



Brussels, 20.5.2020
COM(2020) 539 final

REPORT FROM THE COMMISSION

Sweden

**Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of
the European Union**

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1. INTRODUCTION

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact. The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn. In its Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit activation of the clause. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

Data notified by the Swedish authorities on 31 March 2020 and subsequently validated by Eurostat¹ show that the general government surplus in Sweden reached 0.5% of GDP in 2019, while general government gross debt stood at 35.1% of GDP. According to the 2020 Convergence Programme, Sweden plans a deficit of 3.8% of GDP in 2020, while debt is planned at 39.9% of GDP.

The planned deficit for 2020 provides *prima facie* evidence of the existence of an excessive deficit as defined by the Stability and Growth Pact.

Against this background, the Commission has therefore prepared this report, which analyses Sweden's compliance with the deficit criterion of the Treaty. The debt criterion can be considered to be met as the debt ratio in 2019 is below the Treaty reference value of 60% of GDP. It takes into account all relevant factors and gives due consideration to the major economic shock linked to the COVID-19 pandemic.

¹ <https://ec.europa.eu/eurostat/documents/2995521/10294648/2-22042020-AP-EN.pdf/6c8f0ef4-6221-1094-fe77-a07764b0369f>

Table 1. General government deficit and debt (% of GDP)

		2016	2017	2018	2019	2020 COM	2021 COM
Deficit criterion	General government balance	1.0	1.4	0.8	0.5	-5.6	-2.2
	General government gross debt	42.2	40.8	38.8	35.1	42.6	42.5

Source: Eurostat, Commission 2020 spring forecast

2. DEFICIT CRITERION

Based on the 2020 Convergence Programme, Sweden's general government deficit in 2020 is planned to reach 3.8% of GDP, above and not close to the Treaty reference value of 3% of GDP.

The planned excess over the Treaty reference value in 2020 is exceptional, as it results from a severe economic downturn. Taking into account the impact of the COVID-19 pandemic, the Commission 2020 spring forecast projects a contraction of real GDP in 2020 by 6.1%.

The planned excess over the Treaty reference value would be temporary based on the Commission 2020 spring forecast, which projects the general government deficit to fall under 3% of GDP in 2021. However, those projections are surrounded by an exceptionally high degree of uncertainty.

In sum, the planned deficit for 2020 is above and not close to the 3%-of-GDP Treaty reference value. The planned excess is considered to be exceptional as defined by the Treaty and the Stability and Growth Pact, while the nature of the excess is currently considered temporary. Hence, the analysis suggests that *prima facie* the deficit criterion as defined by the Treaty and Regulation (EC) No 1467/97 is not fulfilled.

3. RELEVANT FACTORS

Article 126(3) of the Treaty provides that, if a Member State does not fulfil the requirements under one or both of those criteria, the Commission has to prepare a report. That report must also "take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State".

Those factors are further clarified in Article 2(3) of Regulation (EC) No 1467/97, which also provides that "any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with the deficit and debt criteria and which the Member State has put forward to the Council and to the Commission" need to be given due consideration.

In the current situation, a key additional factor to take into consideration regarding 2020 is the economic impact of the COVID-19 pandemic, which has a very substantial impact on the budgetary situation and results in a highly uncertain outlook. The pandemic has also led to the activation of the general escape clause.

3.1. COVID-19 pandemic

The COVID-19 pandemic has led to a major economic shock that is having a significant negative impact throughout the European Union. The consequences for GDP growth will depend on the duration of both the pandemic and of the measures taken by national authorities and at European and global level to slow its spread, protect production capacities and support aggregate demand. Member States have already adopted or are adopting budgetary measures to increase the capacity of health systems and provide relief to those individuals and sectors that are particularly affected. Significant liquidity support measures and other guarantees have also been adopted. Subject to more detailed information, the competent statistical authorities are to examine whether those measures entail an immediate impact on the general government balance or not. Together with the fall in economic activity, those measures will contribute to substantially higher government deficit and debt positions.

3.2 Medium-term economic position

Economic growth reached 1.2% in 2019, mainly due to the robust performance of net exports. However, due to the COVID-19 pandemic, the Commission 2020 spring forecast projects Sweden's GDP to decline by 6.1% in 2020, reflecting the disruption in economic activity caused by the lockdown measures and an unprecedented fall in external demand. Private consumption is projected to be hit due to an increase in unemployment, and weak consumer confidence. Investment is also set to fall strongly in 2020 as uncertainty mounts and expectations of lower demand are likely to have an impact on firms' investment plans. That outlook is marked by an exceptional degree of uncertainty on the duration of the pandemic and its economic impact. The sharp drop in GDP is a mitigating factor in the assessment of Sweden's compliance with the deficit criterion in 2020.

3.3 Medium-term budgetary position

Based on outturn data and the Commission 2020 spring forecast, Sweden has overachieved its medium-term budgetary objective in 2019.

Sweden has adopted substantial measures to contain the pandemic and to support the economy. The Convergence Programme estimates the budgetary impact of those direct support measures at 2.4% of GDP in 2020. According to the Programme, the general government balance should improve mainly driven by a reversal of these support measures once the crisis is over.

Against the background of an exceptionally high degree of uncertainty on the medium-term economic prospects, the fiscal outlook is surrounded by similarly large margins of uncertainty. That uncertainty also pertains to projections of the cost of fiscal support measures to cushion the downturn.

3.4 Other factors put forward by the Member State

On 11 May 2020, the Swedish authorities transmitted a letter with relevant factors in accordance with Article 2(3) of Regulation (EC) No 1467/97. The analysis presented in the previous sections already broadly covers the key factor put forward by the authorities.

4. CONCLUSIONS

According to the Convergence Programme, Sweden's general government deficit in 2020 is planned to increase to 3.8% of GDP of GDP, above and not close to the 3% of GDP Treaty reference value. The planned excess over the reference value is considered to be exceptional and currently considered to be temporary.

In line with the Treaty and the Stability and Growth Pact, this report also examined relevant factors. Overall, since the planned deficit is well above 3% of GDP and taking into account all relevant factors, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.