.1	1.4	2.7	2.3	1.7
HICP inflation (%)	1.9	2.1	1.7	0.4	1.6	1.3	1.8	1.8
GDP deflator (% change)	1.3	1.3	0.9	0.2	1.0	0.9	1.5	1.7
Comp. of employees (per head, % change)	2.7	n.a.	2.8	n.a.	3.3	optional	optional	optional
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	6.1	6.3	6.1	6.2	5.8	6.0	6.0	5.6

Note:

[1]In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission services.

Source :

Commission services' spring 2011 forecasts (COM); Convergence programme (CP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2010	2011		2012		2013	2014	Change: 2010-2014
	COM	COM	CP	COM	CP	CP	CP	CP
Revenue	**52.7**	**52.4**	**51.9**	**52.7**	**52.1**	**51.9**	**51.9**	**-0.8**
of which:								
- Taxes on production and imports	18.0	18.0	19.0	18.1	19.0	18.9	18.9	0.8
- Current taxes on income, wealth, etc.	19.2	19.2	18.9	19.4	19.1	19.1	19.1	-0.1
- Social contributions	8.8	8.7	7.5	8.7	7.5	7.5	7.5	-1.3
- Other (residual)	6.6	6.5	6.6	6.4	6.5	6.4	6.3	-0.3
Expenditure	**52.7**	**51.5**	**51.3**	**50.6**	**50.0**	**49.0**	**48.2**	**-4.5**
of which:								
- Primary expenditure	52.0	50.8	50.4	49.8	49.1	48.0	47.2	-4.8
of which:								
Compensation of employees	14.8	14.6	14.3	14.7	14.0	13.8	13.5	-1.3
Intermediate consumption	9.5	9.1	9.9	8.7	9.6	9.3	9.2	-0.3
Social payments	19.0	18.5	18.2	18.1	17.9	17.4	17.1	-1.9
Subsidies	1.5	1.4	1.4	1.4	1.3	1.3	1.3	-0.2
Gross fixed capital formation	3.5	3.3	3.5	3.2	3.2	3.1	3.0	-0.5
Other (residual)	3.7	3.7	3.1	3.8	3.1	3.1	3.1	-0.6
- Interest expenditure	0.7	0.7	0.9	0.8	0.9	1.0	1.0	0.3
General government balance (GGB)	**0.0**	**0.9**	**0.6**	**2.0**	**2.0**	**2.9**	**3.7**	**3.7**
Primary balance	**0.7**	**1.6**	**1.6**	**2.8**	**3.0**	**3.9**	**4.7**	**4.0**
One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1
GGB excl. one-offs	**0.0**	**0.9**	**0.6**	**2.0**	**2.0**	**3.0**	**3.8**	**3.8**
Output gap[2]	-2.5	-0.7	-1.1	-0.2	-0.1	0.7	0.8	3.4
Cyclically-adjusted balance[2]	1.4	1.3	1.2	2.1	2.1	2.5	3.2	1.8
Structural balance[3]	**1.4**	**1.3**	**1.2**	**2.1**	**2.1**	**2.6**	**3.3**	**1.9**
Change in structural balance		*-0.2*	*-0.2*	*0.9*	*0.8*	*0.5*	*0.7*	
Structural primary balance[3]	2.1	2.0	2.1	2.9	3.0	3.6	4.3	2.2
Change in structural primary balance		*-0.1*	*0.0*	*0.9*	*0.8*	*0.6*	*0.7*	

Notes:

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the information in the programme.

[3]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source :

Convergence programme (CP); Commission services' spring 2011 forecasts (COM); Commission services' calculations

