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OVERVIEW

OECD
BETTER POLICIES FOR BETTER LIVES

Executive summary

- *Main findings*
- *Key recommendations*

Main findings

The economy is resilient, but policy support remains necessary

Sweden passed through the global financial and economic crisis with limited damage, thanks to strong macroeconomic, fiscal and financial fundamentals and a competitive and diversified business sector. The economy is proving resilient in the current environment of sluggish global growth and high uncertainty. Indeed, Sweden is among the few countries where output is now well above its level before the 2008 global financial and economic crisis. Strong domestic demand has underpinned growth, in a context of weak export markets. Fiscal policy has supported activity through the operation of automatic stabilisers and tax cuts. While sustainability is not at risk, the government plans to gradually improve the fiscal position as the recovery strengthens. Monetary policy is set to remain accommodative to ward off risks of deflation and lift inflation towards target. Macro-prudential policy is being reinforced to prevent the build-up of financial imbalances, not least an unsustainable increase in household debt, as interest rates stay low.

Stronger foundations for growth

Sweden has a strong comparative advantage in knowledge-intensive activities, which has boosted output growth and contained the rise in inequality over the past two decades. Well-being is high, and growth is greener than in most other OECD countries. However, in recent years, productivity growth, which is key to sustaining competitiveness and high employment, has slowed. This reflects cyclical but also structural factors, and calls for a focused effort to formulate and implement policies appropriate for Sweden. Barriers to competition and entrepreneurship remain high in some areas, including licences and permits, and land-use planning. Bottlenecks appear in road and rail transport. Public support for innovation is strong but remains fragmented and faces the challenge of adapting to an economy in which services and SMEs play a growing role.

Skills need to be improved and disadvantaged groups better integrated

A highly skilled workforce is crucial to sustain competitiveness and contain the rise in income inequality. Recent surveys of adult skills and educational performance – notably the dramatic deterioration in 15-year olds' PISA scores – suggest that younger cohorts are doing less well than their predecessors in international comparison. Poor educational outcomes are linked to low attractiveness of the teaching profession, deficiencies in teacher education and a lack of support for struggling students. Limited labour market flexibility hampers access to jobs for young people with low qualifications and immigrants, although temporary contracts are a stepping stone into the labour market.

Key recommendations

The economy is resilient, but policy support remains necessary

- Maintain expansionary monetary policy until inflation is clearly picking up.
- Continue to implement macro-prudential policies to contain the risks related to rising household debt. Consider phasing out mortgage interest deductibility.
- Maintain prudent fiscal policy and let automatic stabilisers work.

Stronger foundations for growth

- Simplify regulatory procedures, in particular regarding licences and permits.
- Streamline land-use planning and zoning regulations and increase incentives for municipalities to release land.
- Invest to improve the quality of roads and rail, with careful consideration of social returns.
- Continue to broaden support for innovation and enhance co-ordination of innovation and research policies. Lower financing constraints by fostering the development of debt and equity instruments and platforms for corporate finance.

Skills need to be improved and disadvantaged groups better integrated

- Raise the attractiveness of teaching by increasing monetary incentives, offer clearer career paths, and improve teacher education.
- Increase support for struggling students, including immigrants, through early intervention and targeting resources based on socio-economic background.
- Enhance support and incentives for immigrants to learn Swedish.
- Consider consolidating existing institutions in charge of advising on and supervising education policies into an education policy council.
- Reduce the gap in employment protection between permanent and temporary contracts and increase flexibility in entry level wages.

Assessment and recommendations

- *The economy is resilient but is facing challenges*
- *Macroeconomic policy issues*
- *A large banking sector, high household debt and high housing prices entail risks*
- *Strengthening foundations for growth*
- *Enhancing the skills and integration of disadvantaged groups*

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

The economy is resilient but is facing challenges

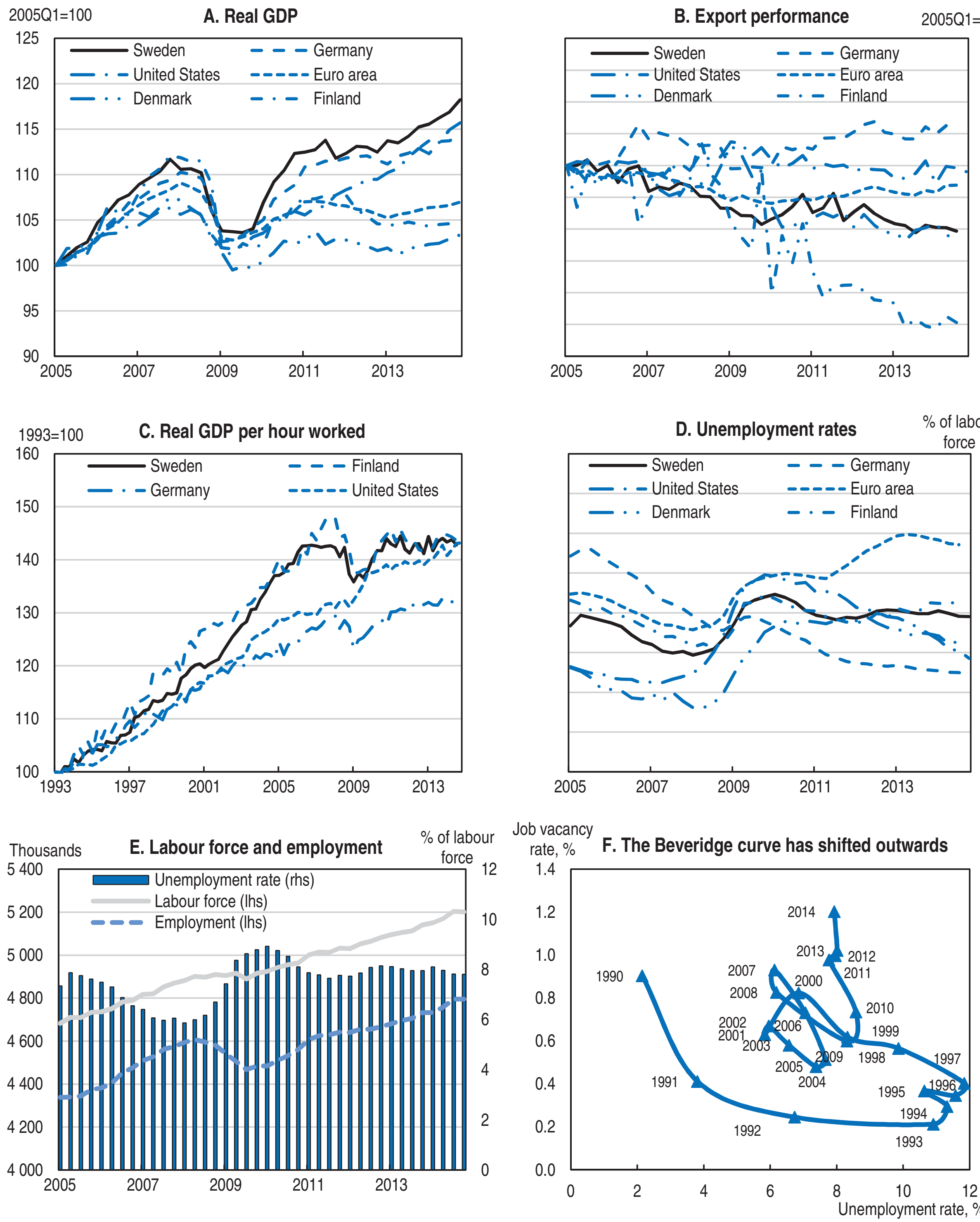
After a deep recession following an acute financial crisis in the early 1990s, Sweden restructured its economy to make it more flexible and competitive. Inequalities have risen over the past two decades but are still low compared to the OECD average, reflecting high employment, low wage dispersion and strong social safety nets. Specialisation in the most profitable parts of global-value chains has allowed Sweden to achieve one of the best productivity performances in the OECD over the past two decades, lifting living standards and well-being. The economy is proving resilient in the current environment of slow global growth and high uncertainty. Indeed, Sweden is among the few countries where output is now well above its level before the 2008 global financial and economic crisis (Figure 1, Panel A), even though GDP per capita has not grown at all during the same period.

