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Recommendation for a

COUNCIL RECOMMENDATION

on the 2020 National Reform Programme of Sweden and delivering a Council opinion on the 2020 Convergence Programme of Sweden

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THE COUNCIL OF THE EUROPEAN UNION,

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

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

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

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

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 17 December 2019, the Commission adopted the Annual Sustainable Growth Strategy, marking the start of the 2020 European Semester for 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. On 17 December 2019, 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.

(2) The 2020 country report for Sweden[3] was published on 26 February 2020. It assessed Sweden's progress in addressing the country-specific recommendations adopted by the Council on 9 July 2019[4], the follow-up given to the recommendations adopted in previous years and Sweden's progress towards its national Europe 2020 targets. It also

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.
[3] SWD(2020) 526 final.
[4] OJ C 301, 5.9.2019, p. 117.

included an in-depth review under Article 5 of Regulation (EU) No 1176/2011, the results of which were also published on 26 February 2020. The Commission's analysis led 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. This could have an adverse impact on the economy and potentially also for the banking sector. Any negative impact on the banking sector could also cause negative spill-overs in neighbouring countries given the systemic financial interlinkages. Some measures have been taken in recent years to address these imbalances. However, these measures have had limited impact so far. Key policy gaps remain, particularly in relation to tax incentives for debt-financed home ownership, the functioning of the housing supply and, in particular, the rental market.

(3) On 11 March 2020, the World Health Organization officially declared the COVID-19 outbreak a global pandemic. It is a severe public health emergency for citizens, societies and economies. It is putting national health systems under severe strain, disrupting global supply chains, causing volatility in financial markets, triggering consumer demand shocks and having negative effects across various sectors. It is threatening people's jobs, their incomes and companies' business. It has delivered a major economic shock that is already having serious repercussions in the European Union. On 13 March 2020, the Commission adopted a Communication[5] calling for a coordinated economic response to the crisis, involving all actors at national and Union level.

(4) Several Member States have declared a state of emergency or introduced emergency measures. Any emergency measures should be strictly proportionate, necessary, limited in time, and in line with European and international standards. They should be subject to democratic oversight and independent judicial review.

(5) On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact[6]. 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.

(6) Continued action is required to limit and control the spread of the pandemic, strengthen the resilience of the national health systems, mitigate the socio-economic consequences through supportive measures for business and households and to ensure

[5] COM(2020) 112 final.
[6] COM(2020) 123 final.

adequate health and safety conditions at the workplace with a view to resuming economic activity. The Union should fully use the various tools at its disposal to support Member States' efforts in those areas. In parallel, Member States and the Union should work together to prepare the measures necessary to get back to a normal functioning of our societies and economies and to sustainable growth, integrating inter alia the green transition and the digital transformation, and drawing all lessons from the crisis.

(7) The COVID-19 crisis has highlighted the flexibility that the single market offers to adapt to extraordinary situations. However, in order to ensure a swift and smooth transition to the recovery phase and the free movement of goods, services and workers, exceptional measures that prevent the single market from functioning normally must be removed as soon as they are no longer indispensable. The current crisis has shown the need for crisis preparedness plans in the health sector, which include in particular improved purchasing strategies, diversified supply chains and strategic reserves of essential supplies. They are key elements for developing broader crisis preparedness plans.

(8) The Union legislator has already amended the relevant legislative frameworks[7] to allow Member States to mobilise all unused resources from the European Structural and Investment Funds so they can address the exceptional effects of the COVID-19 pandemic. Those amendments will provide additional flexibility, as well as simplified and streamlined procedures. To alleviate cash flow pressures, Member States can also benefit from a 100% co-financing rate from the Union budget in the 2020-2021 accounting year. Sweden is encouraged to make full use of those possibilities to help the individuals and sectors most affected by the challenges.

(9) The socio-economic consequences of the pandemic are likely to be unevenly distributed across regions due to different specialisation patterns - in particular in regions markedly relying on tourism and more generally on face-to-face business to consumers. This entails a substantial risk of widening regional and territorial disparities within Sweden, aggravating the already observed trend of slowly widening disparities between capital cities and the rest of the country or between urban and rural areas. Combined with the risk of a temporary unravelling of the convergenceprocess between Member States, the current situation calls for targeted policy responses.

(10) On 27 April 2020, Sweden submitted its 2020 National Reform Programme and, on 28 April 2020, its 2020 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(11) Sweden is currently in the preventive arm of the Stability and Growth Pact.

