

## Sweden

1. Sweden is in a good position with respect to GDP per capita (118% of EU average in 2004), productivity and employment levels. Real GDP growth has been slightly below 3% on average over the last decade. Labour productivity growth has been just above the EU average. The employment rate is one of the highest in the EU (72.1% in 2004). However, over recent years employment growth has been weak and employment rates have declined, while unemployment (6.3% in 2004) has increased.

### **PART I: GENERAL ASSESSMENT**

2. The Swedish National Reform Programme (NRP) puts a strong emphasis on sustainable development and integrates this theme into the social, economic and environmental policies set out. The NRP does not explicitly set clear priority areas but emphasises high labour market participation and hours worked and promotes a knowledge-based economy with environmentally efficient production processes. The Commission broadly supports this approach but also regards competition in services as a key area for attention.
3. The strategy of the NRP is broad, guided by the notion of sustainable development. The NRP spells out long-term ambitions under each guideline, emphasises continuity with existing policies and appears realistic. Timetables for implementing measures are not in most cases given and budgetary information is not always complete. The NRP does not always provide a full strategic vision and more priority setting would improve this. Some measures still need to be made more concrete. The NRP mentions ambitious targets for employment rate (80% for 20-64 year olds) and for publicly financed R&D (the annual target of 1% of GDP). No overall national target for investment in R&D is mentioned in the NRP, but at 3.75% of GDP (2004) recent investment has been high, against the background of the overall target for the EU of 3%. Relatively little new policy is set out in the section dealing with competition in services. Measures already proposed in the 2006 budget are described in more specific terms than those for subsequent years, although the NRP signals many reports and studies in the pipeline that may lead to interesting additional measures during those years. The NRP also describes how EU structural funds will be used to promote the objectives.
4. Consultation and efforts to develop ownership of the document have been fairly substantial. The Programme was formally endorsed by the Government and presented to Parliament for discussion. Meetings to consult social partners, including local and regional public authority employers, and civil society were arranged.

### **PART II: ASSESSMENT BY POLICY AREA**

#### **Macro-economic policies**

5. The macro-economic strategy presented in the NRP is a continuation of policies already in place for a number of years. The strategy aims for sound public finances, low and stable inflation and wage setting in line with productivity. The NRP acknowledges that, in the medium to long term, reaching a high level of employment

and hours worked in the economy are important to sustain public welfare commitments, a view shared by the Commission.

6. The macro-economic strategy implies that fiscal policy will continue to be set within a general government budget surplus objective of 2% of GDP on average over the economic cycle and within rolling 3-year nominal expenditure ceilings. The NRP emphasises the continued need for social partners to set wages in a responsible way, supported by the national mediation office. The general government budget balance is forecast to remain in surplus over the period, but below the 2% objective. Were it to do so, the funds that could be built up would be an important element in meeting the budgetary demands created by the ageing of the population.
7. The NRP mentions ongoing investigations into the efficiency of the welfare insurance systems and the appropriateness of the way responsibilities are divided across different levels of government. The proposals based on this work may prove to be important for the long-term provision of public welfare services. The NRP mentions that the government intends to conduct a general overview of the tax system taking into account changes both in that system and in the economy as a whole since the 1990/91 reform. This work may also yield important efficiency benefits contributing to growth and incentives to work.
8. Overall, there is no urgent macro-economic challenge for Sweden and the stability-oriented framework is well designed. There is nothing in the short-term outlook that appears likely to prevent Sweden continuing to achieve its macro-economic policy objectives.

### **Micro-economic policies**

9. The micro-economic policy priorities are R&D, innovation, and ICT diffusion. The business environment and strengthening competition policy are cited as the key areas for action. The NRP sees the knowledge-based economy as its main objective.
10. R&D, innovation and ICT diffusion are identified by the government as key challenges in the context of the national “Innovative Sweden strategy”. The NRP sets clear priorities in these areas and shows a readiness to finance them. These priorities are: strengthening the role of industrial research institutes as a bridge between science and industry; improving the commercialisation of R&D; and strengthening research and training of researchers. Concerted measures to improve the intellectual property regime are set out. While the NRP contains some measures for SMEs, there would be scope for further measures focusing on research-driven and innovative SMEs, particularly encouraging links with larger firms. On ICT, the objective of a recently adopted law is a sustainable information society for all, to be complemented by a national action plan on electronic procurement and an increase in R&D investment on ICT.
11. To increase entrepreneurship, weak by international comparisons, the government plans to create a more competitive business environment. An action programme to reduce administrative costs to enterprises is being implemented, including a target to reduce such burdens arising from tax legislation by 20% by 2010. More targets will be set in 2006. Improving the use of impact assessment is mentioned, but without information on specific implementation measures. Six sectoral industrial strategies are proposed to strengthen the competitiveness of the industrial base. Improving co-

operation between industry, government, and universities at national and regional level will play an important role in this. The implementation of the long-term strategic framework on transport infrastructure, including a prioritised Trans-European Transport Network project, will contribute to links between major Swedish cities and the rest of Europe. The NRP envisages that Sweden's competitiveness increasingly will build on environmentally-friendly production processes. In particular, measures for green electricity certificates, financial support for wind power, investment programmes for renewables and energy efficiency in the construction and renovation of buildings are included.