Nevertheless, Sweden faces a number of challenges. With countries in Asia and other parts of the world catching up, export performance has been deteriorating in Sweden, as in many other OECD countries (Figure 1, Panel B). Productivity has slowed, as in most other OECD countries (Figure 1, Panel C). The labour market has performed well, with steady growth in employment and the labour force (Figure 1, Panel E). However, the Beveridge curve, which measures the relationship between unemployment and vacancy rates, has been shifting outwards for some time (Figure 1, Panel F), suggesting that it is becoming more difficult to match workers to vacant jobs, which mainly reflect changes in the composition of the labour force. Policies have raised participation of the low-skilled and people with disabilities. The growing inflow of immigrants, particularly asylum seekers, creates more challenges for matching skills with firms' requirements. The unemployment rate therefore remains elevated despite impressive labour market participation and employment rates. This contrasts with some other countries with similar output growth over recent years, like Germany and the United States, where unemployment has receded (Figure 1, Panel D). The youth unemployment rate exceeds 20% but should be interpreted with caution, as many young jobseekers are full-time students. The share of the unemployed who have been out of a job for more than one year is about half the OECD average, with low-skilled workers and immigrants affected most.

Against this background, the key messages of this Survey are:

- Sweden is on the innovation frontier. Raising productivity further will depend on framework conditions and co-ordination of research and innovation policies.
- Sweden's main comparative advantage is in knowledge-intensive activities. Investing in skills and education is essential to foster growth and contain inequalities.
- Strong immigration provides human resources which will support economic growth if labour market inclusion is successful. This potential is, however, currently underused.

Figure 1. **Recent macroeconomic developments are mixed**



Source: *OECD Economic Outlook database.*

How to read Panel F: The Beveridge curve measures the relationship between unemployment and vacancy rates. Normally, high vacancy rates are associated with low unemployment, and low vacancies with high unemployment. If the curve shifts outwards, this suggests that matching workers to vacant jobs is becoming more difficult, pointing to a higher structural unemployment rate.

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Activity is gaining momentum on the back of strong domestic demand

Growth will be supported by strong private consumption and residential investment. Private consumption is projected to remain robust, reflecting rising employment and income (Table 1). Residential investment should also continue to expand, as shortages of dwellings in the largest cities will continue to support construction, despite planned tighter restrictions on mortgage borrowing. Business investment should progressively gather momentum as external demand picks up and spare capacity shrinks. However, the contribution of exports to output growth is likely to remain modest, particularly because of headwinds from weak euro area growth and the slowdown in emerging economies.

Table 1. **Macroeconomic indicators and projections**

Annual percentage changes, volume[1]

	2012	2013	2014	2015	2016
GDP	0.0	1.3	2.3	2.9	3.0
Private consumption	0.9	2.0	2.4	2.8	2.9
Government consumption	1.5	0.8	2.0	1.8	1.4
Gross fixed capital formation	0.3	-0.4	6.6	5.1	4.1
Housing	-11.7	2.2	20.2	11.3	5.0
Business	3.0	-1.6	4.8	4.6	4.4
Government	1.7	1.8	1.7	0.6	2.1
Final domestic demand	1.0	1.1	3.3	3.1	2.8
Stockbuilding[2]	1.1	-0.1	0.2	-0.1	0.0
Total domestic demand	-0.2	1.2	3.5	3.0	2.8
Exports of goods and services	1.5	-0.1	3.5	4.0	4.0
Imports of goods and services	1.1	-0.5	6.5	4.5	4.5
Net exports[2]	0.2	0.2	-1.0	-0.1	0.0
Other indicators (growth rates, unless specified)					
Potential GDP	1.9	1.9	2.0	2.3	2.5
Output gap[3]	-1.8	-2.4	-2.1	-1.5	-1.1
Employment	0.6	1.1	1.4	1.7	1.3
Unemployment rate[4]	8.0	8.0	7.9	7.5	7.3
GDP deflator	1.0	1.2	1.3	1.6	1.8
CPI	0.9	0.0	-0.2	0.5	1.5
CPIF[5]	1.0	0.8	0.5	0.9	1.3
Household saving ratio, net[6]	15.2	15.4	15.2	14.4	14.6
Trade balance[7]	4.9	5.0	3.9	3.8	4.0
Current account balance[7]	6.6	7.3	6.3	6.7	6.7
General government financial balance[7]	-0.9	-1.3	-2.1	-1.5	-0.7
Underlying government net lending[3]	-0.2	-0.3	-1.2	-0.8	-0.2
Underlying government primary balance[3]	-0.2	-0.3	-1.1	-0.8	-0.2
Gross government debt (Maastricht)[7]	36.9	39.0	41.1	41.8	43.5
General government net debt[7]	-25.9	-28.7	-25.6	-23.0	-21.2
Three-month money market rate, average	2.0	1.2	0.7	0.1	0.2
Ten-year government bond yield, average	1.6	2.1	1.7	1.0	1.2

1. Annual data are derived from quarterly seasonally and working-day adjusted figures.
2. Contribution to changes in real GDP.
3. As a percentage of potential GDP.
4. As a percentage of labour force.
5. CPI with a fixed mortgage interest rate.
6. As a percentage of household disposable income.
7. As a percentage of GDP.

Source: OECD Economic Outlook database and projections based on information through early March 2015.

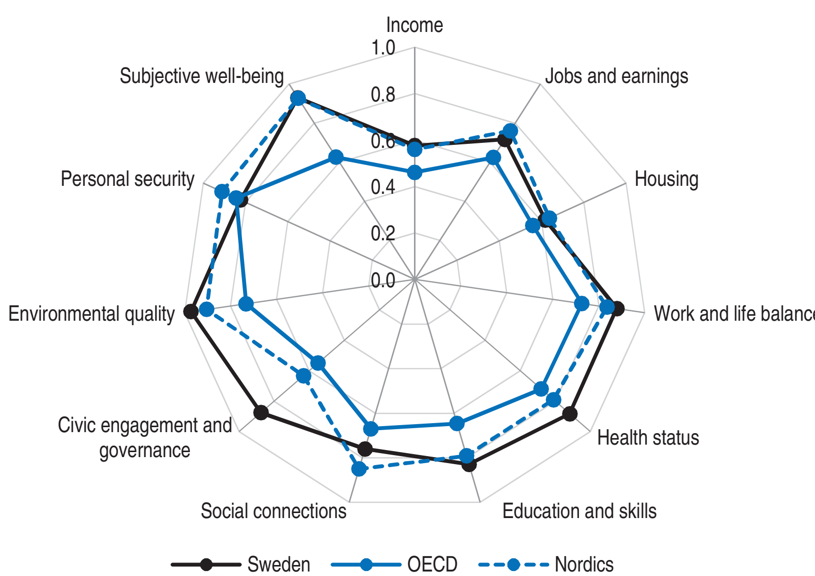
The short-term risks are mainly on the downside. As a small open economy, Sweden is heavily dependent on exports. Further deterioration in economic conditions of trading partners, especially euro area countries, would lower Sweden's growth prospects. Weaker activity in the euro area would also complicate monetary policy and increase deflation risks, as it would likely result in further monetary easing from the European Central Bank which would put upward pressure on the krona. A very stimulative monetary stance will remain necessary for some time to support activity and bring inflation back towards the 2% target. However, it could fuel excessive demand for credit, in particular from households buying housing at ever higher prices. The impact of macro-prudential policies being put in place to address the issue is uncertain, as such policies are largely untested in OECD countries. Geopolitical tensions may affect Sweden through different channels, including weaker confidence due to uncertainty, slower growth in trading partners and volatility in energy markets. Upside risks include stronger-than-expected growth elsewhere in the European Union or in other major trading partners and a boost from lower energy prices.

