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Recommendation for a

COUNCIL RECOMMENDATION

on the 2022 National Reform Programme of Sweden and delivering a Council opinion on the 2022 Convergence Programme of Sweden

{SWD(2022) 625 final} - {SWD(2022) 640 final}

Recommendation for a

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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 for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transition, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility [was] updated on [XX] June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

(2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy

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).

coordination. It took due account of the reaffirmed joint commitment of the Porto Social Summit of May 2021 to further implement the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual Sustainable Growth Survey on 25 March 2022. On 24 November 2021, 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[4] would be needed. On the same date, the Commission also adopted the proposal for the 2022 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which was adopted by the Council on 14 March 2022.

(3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt for example through higher energy and food prices and weaker growth prospects. The higher energy prices weigh particularly on the most vulnerable households experiencing or at risk of energy poverty. The EU is also seeing an unprecedented inflow of people fleeing Ukraine. In this context, on 4 March 2022, the Temporary Protection Directive was triggered[5] for the first time, granting displaced persons from Ukraine the right to legally stay in the EU, as well as access to education and training, labour market, healthcare, housing and social welfare.

(4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any country-specific recommendations issued up to the date of submission of the modified plan.

(5) The General Escape Clause has been active since March 2020[6]. In its Communication of 3 March 2021[7], the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the EU or euro area compared to pre-crisis levels (end-2019) as a key quantitative criterion. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued

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4 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, OJ L 306, 23.11.2011, p. 25.

5 Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection, OJ L 71, 4.3.2022, p. 1.

6 Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

7 Communication from the Commission to the Council on one year since the outbreak of COVID-19: fiscal policy response, Brussels, 3.3.2021, COM(2021) 105 final.

supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

(6) Following the approach in the Council opinion of 18 June 2021 on the 2021 Convergence Programme, the fiscal stance is currently best 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[8]. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally-financed[9] primary current expenditure (net of discretionary revenue measures and excluding COVID-19 crisis-related temporary emergency measures) and investment.

(7) On 2 March 2022, the Commission adopted a Communication providing broad guidance for fiscal policy in 2023, aiming at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination[10]. The Commission noted that, based on the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020-2022 to a broadly neutral aggregate fiscal stance would appear appropriate in 2023, while standing ready to react to the evolving economic situation. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate across Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its Semester spring package of late May 2022.

(8) With respect to the fiscal guidance provided on 2 March 2022, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transition and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second round effects via targeted and temporary measures; fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, and be differentiated across countries depending on their fiscal and economic situation, including as regards the exposure to the crisis and the inflow of displaced persons from Ukraine.

(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) 2021/241, the Commission assessed the relevance,

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8 The estimates on the fiscal stance and its components in this recommendation are Commission estimates based on the assumptions underlying the Commission 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

9 Not financed by grants from the Recovery and Resilience Facility and other EU funds.

10 Communication from the Commission to the Council: Fiscal policy guidance for 2023, Brussels, 2.3.2022, COM(2022) 85 final.

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, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Sweden[11]. 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 29 April 2022, Sweden submitted its 2022 National Reform Programme and its 2022 Convergence Programme, within the deadline established in Article 4 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 2022 National Reform Programme also reflects Sweden's bi-annual reporting on the progress made in achieving its recovery and resilience plan.

(11) The Commission published the 2022 country report for Sweden[12] on 23 May 2022. It assessed Sweden's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, and took stock of Sweden's implementation of the recovery and resilience plan, building on the Recovery and Resilience Scoreboard. 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, including those emerging from Russia's invasion of Ukraine. 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 23 May 2022[13]. The Commission concluded that Sweden is experiencing macroeconomic imbalances. Vulnerabilities relate to high and rising house prices and high household indebtedness. Private debt has risen to 216 % of GDP in 2020, which is a concern because of the large share of debt used to buy property. Financial institutions are exposed to the real estate market through mortgage lending and credit to commercial real estate and construction firms. Spurred by a housing shortage, an overregulated rental market, fiscal incentives to take up mortgage loans, and declining interest rates, households have increasingly taken on debt to finance house purchases. This makes them vulnerable to potential interest rate changes. Household debt stood at 188% of disposable income and 95% of GDP at the end of 2020. A correction could have an adverse impact on the economy and the banking sector. This could have a knock-on effect on countries with economic and financial links to the Swedish economy and banking sector. Some measures have been taken in recent years to address these imbalances but have had a limited impact. Key policy gaps remain particularly in relation to tax incentives for debt-financed home ownership, housing supply and the rental market.