(12) In its 2020 Convergence Programme, the government plans the headline balance to deteriorate from a surplus of 0,4% of GDP in 2019 to a deficit of 3,8% of GDP in 2020. The deficit is projected to decline to 1,4% of GDP in 2021 and reach a surplus

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[7] Regulation (EU) 2020/460 of the European Parliament and of the Council of 30 March 2020 amending Regulations (EU) No 1301/2013, (EU) No 1303/2013 and (EU) No 508/2014 as regards specific measures to mobilise investments in the healthcare systems of Member States and in other sectors of their economies in response to the COVID-19 outbreak (Coronavirus Response Investment Initiative) (OJ L 99, 31.3.2020, p. 5) and Regulation (EU) 2020/558 of the European Parliament and of the Council of 23 April 2020 amending Regulations (EU) No 1301/2013 and (EU) No 1303/2013 as regards specific measures to provide exceptional flexibility for the use of the European Structural and Investments Funds in response to the COVID-19 outbreak (OJ L 130, 24.4.2020, p. 1).

of 1,5% by 2023. After decreasing to 35% of GDP in 2019, the general government debt-to-GDP ratio is expected to increase to 40% in 2020 according to the 2020 Convergence Programme. The macroeconomic and fiscal outlook are affected by high uncertainty related to the COVID-19 pandemic.

(13) In response to the COVID-19 pandemic, and as part of a coordinated Union approach, Sweden has adopted budgetary measures to increase the capacity of its health system, contain the pandemic, and provide relief to those individuals and sectors that have been particularly affected. According to the 2020 Convergence Programme, those budgetary measures amounted to 2,4% of GDP. The measures include: strengthening health care services (0,1% of GDP), emergency aid for distressed sectors (1,6% of GDP) and labour market and social policy measures (0,2% of GDP). In addition, Sweden has announced measures that, while not having a direct budgetary impact, will contribute to support liquidity to businesses. According to the Convergence Programme, those measures include in particular tax deferrals of up to 6,9% of GDP, as well as different kinds of loan guarantees and expanded credit facilities amounting to roughly 4,7% of GDP. Overall, the measures taken by Sweden are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak. The full implementation of those measures, followed by a refocusing of fiscal policies towards achieving prudent medium-term fiscal positions when economic conditions allow, will contribute to preserving fiscal sustainability in the medium term.

(14) Based on the Commission 2020 spring forecast under unchanged policies, Sweden's general government balance is forecast at -5,6% of GDP in 2020 and -2,2% in 2021. The general government debt ratio is projected to remain below 60% of GDP in 2020 and 2021.

(15) On 20 May 2020, the Commission issued a report prepared in accordance with Article 126(3) of the Treaty due to Sweden's planned breach of the 3% of GDP deficit threshold in 2020. Overall, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.

(16) Sweden's economy has slowed down in an unprecedented way following the outbreak of the COVID-19 pandemic. According to the Commission forecast, unemployment is expected to rise to 9,7% in 2020 and recover to 9,3% in 2021. Private consumption is expected to decline strongly, in particular in the most exposed consumption categories like transport, restaurants and accommodation. Gross fixed capital formation is projected to see an even sharper drop than consumption, driven largely by uncertainty over the pace of the recovery. The Swedish authorities started taking measures early on and have successively scaled up policy measures as the pandemic spread. The measures covered healthcare and addressed the economic fall-out. Healthcare-related measures include economic support from the central government for all extra costs of the COVID-19 outbreak to the regions and local authorities responsible for the healthcare system. On the economic front, the government has taken a broad range of steps to relieve the costs of the corporate sector (short-term layoffs, sick pay costs, waving employer's social contributions, credit guarantees and rent reductions) as well as to ensure corporate liquidity (postponing tax payments, including VAT payments). Further, the Riksbank has decided to extend loans to companies via banks, to purchase government and municipal bonds, as well as covered mortgage bonds and bonds and commercial papers issued by Swedish non-financial corporations. In the process of designing and implementing these measures the resilience of the banking sector needs to be taken into account. The Riksbank has also concluded currency swap agreements,

with other central banks, to ensure the availability of major currencies for the financial sector. Social and labour market policy has been expanded by increasing unemployment and sickness benefits, lowering requirements for accessing the unemployment scheme and through active labour market and education policies (green jobs, new start jobs extended, summer courses, more students in higher education).

(17) Sweden's short-term policy response to COVID-19 outbreak relies on securing appropriate resources and capacity buffers and adapting the roles and responsibilities of health workers. In the medium term, this should also lead to timely and geographically balanced healthcare, the appropriate deployment of the health workers in the various settings (for example in out-patient and in-patient care), and help avoid structural shortages of medical staff. Making use of Sweden's strong Research & Innovation sector for science-driven actions can contribute to progress on vaccines development, treatments and diagnostics and on translating research findings into public health policy.