Well-being is high, and growth is greener than in most other OECD countries

Sweden scores higher than the OECD average on all dimensions of the OECD Better Life Index, except personal security. Compared with the other Nordic countries, it performs slightly worse on jobs and earnings, housing, personal security and social connections, but better in all other areas (Figure 2). Although gender equality compares favourably to most other countries, further improvements are possible. Corruption is low and Sweden has

Figure 2. **Well-being is high in Sweden**

OECD Better Life Index[1]



1. Each well-being dimension is measured by indicators from the OECD Better Life Indicator set. Indicators are normalised to range between 1 (best) and 0 according to the following formula: (indicator value-minimum value)/(maximum value/minimum value).

Source: OECD (2013), *How's Life? 2013: Measuring Well-being*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264201392-en.*

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made significant progress on enforcing legislation against bribing foreign public officials. Nevertheless, the legal framework on foreign bribery by corporations and other entities should be strengthened (OECD, 2014b).

Sweden stands out internationally with a relatively small gender gap. It ranks fourth in both the Global Gender Gap Index (WEF, 2014) and the Gender Inequality Index (UNDP, 2014). Women have enrolment rates similar to men in secondary education and higher in tertiary, representation in Parliament is almost equal, and female labour participation and health outcomes are high relative to most comparable countries. Even so, gender differences persist in education, where men rarely pursue studies in health and welfare, and women make up only around a quarter of graduates in computer sciences and engineering. More women than men work part time, they are concentrated in fewer occupations, usually in the service sector, and they are less likely to progress to senior management positions, accounting for 31% of senior managers in 2010 and holding 19% of listed companies' board positions in 2009. Only a third of individually-owned businesses are owned by a woman. In 2011, Swedish women earned 14% less than men – a pay gap just one percentage point below the OECD average and higher than in some countries with comparable female employment rates. Lower working hours among women and wage differences also affect pension incomes with retired women twice as likely to be poor as men (OECD, 2012a).

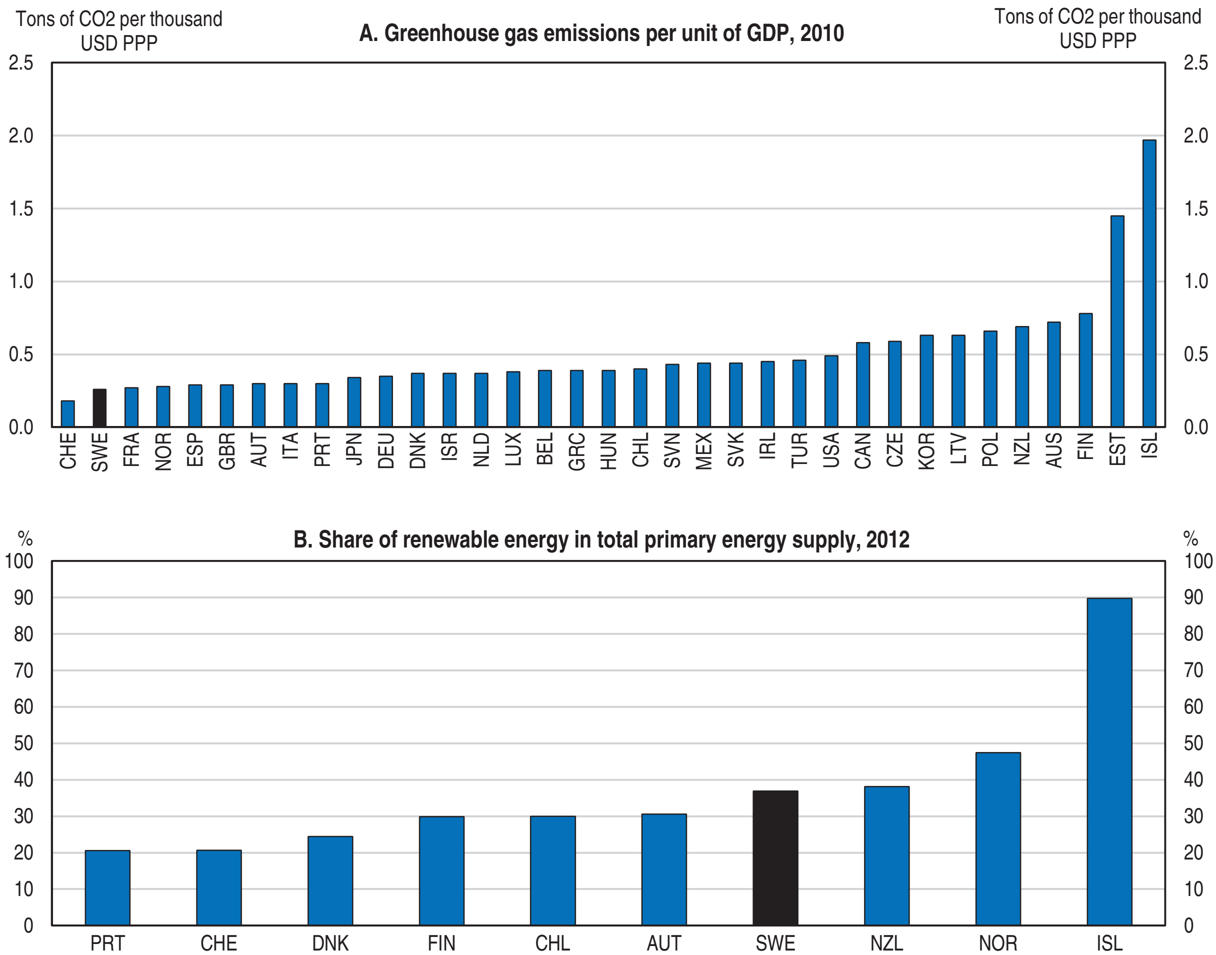
Sweden has long used economic instruments, like carbon and sulphur taxes and participation in the EU Emissions Trading Scheme, to promote green growth. It has achieved complete decoupling of greenhouse gas (GHG) emissions from economic growth and GHG emissions per unit of output are among the lowest in the OECD (Figure 3, Panel A). The share of renewables in energy supply is also one of the largest (Figure 3, Panel B). As low-cost measures to reduce GHG emissions have already been implemented, reducing emissions further will require enhancing the coherence and cost-effectiveness of policies, for example by reducing overlaps between policy instruments, reducing carbon price differences across sectors and phasing out environmentally harmful subsidies. Nevertheless, Sweden has set itself even more ambitious climate change mitigation objectives, including a vision of achieving "no net GHG emissions into the atmosphere" by 2050 and "a vehicle fleet independent from fossil fuels" by 2030. Sweden has created an ambitious system of environmental quality objectives, which covers all policy domains and government bodies. However, most are unlikely to be met by the deadline of 2020. To make this a more effective strategic framework, short- and medium-term priorities should be set and measures and resources clearly defined (OECD, 2014a).

Macroeconomic policy issues

The fiscal position is strong

Sweden's fiscal position is among the strongest in the OECD, with a general government deficit of around 2% of GDP in 2014 and gross debt close to 40% of GDP (Figure 4). Furthermore, government assets exceed liabilities, generating a net asset position of about 30% of GDP. Previous reforms of the pension system, with a transition towards defined contributions, imply a smaller impact of ageing on public finances than in many other countries, even though further increases in the effective pension age and retaining adequate coverage and contributions will be necessary to maintain replacement rates over the long term (OECD, 2012b). The fiscal response to the protracted period of weak

Figure 3. **Carbon emissions are low and renewables well developed**



Source: International Energy Agency, *World Energy Statistics and Balances* (database).