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

12 SWD(2022)625 final.

13 SWD(2022)639 final.

(13) On 20 July 2020, the Council recommended Sweden to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Sweden to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, based on data validated by Eurostat, Sweden's general government deficit fell from 2.7% of GDP in 2020 to 0.2% in 2021. The fiscal policy response by Sweden supported the economic recovery in 2021, while temporary emergency support measures declined from 3.3% of GDP in 2020 to 2.2% in 2021. The measures taken by Sweden in 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were mostly temporary. At the same time, some of the discretionary measures adopted over the period 2020 to 2021 were not temporary or matched by offsetting measures, mainly consisting of several expenditure measures as well as income tax cuts. Based on data validated by Eurostat, general government debt stood at 36.7% of GDP in 2021.

(14) The macroeconomic scenario underpinning the budgetary projections in the 2022 Convergence Programme is realistic. The government projects real GDP to grow by 3.1% in 2022 and 1.6% in 2023. By comparison, the Commission's 2022 spring forecast projects a lower real GDP growth of 2.3% in 2022 and 1.4% in 2023. The Government expects that the headline deficit will increase to 0.5% of GDP in 2022 and turn into a surplus of 0.5 % in 2023. The increase in 2022 mainly reflects weaker economic growth and additional spending priorities, which taken together dominate the unwinding of emergency measures. According to the Programme, the general government debt-to-GDP ratio is expected to decrease to 33.5% in 2022, and to keep declining to 30.7 % in 2023. Based on announced policy measures known at the cut-off date of the forecast, the Commission 2022 spring forecast projects a government deficit for 2022 of 0.5% of GDP, turning into a 0.5% surplus in 2023. This is in line with the deficit projected in the 2022 Convergence Programme. The Commission 2022 spring forecast projects a similar general government debt-to-GDP ratio, of 33.8% in 2022 and 30.5% in 2023.

Based on the Commission spring 2022 forecast, the medium-term (10-year average) potential output growth is estimated at 1.9 %. However, this estimate does not include the impact of the reforms that are part of the Recovery and Resilience Plan that can boost Sweden's potential growth.

(15) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency support measures are projected to decline from 2.2% of GDP in 2021 to 1.2% in 2022. The government balance is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission spring 2022 forecast are estimated at 0.4% of GDP in 2022 and 0.0% of GDP in 2023.[14] Compared to the EU average, Sweden has a lower energy intensity of the economy and a lower share of household expenditure on energy.[15] These measures consist of social transfers to households to compensate for higher electricity prices and cuts to fuel taxes in agriculture, forestry

[14] The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

[15] The share of household expenditure on energy is measured by the weight of the energy component in the HICP basket.

and fisheries. These measures have been announced as temporary. However, in case energy prices remain elevated also in 2023, some of these measures might be continued. Some of these measures are not targeted, notably the transfer to households to cover higher electricity prices. The costs to offer temporary protection to displaced persons from Ukraine are projected in the Commission 2022 spring forecast at 0.1% of GDP in 2022 and 2023[16], while the increased cost of defence expenditure amount to just under 0.1% of GDP in 2022 alone.

(16) On 18 June 2021, the Council recommended that in 2022 Sweden[17] maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally-financed investment. It also recommended Sweden to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term, and at the same time, to enhance investment to boost growth potential

(17) In 2022, based on the Commission's 2022 spring forecast and taking into account the information incorporated in Sweden's 2022 Convergence Programme, the fiscal stance is projected to be supportive at -0.6% of GDP as recommended by the Council.[18] Sweden plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional impulse, as recommended by the Council. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.1 percentage points of GDP compared to 2021. Nationally-financed investment is projected to provide a neutral contribution to the fiscal stance in 2022.[19] Therefore, Sweden plans to preserve 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) in 2022 is projected to provide an expansionary contribution of 0.4 percentage points to the overall fiscal stance. This includes the additional impact of the above-mentioned measures to address the economic and social impact of the increase in energy prices (0.4% of GDP)as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP).

(18) In 2023, the fiscal stance is projected in the Commission 2022 spring forecast at +1.3% of GDP on a no-policy change assumption.[20] Sweden is projected to continue

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16 The total number of displaced persons from Ukraine to the EU is assumed to gradually reach 6 million by the end of 2022, and their geographical distribution is estimated based on the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the EU as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

17 Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Convergence Programme of Sweden, OJ C 304, 29.7.2021, p. 131.

18 A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

19 Other nationally-financed capital expenditure is projected to provide a neutral contribution of 0.0 percentage point of GDP.

20 A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

using the grants from the Recovery and Resilience Facility in 2023 to finance additional support of the recovery. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.1 percentage point of GDP compared to 2022. Nationally-financed investment is projected to provide a slightly contractionary contribution to the fiscal stance of 0.1 percentage point in 2023.[21] At the same time, the growth in nationally-financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a contractionary contribution of 1.1 percentage points to the overall fiscal stance. This includes the impact from the phasing out of the measures addressing the increased energy prices (0.4 % of GDP).