(18) Supporting the availability of skills, and digital skills in particular, can sustain higher productivity growth through research and innovation in high-tech sectors, and help achieve Sweden's ambitious climate and energy objectives contained in its National Energy and Climate Plan. Investments are also needed to reduce educational outcomes gaps between learners with a migrant and native background. The high quality of labour was a major contributor to labour productivity growth but had all but stopped contributing before the COVID-19 crisis. Labour market integration of groups whose potential was not fully used before the crisis, such as non-EU migrants and people with disabilities, will also be necessary. Skills shortages are particularly pronounced in education, health care, social work, information and communication technology, industry and construction.

(19) To foster the economic recovery, it will be important to front-load mature public investment projects and promote private investment, including through relevant reforms. In the digital and microelectronics sectors, more than 50% of employers report skills shortages affecting growth. Sustaining the high share of public spending in research is a necessary condition to improve the productivity performance. Capital deepening and higher investments in high-tech and innovative sectors are also needed to restore labour productivity growth. The diffusion of new digital technologies among small and medium-sized enterprises will help boost productivity. The crisis has shown how important the digital infrastructure is and that fast and stable connectivity needs to be available in all places where people live or work. The expansion of mobile broadband in the 700 MHz band will play an important role, as does the possibility of financial support for the development of fixed broadband. The upcoming auction of the 5G will provide additional impulse to the digitalisation of the Swedish economy. The objective of achieving a climate neutral society in 2045 will also require investments in research and innovation enabling the development and implementation of novel, competitive solutions for decarbonisation and coordinated social and policy actions. Transport is the prime target for reducing Sweden's greenhouse gas emissions. A comprehensive and relatively fast transformation of the fleet to low emissions vehicles is on the political agenda. Planned investment in rail infrastructure is important to facilitate a modal split and to deliver on Sweden's ambitious climate objective. The electrification of transport and industry will require significant investments in power production and distribution. The programming of the Just Transition Fund for the period 2021-2027 could help Sweden to address some of the challenges posed by the transition to a climate neutral economy, in particular in the

territories covered by Annex D to the country report[8]. This would allow Sweden to make the best use of that fund.

(20) Persistent allegations of suspected money laundering have affected the reputation of Swedish banks, and preventing money laundering remains a priority for Sweden. Effective supervision requires increased resources and appropriate procedures to apply the risk-based approach. Sweden has recognised that more resources are needed to exercise suitable supervision and investigations, and has strengthened the capacity of its Financial Supervisory Authority. However, the Authority's capacity is still low compared to the size of the Swedish financial sector. Challenges remain and the risk-based approach still needs to be fully implemented.

(21) While the present recommendations focus on tackling the socio-economic impacts of the pandemic and facilitating the economic recovery, the 2019 country-specific recommendations adopted by the Council on 9 July 2019 also covered reforms that are essential to address medium- to long-term structural challenges. Those recommendations remain pertinent and will continue to be monitored throughout next year's European Semester annual cycle. That also applies to recommendations regarding investment-related economic policies. The latter recommendations should be taken into account for the strategic programming of cohesion policy funding post-2020, including for mitigating measures and exit strategies with regard to the current crisis.

(22) The European Semester provides the framework for continuous economic and employment policy coordination in the Union, which can contribute to a sustainable economy. Member States have taken stock of progress regarding United Nations' Sustainable Development Goals (SDGs) implementation in their 2020 National Reform Programmes. By ensuring the full implementation of the recommendations below, Sweden will contribute to the progress towards the SDGs and to the common effort of ensuring competitive sustainability in the Union.

(23) In the context of the 2020 European Semester, the Commission has carried out a comprehensive analysis of Sweden's economic policy and published it in the 2020 country report. It has also assessed the 2020 Convergence Programme and the 2020 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.

(24) In the light of that assessment, the Council has examined the 2020 Convergence Programme and its opinion[9] is reflected in particular in recommendation (1) below.

(25) In the light of the Commission's in-depth review and this assessment, the Council has examined the 2020 National Reform Programme and the 2020 Convergence Programme. The present recommendations take into account the need to tackle the pandemic and facilitate the economic recovery as a first necessary step to permit an adjustment of imbalances. After refocusing recommendations on the objective of tackling the socio-economic impacts of the pandemic and facilitating the economic recovery, none of the present recommendations directly addresses the macroeconomic

[8] SWD(2020) 526 final.

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

imbalances identified by the Commission under Article 6 of Regulation (EU) No 1176/2011,

HEREBY RECOMMENDS that Sweden take action in 2020 and 2021 to:

1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Ensure the resilience of the health system, including through adequate supplies of critical medical products, infrastructure and workforce.

2. Foster innovation and support education and skills development. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, high-tech and innovative sectors, 5G networks and sustainable transport.

3. Improve the effectiveness of anti-money laundering supervision and effectively enforce the anti-money laundering framework.

Done at Brussels,

For the Council
The President