Table IV. Debt Dynamics

(% of GDP)	average 2005-09	2010	2011		2012		2013	2014
			COM	CP	COM	CP	CP	CP
Gross debt ratio[1]	**43.4**	**39.8**	**36.5**	**36.8**	**33.4**	**33.4**	**28.8**	**23.7**
Change in the ratio	-1.5	-3.0	-3.3	-3.0	-3.1	-3.4	-4.6	-5.1
Contributions [2] *:*								
1. Primary balance	**-3.4**	**-0.7**	**-1.6**	**-1.6**	**-2.8**	**-3.0**	**-3.9**	**-4.7**
2. "Snow-ball" effect	**0.1**	**-2.0**	**-1.2**	**-0.8**	**-0.4**	**-0.6**	**-0.6**	**-0.2**
Of which:								
Interest expenditure	1.5	0.7	0.7	1.0	0.8	1.0	1.0	1.0
Growth effect	-0.5	-2.2	-1.6	-1.7	-0.9	-1.3	-1.1	-0.8
Inflation effect	-0.9	-0.5	-0.3	-0.1	-0.4	-0.3	-0.5	-0.5
3. Stock-flow adjustment	**1.8**	**-0.3**	**-0.4**	**-0.6**	**0.1**	**0.2**	**0.0**	**-0.2**
Of which:								
Cash/accruals diff.	0.0	0.6						
Acc. financial assets	1.6	-0.1						
Privatisation	-0.5	-0.2						
Val. effect & residual	0.2	-0.7						

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other

Source :

Convergence programme (CP); Commission services' spring 2011 forecasts (COM); Commission services' calculations

Table V. Long-term sustainability indicators

Sweden	**Baseline scenario (2010)**			**Programme scenario**		
	S1		**S2**	**S1**		**S2**
Value	-0.8		0.1	-2.8		-1.9
of which:						
Initial budgetary position (IBP)	-1.6		-2.0	-3.6		-4.0
Debt requirement in 2060 (DR)	-0.6		-	-0.6		-
Long-term change in the primary balance (LTC)	1.4		2.1	1.4		2.1
	2010	2015	2020	2010	2015	2020
Debt as % of GDP	39.8	23.2	3.3	39.8	19.5	-4.5

Note: The 'baseline' scenario (2010) depicts the sustainability gap under the assumption that the 2010 budgetary position remains unchanged over the medium–term (until the end of the period covered by the programme). The 'programme' scenario depicts the sustainability gap under the assumption that the budgetary plans of the programme are fully implemented.