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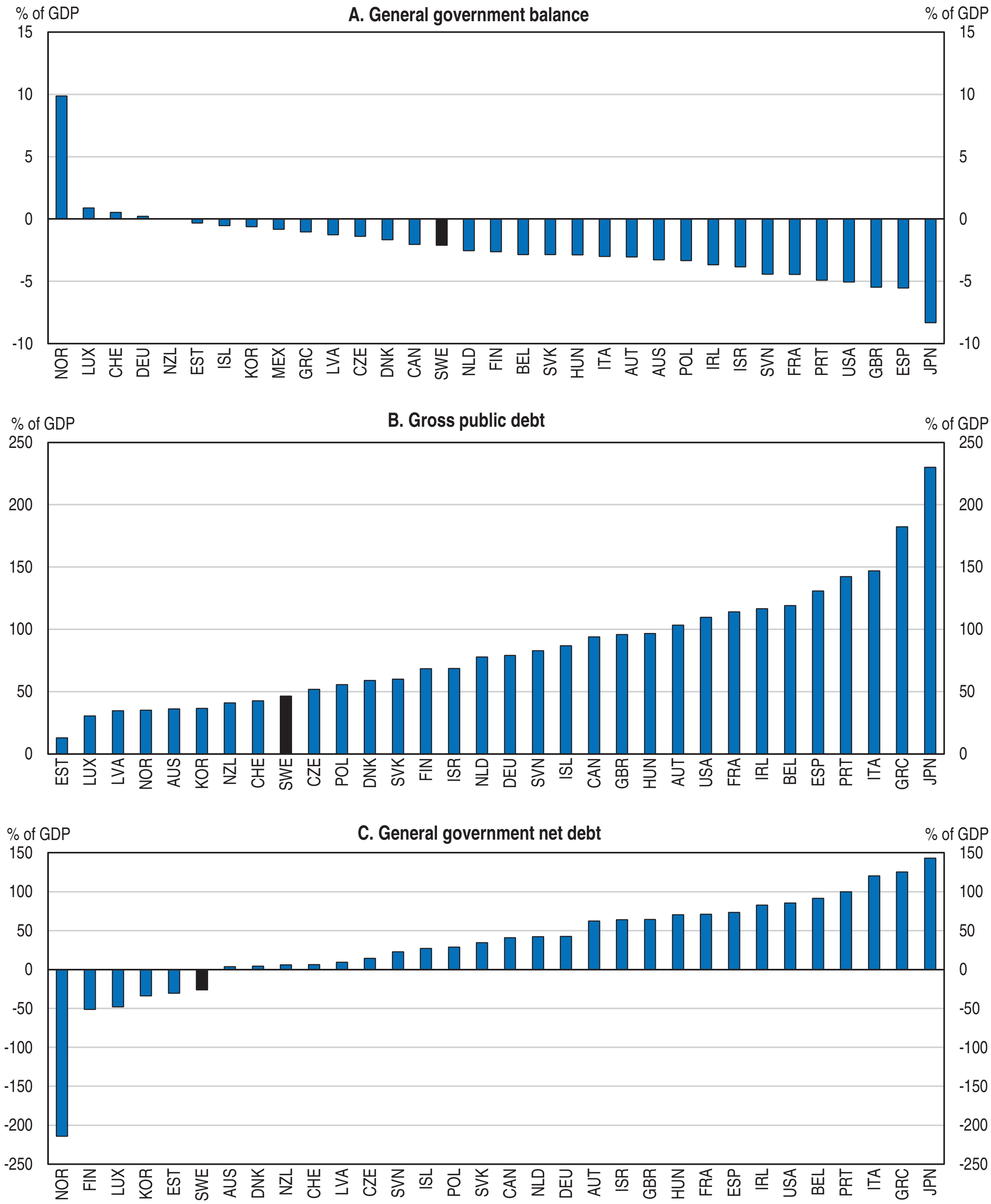
economic growth, together with some permanent personal and corporate income tax cuts and increased expenditures for sickness benefits and asylum seekers, have pushed the general government fiscal balance down, away from Sweden's target of a surplus of 1% of GDP over the business cycle. Nevertheless, the general government deficit has remained below the 3% of GDP threshold of the Stability and Growth Pact and from this year on structural net lending is projected to be broadly in line with the EU medium-term objective of 1% of GDP. Looking further ahead, simulations show that the fiscal position is sustainable (Fiscal Policy Council, 2014).

Monetary policy is appropriately expansionary

Despite good output and employment growth, inflation has been drifting below the 2% target since 2010, mainly reflecting economic slack (Figure 5, Panel A). The Riksbank and other forecasters persistently overpredicted inflation and until recently the Riksbank was reluctant to cut the policy rate to zero, in part out of concern for rising household debt (Panel C). Inflation, however, continued to undershoot expectations. The Riksbank cut the repo rate to zero in October 2014 and, as uncertainties mounted further, to -0.1% in February 2015. It also decided to purchase SEK 10 billion worth of government bonds. In the

Figure 4. **Public finances are healthy**

2014



Source: *OECD Economic Outlook database.*

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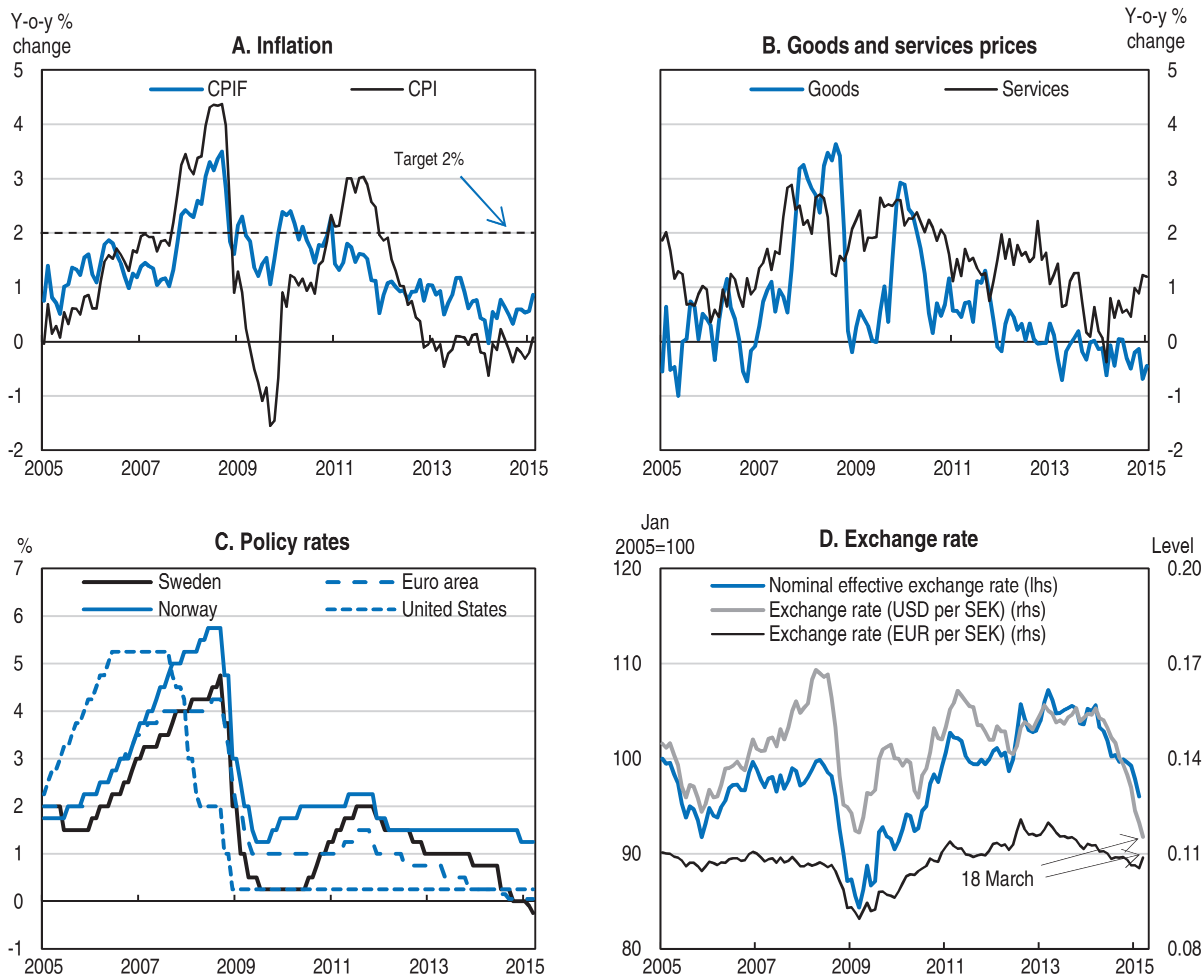
Figure 5. **Inflation is very low**