12. The NRP acknowledges the need to strengthen competition policy and a government appointed commission is looking into streamlining the legal framework governing competition cases. No specific measures to remove barriers to entry in services markets are set out. While the NRP acknowledges that Sweden will need to adjust national rules to future EU legislation, it makes no specific commitments or initiatives to increase competition in key service sectors.
13. As regards the efficiency of the public sector, the e-government proposals are appropriate, but lack a precise timetable for implementation. No concrete measures are presented in the NRP to encourage outsourcing and benchmarking in the public sector or to strengthen the prevention of direct procurement contravening EU law.
14. The Commission's assessment of the innovation and ICT strategies is positive. Additional micro-economic measures could usefully be taken to promote a more effective market for services and improve the efficiency of the public services. The emphasis on sustainable development in the micro-economic chapter, and in particular the series of measures that will increase energy efficiency and improve the environment can help drive growth over time.

### **Employment Policies**

15. The NRP identifies increased labour supply through higher labour force participation and more working hours as a high priority given the ageing population and the current high level of welfare services. The Commission shares this view.
16. To attract more people into employment, Sweden maintains its commitment to achieve as soon as possible its existing targets on employment rate (80% for 20-64 year olds) and unemployment rate (4%). The main priority is a reinforced active labour market policy to tackle the recent increases of youth, long-term and overall unemployment, and to help the young, immigrants and disabled persons into work. The NRP recognises the need to improve the integration of immigrants into the labour market and to tackle discrimination given the high employment gap between immigrants and native born Swedes (16 percentage points). The NRP proposes a number of measures, including rehabilitation and work-based solutions, to reduce sick leave and entrants into disability pension – some progress has been made on this already. However, the large number of people already on disability pensions receives less attention and makes more active measures necessary for these people. A better balance between incentives and a substantial social safety net in the tax and benefit systems remains a challenge, in view of a persistently high unemployment trap and a high tax wedge on labour.

17. Plans to address the adaptability of workers and enterprises mainly relate to issues such as the right to full-time employment, the use of temporary employment, subsidies for mobility and preventing undeclared work. With the currently high gender pay gap (16% unadjusted), the future action plan to eliminate gender-based wage discrimination is a positive move.
18. Sweden exceeds all the EU benchmarks for investment in human capital. The NRP focuses on the need to develop further improve quality throughout the education system and to increase equality in levels of attainment. The government's target that at least 50% of 25-year olds should begin higher education seems challenging but achievable. The NRP is weak on skills development in the workplace and participation in lifelong learning by the low-skilled, is currently lower than participation by men and women with higher skills, remains a priority.
19. Overall, the NRP provides a fairly ambitious yet not entirely complete response to the challenge of increasing labour supply. The NRP addresses most of the key areas but would have deserved a more in depth consideration of issues like unemployment and inactivity traps, maintaining a continued high labour supply of older workers and reducing the number of people on disability pensions.

### **PART III: CONCLUSIONS**

20. In line with the Integrated Guidelines, the Swedish National Reform Programme identifies and responds to most of the main challenges facing Sweden, emphasising namely high labour market participation and hours worked and promoting a knowledge-based economy with environmentally efficient production processes. However, competition in services is a key issue only partially addressed in the NRP. Overall the programme is broad, builds appropriately on existing initiatives and recent economic successes and sets out clear and realistic long-term ambitions. It includes many innovative measures underpinned by a strong effort to reinforce the three pillars - economic, social and environmental - of sustainable development. The programme's strategic vision and practicability could be enhanced by more prioritisation.
21. Timetables for implementing measures are not in most cases given and budgetary information is not always complete. Some measures could be described further. The NRP refers to various reports and studies that may give rise to further initiatives in the second half of the 2005-2008 implementation period.
22. The programme's strengths include:
  - the high priority and the associated funding commitment for promoting R&D, innovation and ICT;
  - the comprehensive approach to integrating environmental and energy aspects in the production process;
  - measures to reduce unemployment, including reinforced active labour market policies.

23. Among the points requiring further attention are:
- enhancing competition in services;
  - increasing labour supply, including by addressing incentives in tax and benefit systems.
24. Taking due account of the above, Sweden is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Sweden has dealt with the issues mentioned in paragraph 23. In this context, the Commission looks forward to discussions with the Swedish authorities as part of the new partnership for growth and jobs.

#### **PART IV : STATISTICAL GRAPHS AND DATA**

# SWEDEN

	SE						2010 National target	EU-25						2010 EU target
	1999	2000	2001	2002	2003	2004		1999	2000	2001	2002	2003	2004	
GDP per capita in PPS	118.4	119.6	115.7	114.2	116.4	117.9		100.0	100.0	100.0	100.0	100.0	100.0	
Labour productivity per person employed	107.1	107.3	103.2	102.1	104.6	107.1		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	71.7	73.0	74.0	73.6	72.9	72.1	*	61.9	62.4	62.8	62.8	62.9	63.3	70.0
Employment rate of older workers	63.9	64.9	66.7	68.0	68.6	69.1		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	3.65	:	4.27	:	3.98	3.74	**	1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	3.0
Youth education attainment level	86.3	85.2	85.5b	86.7	85.6	86.3		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	125.3	126.7	117.0	121.1	124.0	121.1p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	13.9	14.7	14.3	13.3	12.9	13.0		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	8.0	:	9.0	11.0b	:	11.0b		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	4.8	4.5	4.2b	4.6	4.3	4.4		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	1.9	1.4	1.0	1.0	1.0	1.2		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	96.7	93.0	94.4	96.1	97.6	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	238.2	215.0	228.9	224.3	218.6	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	91.1e	93.1	88.8	90.6	90.8	89.3		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	

\* National target: 80% for the population aged 20-64

\*\* National target: 1% (2010) for the public sector