(19) In the 2022 Convergence Programme, the general government surplus is expected to gradually increase to 0.8% of GDP in 2024 and to 1.4% by 2025. Therefore, the general government deficit is planned to remain below 3% of GDP over the Programme horizon. According to the Programme, the general government debt-to-GDP ratio is expected to continue to decrease, specifically to 28.9% in 2024 and to further decline to 26.4% in 2025. Based on the Commission's analysis, debt sustainability risks appear low over the medium term.

(20) The combination of high house prices and household debt poses risks of a disorderly correction. Sweden has implemented several macro-prudential measures in recent years to reduce household debt relative to income and the value of the mortgaged property. However, other incentives to borrow and take on debt remain in place. As a result, the policy measures taken so far appear to have had a limited impact on mortgage lending growth. House prices have been increasing since the middle of the 1990s, outpacing the growth of household income. This trend accelerated during 2021, with nominal house prices growing by 11.3% year-on-year in the third quarter. The main reasons for this include tax incentives favouring home ownership and mortgage debt, accommodative credit conditions and relatively low mortgage repayment rates. The overall tax burden on property is relatively low in Sweden because of generous tax deductions of mortgage interest payments and low recurrent property taxes. While capital gain taxes have been lowered in 2020 and 2021 to reduce the cost for existing homeowners to buy and move houses, this change may have slightly raised the entry barrier for first-time buyers through an increase in house prices. Despite a significant increase in new construction in recent years and an increase in the number of building permits granted, a shortage of houses is expected to continue in the coming years. In addition, the existing housing stock is not used efficiently. Together, this makes it harder for people to change jobs and likely contributes to intergenerational inequality. In the rental market, regulated below-market rents benefit a limited group of households. There is no link between the rent and the household's needs and income. Efficiency gains would be made if rents followed market prices more closely complemented with rental support based on income and net wealth.

(21) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2 to Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These help address all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Sweden by the Council in the

[21] Other nationally-financed capital expenditure is projected to provide a neutral contribution of 0.0 percentage point of GDP.

European Semester in 2019 and 2020, in addition to any country-specific recommendations issued up to the date of adoption of a plan. In particular, it introduces reforms and investments to support the green and digital transitions, to make the health care system more resilient, reduce the risk of money laundering, and raise the education and skills level.

(22) The implementation of the recovery and resilience plan of Sweden is expected to contribute to making further progress on the green and digital transition. Measures supporting the climate objectives in Sweden account for 44% of the plan's total allocation, while measures supporting digital objectives account for 21% of the plan's total allocation. The fully fledged implementation of the recovery and resilience plan, in line with the relevant milestones and targets, will help Sweden swiftly recover from the fallout of the COVID-19 crisis, while strengthening its resilience. The systematic involvement of 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.

(23) Sweden submitted the cohesion policy programming documents between November 2021 and February 2022.[22] In line with Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021, Sweden shall take into account the relevant country-specific recommendations in the programming of the 2021-2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting the coordination, complementarity and coherence between these funds and other Union instruments and funds. The successful implementation of the Recovery and Resilience Facility and cohesion policy programmes also depends on the removal of bottlenecks to investment to support the green and digital transition and balanced territorial development.

(24) Beyond the economic and social challenges addressed by the recovery and resilience plan, Sweden faces a number of additional challenges related to (i) overvalued house price levels alongside a continued rise in household debt; (ii) unequal opportunities in education for pupils from disadvantaged and migrant background and the need for a better integration of disadvantaged groups in the labour market; and (iii) the need to further decrease the dependence on fossil fuels, including from Russia.

(25) Despite good outcomes overall, inequalities in the Swedish education system impact the level of basic skills of pupils from disadvantaged socio-economic and migrant backgrounds. The difference in performance between pupils born in Sweden and foreign-born pupils has increased markedly, against the backdrop of a doubling of the number of pupils with a migrant background between 2009 and 2018. Even though international testing results show that basic skills have improved overall, the difference in reading skills between pupils with and without a migrant background is amongst the highest in the EU. Furthermore, the rate of early school leaving is much higher for foreign born pupils. Inequalities in education are increasing and are often

[22] Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy. OJ L 231, 30.6.2021, p. 159.

linked to the limited school choice opportunities for pupils with migrant backgrounds. The difference in educational outcomes has a large impact on the chances of pupils in disadvantaged situations to develop the relevant skills to finding employment. There are opportunities to improve the set-up and governance of the education system, including the enrolment process, as well as address lasting shortages of qualified teachers to promote the quality and equity of the educational system. Sweden also faces challenges integrating beyond-school-age low-skilled and foreign-born people in the labour market. Overall, this contributes to continued gaps in labour market participation and skills for a sizeable number of workers.