Figure. Medium-term debt projection

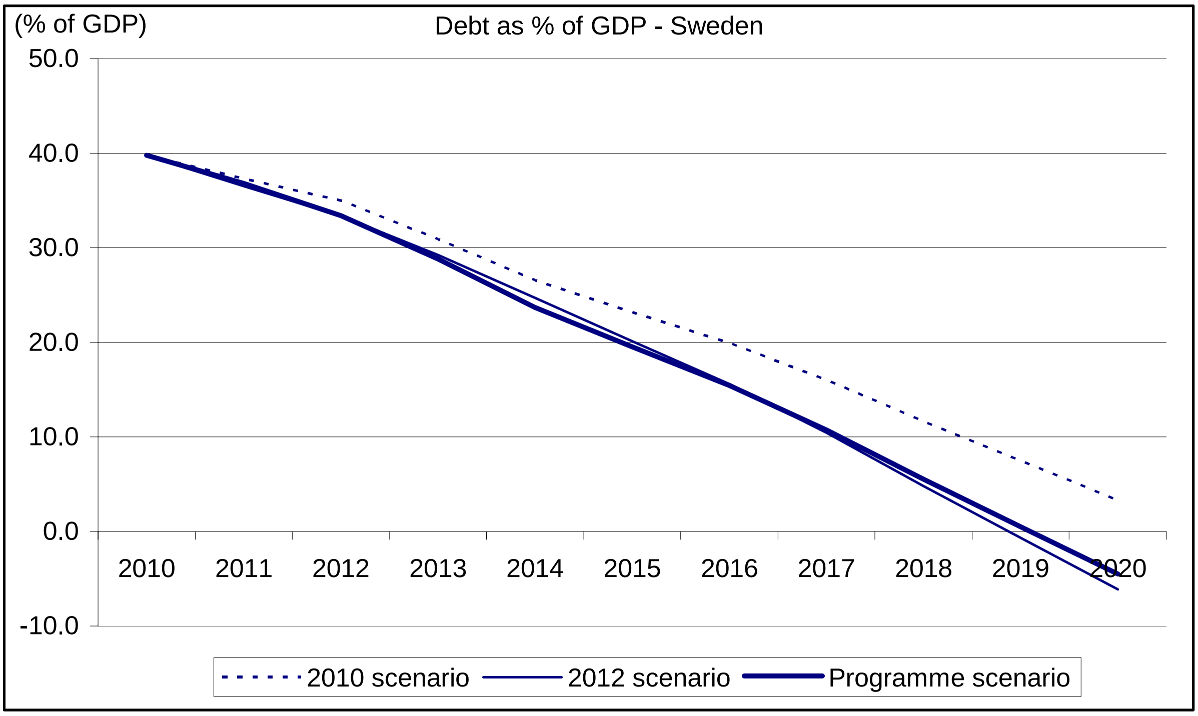


Table VI. Financial sector indicators

	2006	2007	2008	2009	2010
Total assets of the banking sector (% of GDP)	233.4	248.7	273.7	316.3	300.2
Share of assets of the five largest banks (% of total assets)	57.8	61.0	61.9	60.7	…
Foreign ownership of banking system (% of total assets)	9.1	9.8	9.3	6.9	…
Financial soundness indicators:					
- non-performing loans (% of total loans)	0.8	0.6	1.0	2.0	…
- capital adequacy ratio (%) [1]	10.0	9.8	10.3	12.7	…
- profitability - return on equity (%) [2]	21.0	19.7	14.3	5.4	…
Private credit growth (annual % change)	12.5	12.4	7.2	-3.9	16.2
Residential property prices (y-o-y % change) [3]	11.8	10.5	9.9	9.9	10.1
Exposure to countries receiving/repaying official financial assistance (% of GDP)[4]	6.1	5.4	6.6	6.1	4.8
Private debt (% of GDP)	117.9	122.4	116.7	144.5	145.4
Gross external debt (% of GDP)					
- Public	…	…	12.9	16.0	17.9
- Private	…	…	62.5	77.7	72.4
Long term interest rates spread versus Bund (basis points)*	-5.8	-4.9	-9.6	2.7	15.0
Credit default swap spreads for sovereign securities (5-year)*	…	…	53.1	71.8	37.8

Notes:

[1] Four large banking groups.

[2] The capital adequacy ratio is defined as total capital devided by risk weigthed assets. Four large banking groups.

[3] Net income to equity ratio. Four large banking groups.

[4] Covered countries are IE, EL, PT, RO, LV and HU.

* Measured in basis points.

Source :
Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission services (long-term interest rates), World Bank (gross external debt), Eurostat (residential property prices) and ECB (all other indicators).

Table VII. Labour market and social indicators

Labour market indicators	2005	2006	2007	2008	2009	2010
Employment rate (% of population aged 20 - 64)	78.1	78.8	80.1	80.4	78.3	78.7
Employment growth (% change from previous year)	0.3	1.7	2.3	0.9	-2.0	1.1
Employment rate of women (% of female population aged 20 - 64)	75.5	75.8	77.1	77.2	75.7	75.7
Employment rate of men (% of male population aged 20 - 64)	80.7	81.7	83.1	83.5	80.9	81.7
Employment rate of older workers (% of population aged 55 - 64)	69.4	69.6	70.0	70.1	70.0	70.5
Part-time employment (% of total employment)	24.7	25.1	25.0	26.6	27.0	26.4
Fixed term employment (% of employees with a fixed term contract)	16.0	17.3	17.5	16.1	15.3	15.8
Unemployment rate[1] (% of labour force)	7.7	7.1	6.1	6.2	8.3	8.4
Long-term unemployment[2] (% of labour force)	1.0	1.0	0.9	0.8	1.1	1.5
Youth unemployment rate (% of youth labour force aged 15-24)	22.6	21.5	19.2	20.2	25.0	25.2
Youth NEET[3] rate (% of population aged 15-24)	10.5	9.3	7.5	7.8	9.6	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	10.8	13.0	12.2	12.2	10.7	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	37.6	39.5	41.0	42.0	43.9	:
Labour productivity per person employed (annual % change)	2.9	2.6	1.0	-1.5	-3.4	4.4
Hours worked per person employed (annual % change)	0.0	-0.4	1.2	-0.1	-0.9	1.4
Labour productivity per hour worked (annual % change; constant prices)	2.9	2.9	-0.2	-1.4	-2.5	2.9
Compensation per employee (annual % change; constant prices)	2.2	0.1	2.4	-1.6	-0.6	1.4
Nominal unit labour cost growth (annual % change)	0.2	-0.5	4.2	3.1	4.8	-1.6
Real unit labour cost growth (annual % change)	-0.7	-2.4	1.4	-0.1	2.9	-2.8

Notes:

[1] According to ILO definition, age group 15-74)

[2] Share of persons in the labour force who have been unemployed for at least 12 months.

