EUROPEAN
COMMISSION

Brussels, 23.5.2018
COM(2018) 426 final

Recommendation for a

COUNCIL RECOMMENDATION

on the 2018 National Reform Programme of Sweden

and delivering a Council opinion on the 2018 Convergence Programme of Sweden

Recommendation for a

COUNCIL RECOMMENDATION

on the 2018 National Reform Programme of Sweden

and delivering a Council opinion on the 2018 Convergence Programme of Sweden

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 9(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission[3],

Having regard to the resolutions of the European Parliament[4],

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 22 November 2017, the Commission adopted the Annual Growth Survey, marking the start of the 2018 European Semester of economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The priorities of the Annual Growth Survey were endorsed by the European Council on 22 March 2018. On 22 November 2017, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it identified Sweden as one of the Member States for which an in-depth review would be carried out.

---

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 COM(2018) 426 final.
4 P8_TA(2018)0077 and P8_TA(2018)0078.

(2) The 2018 country report for Sweden[5] was published on 7 March 2018. It assessed Sweden's progress in addressing the country-specific recommendation adopted by the Council on 11 July 2017, the follow-up given to the recommendations adopted in previous years and Sweden's progress towards its national Europe 2020 targets. It also included an in-depth review under Article 5 of Regulation (EU) No 1176/2011, the results of which were also published on 7 March 2018[6]. The Commission's analysis leads it to conclude that Sweden is experiencing macroeconomic imbalances. In particular, overvalued house price levels coupled with a continued rise in household debt poses risks of a disorderly correction. The already high household debt remains on an upward path. House prices have been growing at fast and virtually uninterrupted pace for about 20 years. Negative growth was recorded in the last quarter of 2017. Still, valuation indicators suggest that house prices remain very high relative to fundamentals. Although banks appear adequately capitalised, a disorderly correction could also affect the financial sector as banks have a growing exposure to household mortgages. In such a case, there could be spill-overs to neighbouring countries given the systemic financial interlinkages. In recent years measures have been taken to rein in mortgage debt growth and increase housing construction. However, policy steps implemented so far have not been sufficient to address overvaluation in the housing sector, and key policy gaps remain, particularly in relation to tax incentives for home ownership as well as the functioning of the housing supply and the rental market.

(3) On 27 April 2018, Sweden submitted its 2018 National Reform Programme and its 2018 Convergence Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.

(4) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds for the 2014-2020 period. As foreseen in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council[7], where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of that provision in guidelines on the application of the measures linking the effectiveness of the European Structural and Investment Funds to sound economic governance[8].

(5) Sweden is currently in the preventive arm of the Stability and Growth Pact. In its 2018 Convergence Programme, the government plans to achieve a surplus of 1.0 % of GDP in 2018 and to continue to meet the medium-term budgetary objective — a structural deficit of 1 % of GDP — throughout the programme period. According to the 2018 Convergence Programme, the general government debt-to-GDP ratio is expected to fall to 37.3 % in 2018 and to continue declining to 29.0 % in 2021. Economic growth and sound public finances are set to be the main drivers behind the declining general government debt-to-GDP ratio. The macroeconomic scenario underpinning those

---

5 SWD(2018) 225 final.

6 COM(2018) 120 final.

7 Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

8 COM(2014) 494 final.

budgetary projections is plausible. Based on the Commission 2018 spring forecast, the structural balance is forecast to show a surplus of 0.7 % of GDP in 2018 and a surplus of 1.0 % of GDP in 2019, above the medium-term budgetary objective. Based on its assessment of the 2018 Convergence Programme and taking into account the Commission 2018 spring forecast, the Council is of the opinion that Sweden is projected to comply with the provisions of the Stability and Growth Pact in 2018 and 2019.

