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Recommendation for a

COUNCIL RECOMMENDATION

on the 2023 National Reform Programme of Sweden and delivering a Council opinion on the 2023 Convergence Programme of Sweden

{SWD(2023) 627 final}

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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) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it contributes to economic and social recovery and to the implementation of sustainable reforms and investments, in particular to promote the green and digital transition and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Recovery and Resilience Facility was updated on 30 June 2022, in accordance with Article 11(2) of Regulation (EU) No 2021/241.

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(2) On 22 November 2022, the Commission adopted the Annual Sustainable Growth Survey[4], marking the start of the 2023 European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 23 March 2023. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2023 Alert Mechanism Report, in which it identified Sweden as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 16 May 2023, as well as the proposal for the 2023 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 13 March 2023.

(3) While the EU economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the EU stands firmly with Ukraine, the EU economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and companies in the short term, and on keeping up efforts to deliver on the green and digital transition, support sustainable and inclusive growth, safeguard macroeconomic stability, and increase resilience in the medium term. It also focuses heavily on increasing the EU's competitiveness and productivity.

(4) On 1 February 2023, the Commission issued the Communication *A Green Deal Industrial Plan for the Net-Zero Age*[5] to boost the competitiveness of the EU's net-zero industry and support the fast transition to climate neutrality. The plan complements ongoing efforts under the European Green Deal and REPowerEU. It aims to provide a more supportive environment for scaling up the EU's manufacturing capacity for the net-zero technologies and products required to meet the EU's ambitious climate targets, as well as ensuring access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains. On 16 March 2023, the Commission also issued the Communication *Long-term competitiveness of the EU: looking beyond 2030*[6], structured along nine mutually reinforcing drivers with the objective to work towards a growth enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well focused investments and regulatory measures for the long-term competitiveness of the EU and its Member States. The recommendations below help address those priorities.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. Fully implementing the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 country-specific recommendations remain equally relevant also

4 COM(2022) 780 final.
5 COM(2023) 62 final.
6 COM(2023) 168 final.

for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) No 2021/241.

(6) The REPowerEU Regulation[7], adopted on 27 February 2023, aims to rapidly phase out the EU's dependence on Russian fossil fuel imports. This will contribute towards energy security and the diversification of the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. These reforms and investments will also help boost the competitiveness of the EU's net-zero industry as outlined in the Green Deal Industrial Plan for the Net-Zero Age and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States to finance new energy-related reforms and investments under their recovery and resilience plans.

(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024. It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination[8]. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023-2024 that ensure medium-term debt sustainability as well as raise potential growth in a sustainable manner. Member States were invited to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the 3% of GDP deficit reference value is adhered to as well as plausible and continuous debt reduction, or for debt to be kept at prudent levels, in the medium term. The Commission invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy pressures, Member States should target such measures much better than in the past towards vulnerable households and firms. The Commission proposed that the fiscal recommendations would be quantified and differentiated and be formulated on the basis of net primary expenditure, as proposed in its Communication on orientations for a reform of the EU economic governance framework[9]. It recommended that all Member States should continue to protect nationally financed investment and ensure the effective use of the Recovery and Resilience Facility and other EU funds, in particular in light of the green and digital transition and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the EU's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and

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7 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

8 COM(2023) 141 final.

9 COM(2022) 583 final.

inclusive growth in all Member States through reforms and investment. The proposals aim at providing Member States with more control over the design of their medium-term plans, while putting in place a more stringent enforcement regime to ensure that Member States deliver on the commitments undertaken in their medium-term fiscal-structural plans. The objective is to conclude the legislative work in 2023.

(9) On 28 May 2021, Sweden submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) No 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 4 May 2022, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Sweden[10]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Sweden has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(10) On 28 April 2023, Sweden submitted its 2023 National Reform Programme and, on 28 April 2023, its 2023 Convergence Programme, in line with Article 8(1) of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects Sweden's biannual reporting on the progress made in achieving its recovery and resilience plan.