Source: *OECD Economic Outlook database.*

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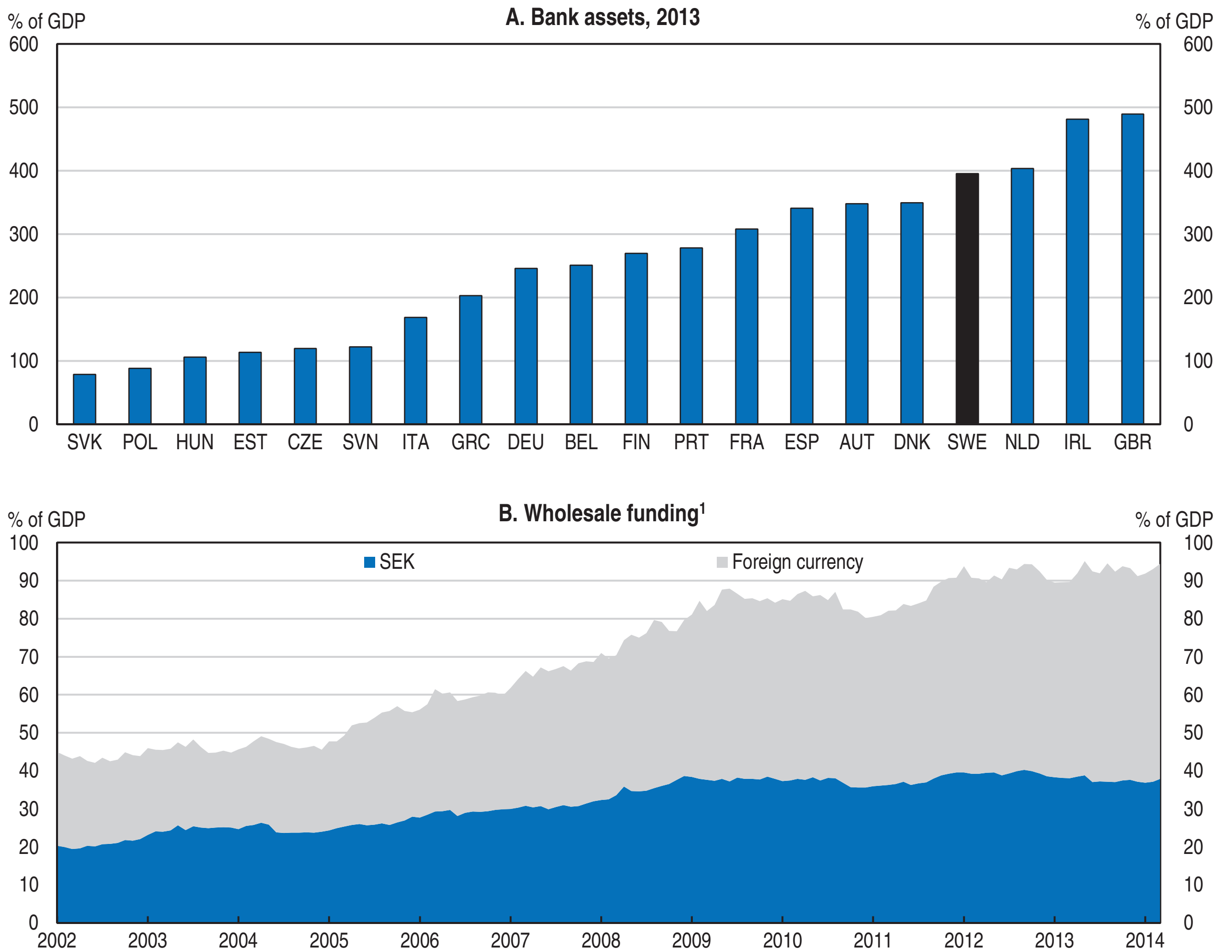
face of the recent appreciation of the krona mainly against the euro (Panel D), the repo rate was cut again to -0.25% in March 2015 and government bond purchases were increased by SEK 30 billion. These measures and the readiness to do more aim at safeguarding the inflation target as a nominal anchor for price setting and wage formation.

A large banking sector, high household debt and high housing prices entail risks

The banking sector is large and reliant on wholesale funding

The Swedish banking sector is large, with assets amounting to about four times GDP (Figure 6, Panel A). The sector is also highly concentrated, with four banks accounting for more than 70% of lending. Moreover, banks are strongly interconnected and have similar business models and vulnerabilities. One of these is heavy reliance on wholesale funding, which is often short term, despite a recent trend towards lengthening maturities (Figure 6, Panel B). These features generate systemic risk and even though banks weathered the global financial crisis well and are highly profitable, strong regulation and supervision is called for.

Figure 6. **The banking sector is large and reliant on wholesale funding**



1. Major Swedish banks' wholesale funding via Swedish parent companies and subsidiaries.

Source: European Central Bank Consolidated Banking Data and Riksbank, *Financial Stability Report*, No. 2014:1.

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The authorities have acted to improve the resilience of the financial system by strengthening the institutional framework for financial regulation and supervision, requiring stronger capital and liquidity buffers and implementing macro-prudential measures.

The responsibilities of the Financial Supervisory Authority (FSA, *Finansinspektionen*) were extended in 2014 and now include counteracting financial imbalances in order to stabilise the credit market. The FSA was also given the main responsibility for all macro-prudential tools, complementing micro-prudential and consumer protection duties. While the FSA bears the main responsibility for prudential instruments, financial stability is also related to other policy areas, such as monetary policy and taxation. The government is ultimately responsible for the measures taken and controls the funds which may be needed to support the financial system in a crisis. To ensure close dialogue between all the institutions involved, the Financial Stability Council – which gathers representatives from the Ministry of Finance, the FSA, the Swedish National Debt Office and the Riksbank – has been created. It meets at least twice a year to discuss financial stability and the need for measures to prevent the build-up of imbalances. It also has to meet in the event of a crisis to discuss appropriate responses.

The four Swedish systemically important banks are required to hold an extra 5% capital buffer on top of Basel III minimum requirements. Minimum risk weights on mortgages are being increased to 25% and an additional countercyclical capital buffer of 1% will be applied from September 2015, in view of rising household debt. Altogether, Tier 1 capital requirements for Swedish systemic banks, applicable from 2015, range from 14.4% to 18.8%, more than twice the EU minimum requirement on average. The banks are expected to have no difficulty meeting the requirements (Finansinspektionen, 2014a). Nevertheless, the ratio of common equity tier 1 capital to total assets is below 4%, which is relatively low by OECD standards.