(6) Household indebtedness has continued to rise from already high levels. Household debt grew by 7.0 % in 2017, reaching about 86 % of GDP and 184 % of disposable income – among the highest levels in the EU. After falling somewhat in 2016, the average debt-to-disposable-income ratio for new mortgage borrowers rose again in 2017 to 411 %, a new high. The growth in household debt is driven mainly by higher mortgage borrowing, linked to high house prices and structural distortions favouring mortgage-financed property investment. Debt levels are unevenly distributed, with lower-income and younger households facing particularly high debt loads relative to their incomes. Sweden has implemented several macroprudential measures in recent years. Steps taken include setting loan-to-value limits, adjusting banks' risk weight floors, and introducing a formal mortgage amortisation rule in June 2016. A new strengthened amortisation requirement for high-debt-to-income mortgages came into force in March 2018. Sweden has also adopted legislation to strengthen the macroprudential authority's (*Finansinspektionen*) legal mandate. The new mandate is operational from February 2018, allowing the authority to respond in a more timely manner with a wider range of potential measures to the risks associated with growing household debt. Macroprudential policy steps taken so far appear to have had limited impact on mortgage lending growth. Gradually limiting the tax deductibility of mortgage interest payments or increasing recurrent property taxes would help curb household debt growth, but the government has made no progress on this.

(7) In 2017 Sweden's economy grew strongly by about 2.4 %, fuelled by robust domestic demand. Investment, driven by housing investment, grew by 6.0 % (year-on-year) in the first three quarters, making a particularly strong contribution. Despite a sharp rise in new construction in recent years, there is still an ongoing supply shortage, particularly of affordable homes around major cities. Lack of available and affordable housing can also limit labour market mobility and the effective integration of migrants into the labour market and contribute to intergenerational inequality.

(8) After two decades of rapidly rising house prices, the housing market experienced a gradual decline in autumn 2017, but prices remain above fundamentals. Key drivers include tax incentives favouring home ownership and mortgage debt, and continued accommodative credit conditions coupled with still relatively low mortgage amortisation rates. In addition, the housing shortage is linked to structural inefficiencies, including limited competition in the construction sector due to barriers to entry for small and foreign firms and the ability of large developers to control land resources. There are also barriers to an efficient usage of the existing housing stock. In the rental market, below-market rents create lock-in and 'insider/outsider' effects. In the owner-occupancy market, capital gains taxes reduce homeowner mobility. The Swedish authorities are continuing to gradually implement the 22-point plan to increase residential construction and improve the efficiency of the housing market. However, no significant policy action has been taken to introduce more flexibility in setting rental prices or to revise the design of the capital gains tax.

(9) The advanced economy needs highly skilled workers and corresponding labour shortages emerge in sectors such as construction, education, health, science, engineering and information and communictaion technologies. In this context, challenges remain, such as integrating the people with a migrant background, especially women, into the labour market. The employment rate of non-EU born women is considerably lower than for the overall population. The educational performance gap between pupils from different socioeconomic backgrounds is widening. The integration of newly arrived migrant pupils into the school system warrants close monitoring, as does the growing shortage of teachers.

(10) In the context of the 2018 European Semester, the Commission has carried out a comprehensive analysis of Sweden's economic policy and published it in the 2018 country report. It has also assessed the 2018 Convergence Programme and the 2018 National Reform Programme and the follow-up given to the recommendations addressed to Sweden in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Sweden but also their compliance with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.

(11) In the light of this assessment, the Council has examined the 2018 Convergence Programme and is of the opinion[9] that Sweden is expected to comply with the Stability and Growth Pact.

(12) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Convergence Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendation 1 below.

HEREBY RECOMMENDS that Sweden take action in 2018 and 2019 to:

1. Address risks related to high household debt by gradually reducing the tax deductibility of mortgage interest payments or increasing recurrent property taxes. Stimulate residential construction where shortages are most pressing, notably by removing structural obstacles to construction, and improve the efficiency of the housing market, including by introducing more flexibility in setting rental prices and revising the design of the capital gains tax.

Done at Brussels,

For the Council
The President

---

9 Under Article 5(2) of Council Regulation (EC) No 1466/97.