(11) The Commission published the 2023 country report for Sweden[11] on 24 May 2023. It assessed Sweden's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022 and took stock of Sweden's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Sweden's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(12) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Sweden and published its results on 24 May 2023[12]. The Commission concluded that Sweden is experiencing macroeconomic imbalances. In particular, vulnerabilities relating to its real estate market and high private debt persist. Real estate prices are high, and have been rising until recently. House price increases have gone hand in hand with rising private debt. In 2022, against a backdrop of marked tightening in monetary and financing conditions, real estate prices started to decline visibly in what seems to be the start of an unwinding of the accumulated vulnerabilities. Prices remain significantly overvalued and are expected to decline further. The turnover in the real estate sector has recently declined markedly, and, as a

[10] Council Implementing Decision of 4 May 2022 on the approval of the assessment of the recovery and resilience plan for Sweden (ST 7772/22; ST 7772/22 ADD 1).

[11] SWD(2023) 627 final.

[12] SWD(2023) 644 final.

result, demand for newly built dwellings has also fallen. The adverse developments have, so far, been limited to the construction and real estate sectors, which are now declining sharply after years of high growth. As a whole, the Swedish economy is expected to contract in 2023, with the changes in monetary conditions affecting the balance sheets of households and commercial real estate companies and their room to consume and invest. The impact of increased interest rates on mortgage payments is substantial, due to the prevalence of variable interest rates and very long duration mortgages. The impact of changing conditions on the financial sector has been limited; the sector is strong and records high profit margins and risk-weighted capital ratios, likely serving as a bulwark against a propagation of the real estate sector problems to the wider economy through the financial sector, although it is highly exposed to real estate. Policy progress has been limited. In particular, the tax system continues favouring homeownership through low recurrent property taxation and promotes debt-financed housing acquisition through significant tax deductibility of mortgage interest payments. In addition, the inefficient rental market has seen limited reform.

(13) Based on data validated by Eurostat,[13] Sweden's general government balance improved from a balanced budgetary position in 2021 to a surplus of 0.7% in 2022, while general government debt fell from 36.5% of GDP at the end of 2021 to 33.0% at the end of 2022.

(14) The general government balance has been impacted by the fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices. In 2022, such revenue-decreasing measures included reducing the energy tax on diesel and petrol; while such expenditure-increasing measures included offsetting the cost of electricity to households. The Commission estimates the net budgetary cost of these measures at 0.2% of GDP in 2022[14]. The general government balance has also been impacted by the budgetary cost of temporary protection to displaced persons from Ukraine, which is estimated at 0.2% of GDP in 2022. At the same time, the estimated cost of COVID-19 temporary emergency measures dropped to 1.1% of GDP in 2022, from 2.0% in 2021.

(15) On 18 June 2021, the Council recommended that in 2022 Sweden[15] maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

(16) According to the Commission estimates, the fiscal stance[16] in 2022 was contractionary, at +0.4% of GDP, which was appropriate in a context of high inflation. As recommended by the Council, Sweden continued to support the recovery including with investments financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.2 % of GDP in 2022 (0.2% of GDP in 2021). Nationally financed investment

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13 Eurostat-Euro Indicators, 47/2023, 21.4.2023.

14 The gross budgetary cost of energy support measures was close to 0.5% of GDP in 2022, but significant offsetting revenue was received from the Transmission System Operator, *Svenska Kraftnät*.

15 Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Convergence Programme of Sweden, OJ C 304, 29.07.2021, p. 131.

16 The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding Covid-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

provided an expansionary contribution of 0.1 percentage points to the fiscal stance[17]. Sweden therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided a contractionary contribution of 0.8 percentage points to the fiscal stance. Sweden therefore sufficiently kept under control the growth in nationally financed current expenditure.

(17) The macroeconomic scenario underpinning the budgetary projections in the Convergence Programme is cautious in 2023 and realistic thereafter. The government projects real GDP to decrease by 1.0% in 2023 and to grow again by 1.2% in 2024. By comparison, the Commission 2023 spring forecast projects real GDP to fall by 0.5% in 2023 and grow by 1.1% in 2024, mainly due to more recent data and investment outside construction being somewhat less dynamic in the Commission forecast.

(18) In its 2023 Convergence Programme, the government expects that the 2022 general government surplus will deteriorate to a deficit ratio of 0.4% of GDP in 2023. The deterioration in 2023 mainly reflects the weaker economy and deteriorating local government sector finances. According to the Programme, the general government debt-to-GDP ratio is expected to decrease from 33.0% at the end of 2022 to 31.0% at the end of 2023. The Commission 2023 spring forecast projects a government deficit of 0.9% of GDP for 2023. This is higher than the deficit projected in the Convergence Programme, mainly due to the fact that the Commission expects higher public spending, resulting from e.g. higher intermediate consumption and social transfers in kind, as well as higher interest expenditure. The Commission 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 31.4%, at the end of 2023.