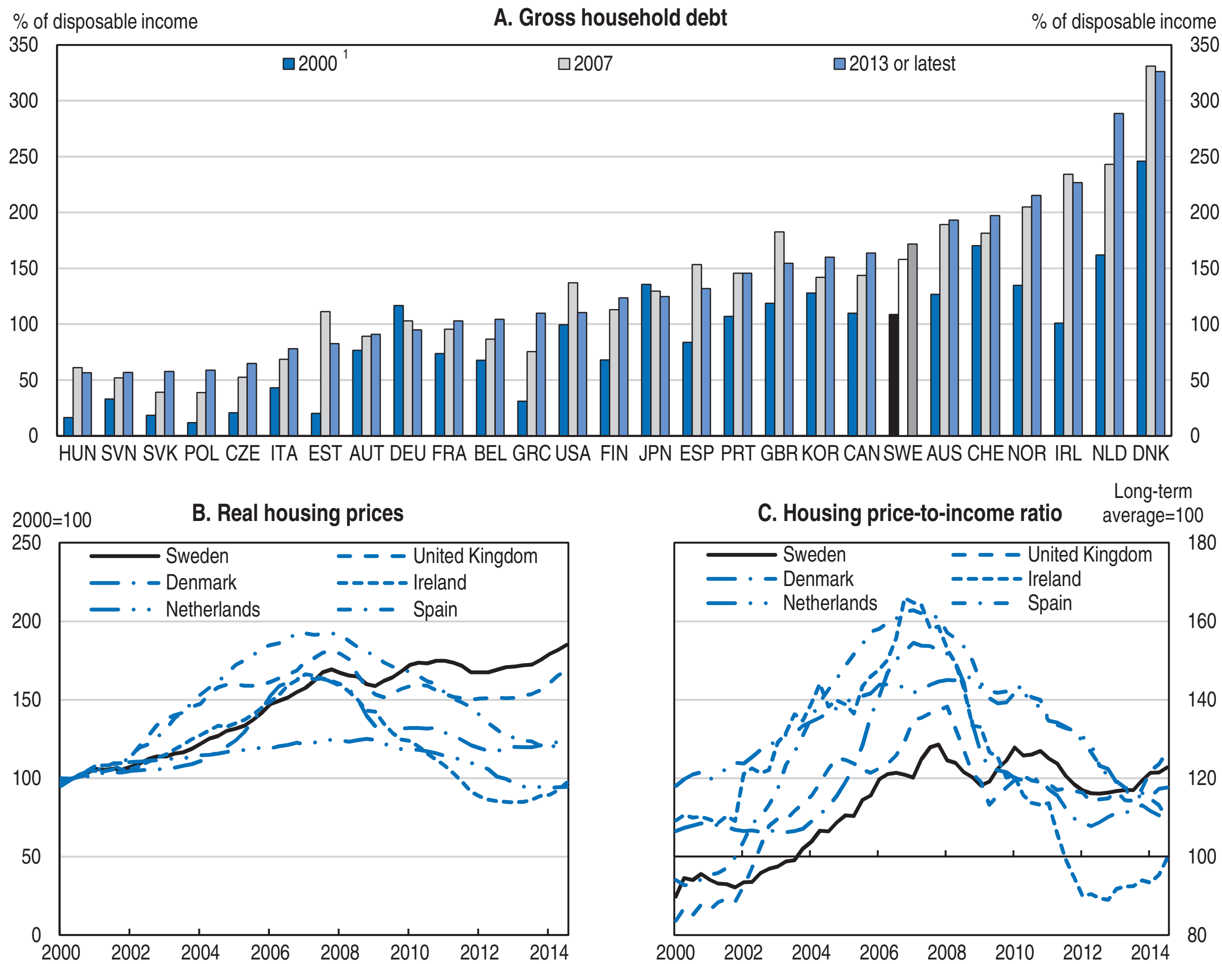
Maturity transformation is substantial in Swedish banks, which have large mortgage portfolios largely funded through market borrowing with an average maturity of about three years and often in foreign currency. This creates liquidity risks in case of stress in international financial markets. A minimum liquidity coverage ratio (the ratio of unencumbered liquid assets to net cash outflows over a 30-day period of liquidity stress) of at least 1 has been required since early 2013 and it is currently around 1.4. The banks also lengthened the maturity of their funding following the onset of the global financial crisis (Riksbank, 2014). Nevertheless, structural liquidity risks remain significant and funding needs to become more stable for illiquid assets. The systemic banks should strive to reach a net stable funding ratio of 100% as soon as possible.

Macro-prudential policy has a key role to play in containing household debt accumulation

Household debt and dwelling prices have soared over the past decade (Figure 7). The housing price-to-income ratio is about 20% above its long-term average, suggesting moderate overvaluation. This creates risks for households and the wider economy. While households look fairly resilient to higher interest rates, lower income and unemployment, high household debt entails significant macroeconomic risks, as deeply indebted households are likely to reduce consumption in response to adverse shocks (Dynan, 2012; Andersen et al., 2014; Bunn and Rostom, 2014). The probability of recession increases as household debt rises above trend, and downturns associated with high debt are generally deeper and more protracted than when debt is low (Sutherland and Hoeller, 2012). However, credit losses on mortgages are generally small and, as noted, banks have had to raise their risk weights on mortgages. For the financial system, risks may result from a maturity mismatch between assets and liabilities, as illustrated by the failure of a number of mortgage lenders that relied on short-term funding in the United Kingdom during the global financial crisis.

Very low policy rates generate risks of excessive financial imbalances. Against this backdrop, macro-prudential policy plays a key role in ensuring financial stability. A number of macro-prudential measures to rein in household debt have been introduced in steps. A cap of 85% on mortgage loan-to-value ratios was introduced in 2010. Minimum capital risk weights on mortgages were increased to 15% in 2013 and will rise to 25% in 2015. Swedes have a long history of paying only interest on home loans and a large share of households (close to 40% in 2013) do not pay down mortgage principal (Finansinspektionen, 2014b). The FSA will present a proposal to make holders of new mortgages repay capital until the outstanding loan is down to 50% of the initial value of the property, which is welcome. Macro-prudential measures entail a trade-off, as stringent rules risk lowering output

Figure 7. **Household debt and real housing prices are high**



1. 2001 for Ireland and Slovenia, 2002 for Korea.

Source: *OECD Economic Outlook database* and national sources.

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growth and inflation, while soft rules would fail to deflect risks. The impact of the measures being implemented should be monitored closely and further action should be envisaged if growth in household debt picks up.

Structural measures to improve the functioning of the housing market could help moderate the increase in household debt, which is partly driven by high housing prices, although reverse causality is also at play. Such measures could include streamlining land-use planning and zoning regulations and increasing incentives for municipalities to allow building to improve supply responsiveness, limiting the tax bias in favour of home-ownership (preferably by phasing out mortgage interest deductibility) and easing rental market regulations to foster a more balanced tenure mix (Adalet McGowan, 2013). Improving access and affordability of housing would also enhance labour mobility and well-being.