[3] NEET are persons that are neither in employment nor in any education or training.

Sources:

Comission services (EU Labour Force Survey and European National Accounts)

Table VII. Labour market and social indicators – continued

Expenditure on social protection benefits (% of GDP)	2004	2005	2006	2007	2008
Sickness/Health care	8.19	7.89	7.74	7.45	7.49
Invalidity	4.54	4.58	4.40	4.33	4.34
Old age and survivors	12.23	12.21	11.86	11.66	12.03
Family/Children	2.89	2.87	2.96	2.90	2.98
Unemployment	1.91	1.85	1.62	1.08	0.85
Housing and Social exclusion n.e.c.	1.17	1.12	1.10	1.05	1.07
Total	30.9	30.5	29.7	28.5	28.8
of which: Means tested benefits	0.91	0.88	0.84	0.78	0.78
Social inclusion indicators	**2005**	**2006**	**2007**	**2008**	**2009**
Risk-of-poverty or exclusion[1] (% of total population)	14.4	16.3	13.9	14.9	15.9
Risk-of-poverty or exclusion of children (% of people aged 0-17)	14.9	18.5	14.9	14.6	15.1
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	11.3	11.9	10.4	15.5	18.0
At-Risk-of-Poverty rate[2] (% of total population)	9.5	12.3	10.5	12.2	13.3
Value of relative poverty threshold (single HH per year) - in PPS	8652	9072	9540	10680	11256
Severe Material Deprivation[3] (% of total population)	2.3	2.1	2.2	1.4	1.6
Share of people living in low work intensity households[4] (% of people aged 0-59 not student)	7.5	6.6	5.9	5.4	6.2
In-work at-risk-of poverty rate (% of persons employed)	5.5	7.4	6.5	6.8	7.0

Notes:

[1] People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate: share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone

[4] People living in households with very low work intensity: Share of people aged 0-59 living in households where the adults work less than 20% of their total work-time potential during the previous 12 months.

Sources:
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table VIII. Product market performance and policy indicators

Performance indicators	2001-2005	2006	2007	2008	2009	2010
Labour productivity[1] total economy (annual growth in %)	**2.5**	**2.6**	**1.0**	**-1.3**	**-3.7**	**4.6**
Labour productivity[1] in manufacturing (annual growth in %)	**7.2**	**7.8**	**1.2**	**-5.4**	**-9.0**	**16.6**
Labour productivity[1] in electricity, gas, water (annual growth in %)	**0.1**	**-14.9**	**8.3**	**-6.7**	**-5.3**	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	**0.0**	**-1.0**	**-1.5**	**-12.3**	**-4.4**	**2.6**
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	**4.5**	**4.2**	**1.0**	n.a.	n.a.	n.a.
Policy indicators	**2001-2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Enforcing contracts[3] (days)	n.a.	**508**	**508**	**508**	**508**	**508**
Time to start a business[3] (days)	n.a.	**15**	**15**	**15**	**15**	**15**
R&D expenditure (% of GDP)	**3.8**	**3.7**	**3.4**	**3.7**	**3.6**	n.a.
Tertiary educational attainment (% of 30-34 years old population)	**31.5**	**39.5**	**41.0**	**42.0**	**43.9**	n.a.
Total public expenditure on education (% of GDP)	**7.2**	**6.9**	**6.7**	**6.7**	n.a.	n.a.
	2003	**2005**	**2006**	**2008**	**2009**	**2010**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	**1.5**	n.a.	n.a.	**1.3**	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	**0.5**	n.a.	n.a.	**0.5**	n.a.	n.a.
Product market regulation[4], Network Industries6 (Index; 0=not regulated; 6=most regulated)	**2.1**	**1.8**	**1.8**	**1.7***	n.a.	n.a.

Notes:

[1]Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2]Patent data refer to applications designated to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

[3] The methodologies, including the assumptions, of this indicator is presented in detail at the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the Product market regulation indicators are presented in detail at the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

6 Aggregate ETCR.

*figure for 2007.

Source :

Commission services, World Bank Doing Business (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).