(19) The government balance in 2023 is expected to continue to be impacted by the measures adopted to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022 (in particular, the reduction of the energy tax on petrol and diesel) and new measures, such as the compensation of electricity costs for households, firms and organisations. The cost of these measures is mostly offset by revenues from transmission fees as well as, to a lesser extent, the taxes on windfall profits of energy suppliers. Taking these revenues into account, the net budgetary cost of the support measures is projected in the Commission 2023 spring forecast at 0.1% of GDP in 2023[18]. Most of the measures in 2023 do not appear targeted to the most vulnerable households or firms, and do not fully preserve the price signal to reduce energy demand and increase energy efficiency. As a result, the amount of targeted support measures, to be taken into account in the assessment of compliance with the fiscal recommendation for 2023, is actually estimated in the Commission 2023 spring forecast at 0.0% of GDP in 2023 (in line with 2022). The budgetary cost of temporary protection to displaced persons from Ukraine is projected to remain broadly stable in 2023. Finally, the 2023 government balance is expected to benefit from the phasing out of COVID-19 temporary emergency measures of 1.1% of GDP.

[17] Other nationally financed capital expenditure provided an expansionary contribution of 0.2 percentage points of GDP.

[18] The figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

(20) On 12 July 2022, the Council recommended[19] that Sweden take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[20], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Sweden should stand ready to adjust current spending to the evolving situation. Sweden was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.

(21) In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be broadly neutral (-0.1% of GDP), in a context of high inflation. This follows a contractionary fiscal stance in 2022 (+0.4 % of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a broadly neutral contribution of -0.2% of GDP to the fiscal stance. In sum, the projected growth of nationally financed primary current expenditure is in line with the recommendation of the Council. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 0.3% of GDP in 2023, while nationally financed investment is projected to provide a broadly neutral contribution to the fiscal stance of 0.1 percentage points[21]. Therefore, Sweden plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is not projected to preserve nationally financed investment. It plans to finance public investment for the green and digital transitions, and for energy security, such as investments in the climate transition of the industry and expansion of broadband, which are funded by the Recovery and Resilience Facility and other EU funds.

(22) According to the Convergence Programme the general government deficit is expected to increase to 0.6% of GDP in 2024. The increase in 2024 mainly reflects the economic downturn. The programme expects the general government debt-to-GDP ratio to remain stable at 31.0% at the end of 2024. Based on policy measures known at the cut-off date of the forecast, the Commission 2023 spring forecast projects a government deficit of 0.5% of GDP in 2024. This is broadly in line with the deficit projected in the programme. The Commission 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 30.7% at the end of 2024.

(23) The Convergence Programme envisages the phasing out of most of the energy support measures in 2024[22]. The Commission estimates the net cost of energy support measures at 0.1% of GDP in 2024, in line with 2023. These estimates hinge upon the assumption of no renewed energy price increases. The energy support measures that are currently planned to remain in place in 2024 do not appear targeted to vulnerable households or firms. They do not preserve the price signal to reduce energy demand and increase energy efficiency.

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19 Council Recommendation of 12 July 2022 on the National Reform Programme of Sweden and delivering a Council opinion on the 2022 Convergence Programme of Sweden, OJ C 334, 1.0.2022, p. 221.

20 Based on the Commission spring 2023 forecast, the medium-term (10-year average) potential output growth of Sweden, which is used to measure the fiscal stance, is estimated at 7.7 % in nominal terms.

21 Other nationally financed capital expenditure is projected to provide a neutral contribution.

22 The reduction of energy tax on diesel and petrol is planned to remain in place from 2023 to 2025.

(24) In the programme, Sweden plans to meet the medium-term budgetary objective – a structural budget balance of -1.0% of GDP – in 2023 and 2024, and to maintain it throughout the rest of the programme period. Based on the Commission 2023 spring forecast, the structural balance is forecast to be in surplus of 0.1% of GDP in 2023 and 0.7% of GDP in 2024, above the medium-term budgetary objective.