Recommendations on policies to support the economic recovery

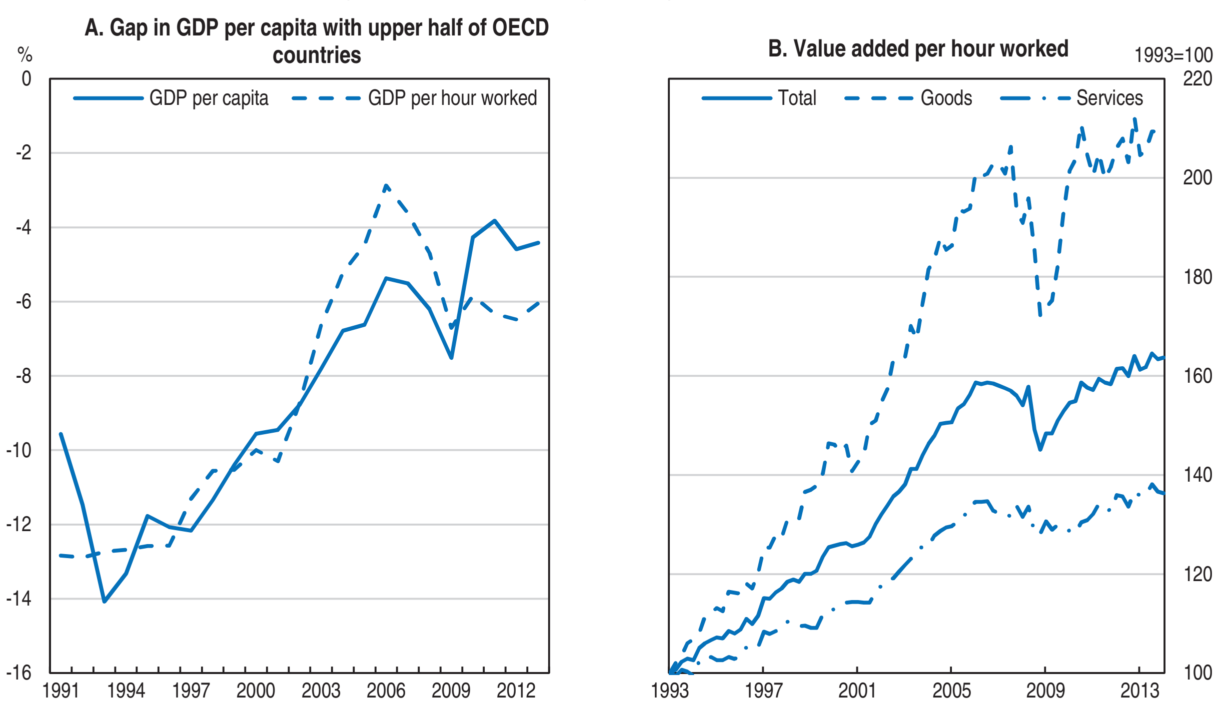
- Maintain expansionary monetary policy until inflation is clearly picking up.
- Continue to implement macro-prudential policies to contain the risks related to rising household debt. Consider phasing out mortgage interest deductibility.
- Maintain prudent fiscal policy and let automatic stabilisers work.

Strengthening foundations for growth

Sweden's GDP per capita is well above the OECD average and the gap with the leading economies has narrowed rapidly over the past two decades, partly as a result of the structural reforms implemented since the early 1990s to increase the competitiveness and flexibility of the economy (Figure 8, Panel A). Even though Sweden's performance remains strong from an international perspective, pushing up productivity further is proving difficult in the context of subdued global growth. Structural factors such as the increasing role of services in the economy, heightened international competition and the exhaustion of gains from earlier reforms have also hampered productivity advances. Since 2007, productivity growth has slowed markedly in the production of both goods and services (Figure 8, Panel B).

The robust performance of the Swedish economy is rooted in its ability to successfully integrate into global value chains (GVCs) in manufacturing, where different stages of the production process are located across different countries. But Sweden's competitiveness increasingly hinges on high-value-added services involving high skills and intangible

Figure 8. **Productivity is high but has slowed**



Source: OECD (2015), *Economic Policy Reforms 2015: Going for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2015-en*; and Statistics Sweden.

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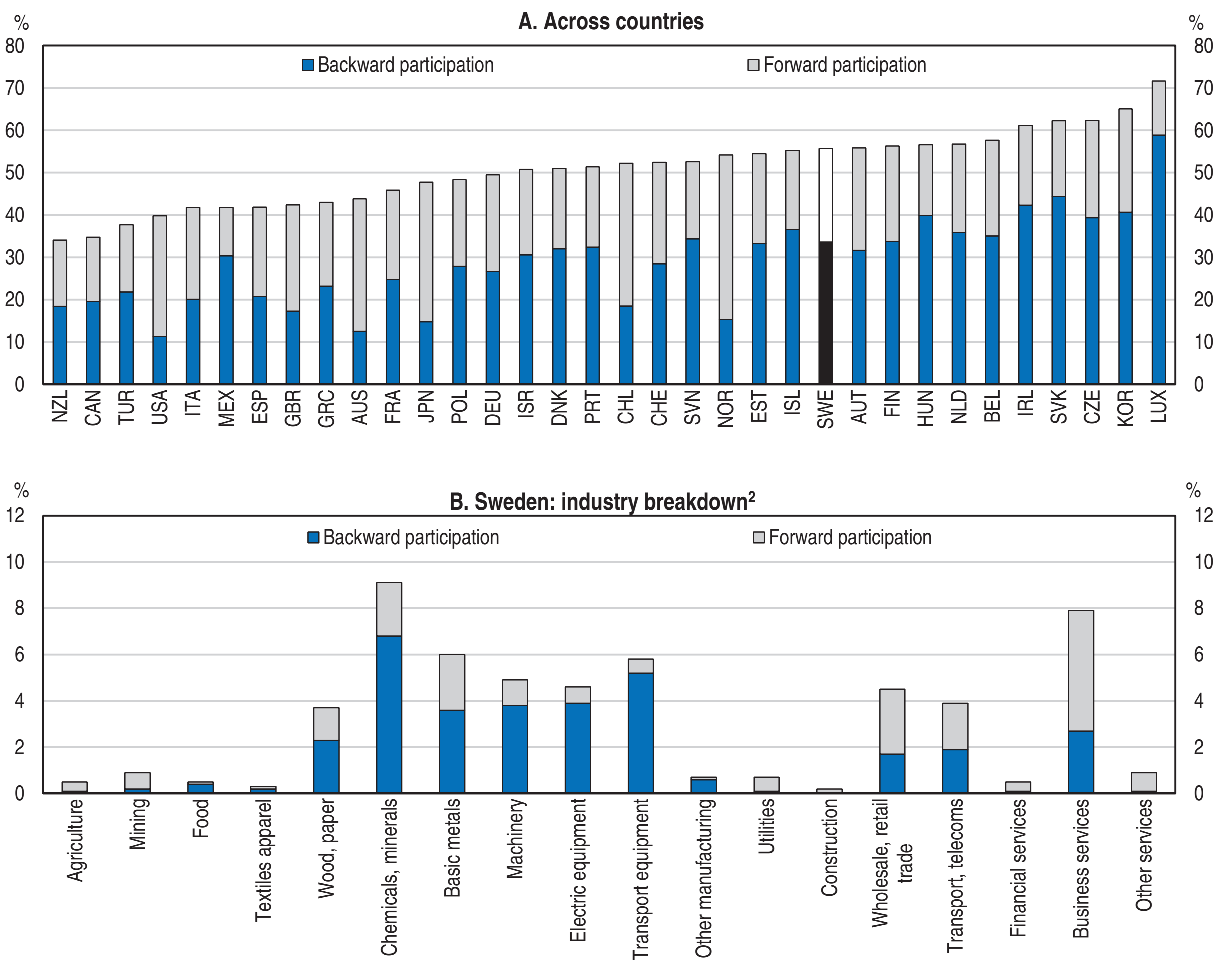
capital intensity. A strong knowledge-based economy has fuelled the growth of such services. Moreover, the content of services in goods exports is increasing, as manufacturing costs fall relative to those of services, production stages are increasingly offshored and Swedish firms move further up the value chain and towards more integrated supply of goods and services. Adequate market regulations, high-quality infrastructure, innovation capability and the availability of high-skilled workers are key to the development of the knowledge-based economy and stronger positions in GVCs, which ultimately fosters productivity growth and lifts living standards.

Sweden is among the OECD countries which participate most in GVCs (Figure 9, Panel A). This is partly related to its size, as small economies tend to source more inputs from abroad than larger ones (backward participation). Exports of most manufacturing sectors therefore embody a significant share of foreign inputs (Figure 9, Panel B). Swedish wood and paper, chemicals, minerals and basic metals also contribute largely to exports of other countries (forward participation). Reflecting its increasingly strong comparative

Figure 9. **Sweden is well integrated in global value chains**[1]

As a percentage of gross exports, 2009



1. Backward participation shows the use of foreign intermediates in a country's exports and forward participation the use by other countries of a country's inputs in their exports.
2. As a percentage of total Swedish exports.