(26) In response to the mandate by the EU Heads of State or Government set out in the Versailles Declaration, the REPowerEU plan aims to phase out the European Union's dependence on fossil fuel imports from Russia as soon as possible. For this purpose, the most suitable projects, investments and reforms at national, regional and EU level are being identified in dialogue with the Member States. These measures aim to reduce overall reliance on fossil fuels and shift fossil fuel imports away from Russia.

(27) Stepping up efforts to meet renewable targets laid down in the national energy and climate plan is crucial. Although Sweden has the highest share of renewables in energy consumption in the EU (51.1 % in 2020) it is amongst the Member States with the highest energy consumption per person. Furthermore, a large share of Sweden's greenhouse gas emissions comes from the transport sector, especially road transport. This sector remains heavily reliant on oil, which accounts for 17.7% of the total energy mix. In addition, power and grid capacity constraints, especially in the south of Sweden, continued to increase in 2021, limiting the expansion and location of commercial activities there. This issue is further aggravated by the lack of transmission capacity between the north and south. Additional investment in renewable energy, grid and network capacity, and interconnectivity between the country's regions is needed to reach the national goal of 100% renewable electricity by 2040 and to achieve net zero carbon emissions by 2045. Further streamlining permitting procedures would ease the burden of deploying renewable energy, in particular wind power. Moreover, reducing energy consumption by increasing energy efficiency is essential to reduce carbon emissions and energy costs for consumers and businesses. Increasing investment in renewables and electrification, addressing infrastructure bottlenecks, boosting energy efficiency and lowering fossil fuel consumption in transport will contribute to reducing the overall dependence on fossil fuels, including from Russia. The weight of fossil fuels (2.6% gas, 3.2% coal and 17.7% oil in 2020) in the Swedish energy mix is substantially lower than the EU average (24.4% gas, 10.8% coal and 32.7% oil in 2020). However, there is scope to further reduce Sweden's dependence on Russian fossil fuels. This is especially the case for oil (in 2020, 20% of refined oil imports and 8% of total crude oil imports came from Russia) and gas (13% of total gas imports in 2020 came from Russia). Gas and oil dependency, while significant, are below the EU average of 44% import gas dependency, 23% crude oil import dependency, and 35% refined oil import dependency on Russia.[23] Furthermore, advancing interconnection projects with neighbouring countries could increase the security of Sweden's energy supply and adaptability to regional variances, in light of recent geopolitical events. It should be

[23] Eurostat (2020), share of Russian imports over total imports of natural gas, crude oil and hard coal. For the EU27 average, the total imports are based on extra-EU27 imports. For Sweden, total imports include intra-EU trade. Crude oil does not include refined oil products.

noted that further increase in ambition for reducing greenhouse gas emissions and increasing renewables and energy efficiency will be needed for Sweden to be in line with the 'Fit for 55' objectives.

(28) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Sweden can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate the socio-economic impact of the transition in the most affected regions. In addition, Sweden can make use of the European Social Fund Plus to improve employment opportunities and strengthen social cohesion.

(29) In the light of this assessment, the Council has examined the 2022 Convergence Programme and its opinion[24] is reflected in recommendation (1) below.

(30) In the light of the Commission's in-depth review and this assessment, the Council has examined the 2022 National Reform Programme and the 2022 Convergence Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) and (2) below. Policies referred to in recommendations (1) and (2) help inter-alia address imbalances linked to the poorly functioning housing market and overvalued house prices coupled with a continued rise in household debt.

HEREBY RECOMMENDS that Sweden take action in 2022 and 2023 to:

1. In 2023, ensure that the growth of nationally-financed current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. Reduce risks related to high household debt and housing market imbalances by reducing the tax deductibility of mortgage interest payments or by increasing recurrent property taxes. 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 implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 4 May 2022. Swiftly finalise the negotiations with the Commission of the 2021-2027 cohesion policy programming documents with a view to starting their implementation.

3. Reduce the impact that pupils' socio-economic and migrant backgrounds have on their educational outcomes by providing equal access opportunities to schools and by addressing the shortages of qualified teachers. Develop skills of disadvantaged groups, including people from migrant backgrounds, by adapting resources and methods to their needs to help their integration into the labour market.

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

4. Reduce overall reliance on fossil fuels by accelerating the deployment of renewables and boosting complementary investment in network infrastructure, strengthening internal grids within the country to ensure sufficient network capacity, improving energy efficiency, and further streamlining permitting procedures in relation to renewable energy projects.

Done at Brussels,

For the Council
The President