(25) Assuming unchanged policies, the Commission 2023 spring forecasts projects the net nationally financed primary expenditure to grow in 2024 at 1.1% in 2024.

(26) According to the programme, government investment is expected to increase from 4.7% of GDP in 2023 to 5.2% of GDP in 2024. The higher investment reflects both higher nationally financed investment and investment financed by the EU, namely through the Recovery and Resilience Facility. The programme refers to reforms and investments, such as the changed age limits in the pension system, that are expected to contribute to fiscal sustainability and to sustainable and inclusive growth. The Convergence Programme outlines a medium-term fiscal path until 2026. According to the programme, the general government deficit is expected to turn into a surplus of 0.2% of GDP in 2025 and of 1.4% by 2026. The general government balance is therefore planned to meet the relevant Treaty reference value over the programme horizon. According to the programme, the general government debt-to-GDP ratio is expected to decrease from 31.0% at the end of 2024 to 27.7% by the end of 2026.

(27) High private debt and, despite some recent corrections, still overvalued property prices constitute macroeconomic imbalances that continue to be at risk of disorderly unwinding. Housing remains difficult to afford for newcomers to the housing market, while the rental market offers few alternatives and is still in need of reform, to reduce waiting lists and promote the construction of rental accommodation. Limited policy action has been taken by Sweden to counter the imbalances, focusing on macroprudential policies and supply measures aimed at easing building permit procedures and subsidising the construction of rental apartments.

(28) The overall tax burden on property remains relatively low because of generous tax deductions on mortgage interest payments and low recurrent property taxes. The impact of policy changes on after-tax mortgage payments is difficult to assess, due to a lack of individual household data on assets and liabilities. Availability of such data could lead to efficiency gains in the design of policy, possibly lowering the entry barrier to the housing market and spreading housing burdens more equally among the population. On the rental market, regulated below-market rents benefit a limited group of households. There is no link between the regulated rent and the household's needs or income. As a consequence, there are long waiting lists, particularly for the more sought-after rental dwellings, and the vacancy rate for apartments is very low from an international perspective. Efficiency gains would be made if rents followed market prices more closely, complemented with rental support based on income and net wealth.

(29) In accordance with Article 19(3), point (b) and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. While Sweden's recovery and resilience plan was only adopted in 2022, its implementation is now underway. Despite a slow start, the implementation is generally on track, and, at this stage, risks of non-absorption appear limited given the relatively small financial allocation of the recovery and resilience plan. The Operational Arrangement between the Commission and Sweden has been concluded in May 2023. Sweden is expected to

submit its first payment request combining two instalments in the second half of 2023. Preparations of a REPowerEU chapter and an addendum due to the slight decrease of non-repayable support are ongoing. The swift inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Sweden's strategic objectives in the field of energy and the green transition. The systematic and effective involvement of local and regional authorities, social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.

(30) The Commission approved all of Sweden's cohesion policy programming documents in 2022. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transition, increasing economic and social resilience, as well as achieving balanced territorial development in Sweden.

(31) Beyond the economic and social challenges addressed by the recovery and resilience plan, Sweden faces a number of additional challenges related to (i) unequal opportunities in education for pupils from disadvantaged socio-economic and migrant backgrounds; (ii) the need to better integrate disadvantaged groups into the labour market; and (iii) the need to reduce reliance on fossil fuels.

(32) Even though Sweden generally performs well on educational outcomes, inequalities persist in the Swedish education system. Pupils with disadvantaged socio-economic and migrant backgrounds have limited educational opportunities, including developing the skills needed to find employment. Inequalities in education are increasing and are often linked to the lack of opportunities for pupils with migrant backgrounds to choose the school they want. Differences in grading practices across schools risk further undermining educational outcomes. The shortage of qualified teachers remains problematic and is most pressing for special needs teachers, subject teachers in compulsory schools and vocational teachers in secondary schools. There is scope to improve the set-up and governance of the education system, including the enrolment process and grading system, as well as teachers' career progression.

(33) Sweden continues to face challenges in integrating people with disadvantaged and migrant backgrounds into the labour market, as well as with reducing the remaining skills gaps. The education levels of non-EU-born people have decreased in recent years, which further increases the gap between the EU-born and the non-EU born. The share of early leavers from education and training has been increasing, especially among non-EU-born students. Strengthening participation in learning activities is needed to help people from disadvantaged groups develop skills relevant for the labour market and increase their chances of finding a job.

(34) More effort is needed for Sweden to achieve its national target of net zero carbon emissions by 2045. Although Sweden continues to be among the Member States with the highest share of renewables in its final energy consumption, power grid capacity and transmission constraints may impose restrictions on the further deployment of renewable energy sources in the future. In 2022, these constraints contributed to surging energy prices for industry and households and limited the expansion of economic activity in remote geographical locations. Increasing the capacity of the electricity grid is pivotal, given that Sweden's final electricity consumption is

expected to double to 300 TWh by 2045, due to the increased electrification needs of industry and transport. However, the construction and reinforcement of the electricity grid is subject to delays caused by lengthy permitting processes. In addition, Sweden has some of the lengthiest administrative procedures in the EU for deploying renewable energy sources, in particular onshore wind projects. The government has launched an investigation into simplifying environmental permit assessments within the remit of the Swedish Environmental Code. At the same time, concrete policy action is lacking to accelerate administrative procedures for electricity grid expansion and the deployment of renewable energy sources, by limiting the number of authorities involved in these procedures and by running procedures in parallel. Reducing energy consumption by increasing energy efficiency is also essential to reducing carbon emissions and energy costs for households and businesses. In terms of energy efficiency, Sweden is at risk of not achieving its national target of using energy 50% more efficiently in 2030 (as compared to 2005) if the energy consumption trajectory between 2005 and 2020 continues. With a primary energy consumption of 43.8 Mtoe in 2021, Sweden remains among the Member States with the highest energy consumption per capita. Sweden's consumption of natural gas has dropped by 37% in the period August 2022 - March 2023, compared with the average gas consumption over the same period in the preceding 5 years, beyond the 15% reduction target. Sweden could keep pursuing efforts to temporarily reduce gas demand until 31 March 2024[23].

(35) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, these measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition. Labour shortages have increased in Sweden in recent years and in 2022 they were reported for 16 occupations that require specific skills or knowledge for the green transition.

(36) In light of the Commission's assessment, the Council has examined the 2023 Convergence Programme and its opinion[24] is reflected in recommendation (1) below.

(37) In light of the Commission's in-depth review and this assessment, the Council has examined the 2023 National Reform Programme and the 2023 Convergence Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 is reflected in recommendation (1) below. Policies referred to in recommendation (1) help address vulnerabilities linked to high private debt and high house prices.

HEREBY RECOMMENDS that Sweden take action in 2023 and 2024 to:

1. Wind down the energy support measures in force by the end of 2023. Should renewed energy price increases necessitate support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.

[23] Council Regulation (EU) 2022/1369 and Council Regulation (EU) 2023/706

[24] Under Articles 5(2) and 9(2) of Council Regulation (EC) No 1466/97.

While maintaining a sound fiscal position in 2024, preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions.

For the period beyond 2024, continue to pursue investment and reforms conducive to higher sustainable growth and preserve a prudent medium-term fiscal position.

Reduce risks related to high household debt and housing market imbalances by reducing the tax deductibility of mortgage interest payments and/or increasing recurrent property taxes, while establishing adequate tools for better policy assessment and targeting. Stimulate investment in residential construction to ease the most urgent shortages, in particular by removing structural obstacles to construction and by ensuring the supply of buildable land. Improve the efficiency of the housing market, including by introducing reforms to the rental market.

2. Proceed with the steady implementation of its recovery and resilience plan and swiftly finalise the REPowerEU chapter with a view to rapidly starting its implementation. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

3. Improve educational outcomes for pupils with disadvantaged socio-economic and migrant backgrounds by ensuring equal access opportunities in the schooling system and addressing the shortages of qualified teachers. Develop the skills of disadvantaged groups, particularly people with migrant backgrounds, by adapting resources and methods to their needs, with a view to helping them integrate into the labour market.

4. Reduce reliance on fossil fuels by accelerating the deployment of renewables, including by expanding and upgrading energy transmission networks, introducing reforms to simplify and speed up administrative and permitting procedures, improving energy efficiency and stepping up policy efforts aimed at the provision and acquisition of the skills needed for the green transition.

Done at Brussels,

For the Council
The President