Source: *OECD Global Value Chains Indicators* (May 2013).

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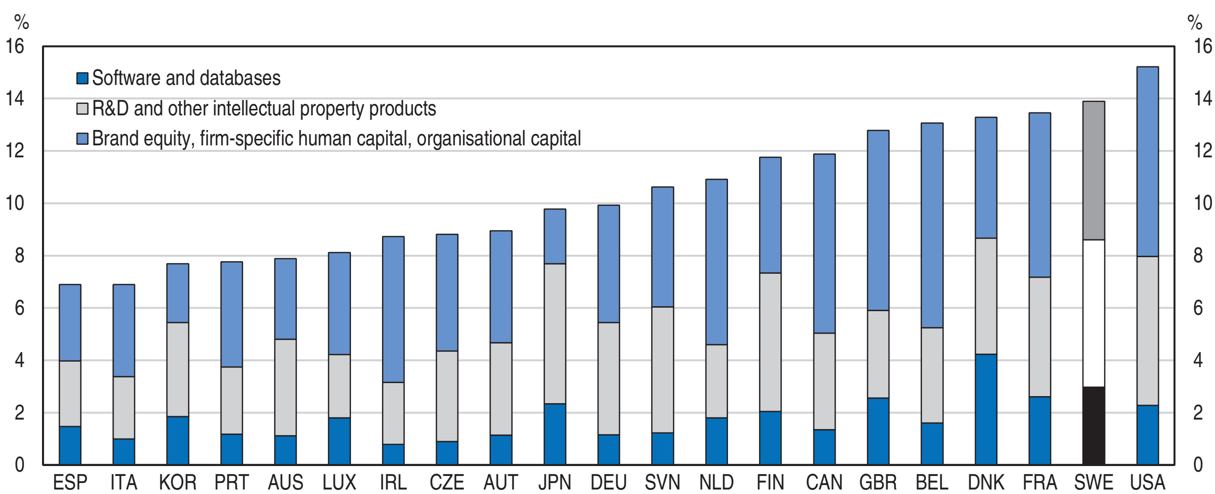
advantage in high-value services, Swedish inputs from wholesale and retail trade, transport, telecommunications and business services are widely incorporated into exports of other countries. Swedish firms have been moving up the value chain, which partly explains the increasing share of services in output. More value is created in upstream activities (e.g. R&D and product design) and downstream operations (e.g. marketing and customer services) than at the production stage, a pattern which has been accentuated over time by productivity gains in manufacturing and offshoring to low-cost production sites. Such activities require a high level of skills and intangible capital to allow firms to gain or retain a comparative advantage by differentiating their products from those of competitors.

In Sweden, intangible investment amounted to about 9% of GDP in 2010, close to the share of tangible business investment (Corrado et al., 2012). The investment intensity in intangible capital was second only to the United States, for countries where data are available (Figure 10). Patenting levels and the ratio of business R&D to GDP are among the highest in the OECD. But the non-R&D intangible capital base is also strong. In particular, management quality is estimated to be among the highest in the OECD, comparable to Canada, Germany and Japan, although slightly below the United States (Bloom and van Reenen, 2010). Fairly efficient markets favour the reallocation of resources towards knowledge-based activities (Andrews and Cingano, 2014).

Figure 10. **Intangible investment is high**

Percentage of value-added of the business sector, 2010 or latest data available



Source: OECD (2013), *OECD Science, Technology and Industry Scoreboard 2013: Innovation for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/sti_scoreboard-2013-en*.

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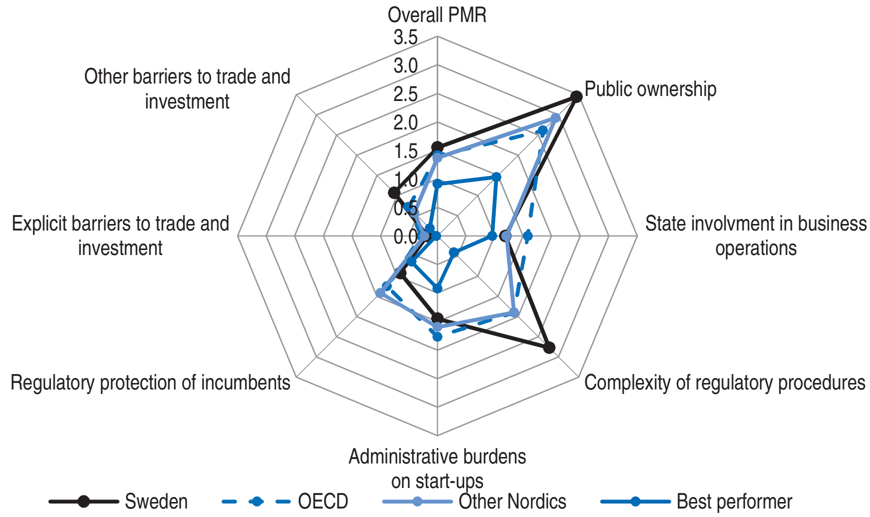
Lowering regulatory barriers to boost growth

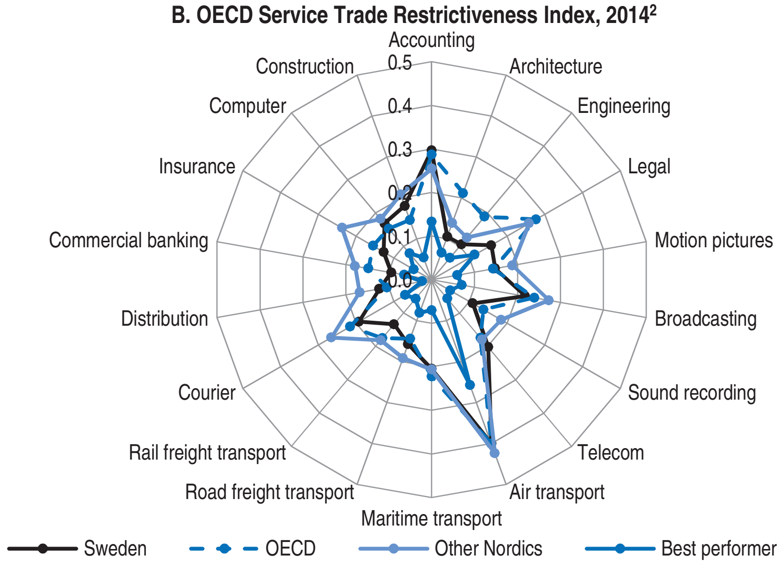
Sweden's overall 2013 Product Market Regulation (PMR) indicator is close to the OECD average (Figure 11, Panel A; Koske et al., 2015). However, a number of OECD countries have leaner regulations, and while many countries have continued to streamline regulations, Sweden's PMR has barely changed over the past decade. As others have reformed, Sweden has therefore moved down the OECD ranking, from 9th in 2003 to 26th in 2013. Rankings should be interpreted with caution, as differences between OECD countries now tend to be small. Nevertheless, in a very competitive global environment, being among the countries with the best regulatory environment is an asset.

Figure 11. **Product market and service trade regulations could be eased further**

A. OECD Product Market Regulation Index, 2014[1]



B. OECD Service Trade Restrictiveness Index, 2014[2]



1. Index, scale of 0-6 from least to most restrictive.
2. STRI indices take values from 0 to 1, where 0 is completely open and 1 completely closed.

Source: Product Market Regulation Database, www.oecd.org/economy/pmr and *Services Trade Restrictiveness Index Regulatory Database, www.oecd.org/tad/services-trade/regulatory-database-services-trade-restrictiveness-index.htm.*

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Sweden has relatively complex regulatory procedures, in particular regarding licences and permits. It also stands out for a relatively high rate of public ownership of companies. Although state-owned enterprises (SOEs) operate on a commercial basis, based on the PMR indicator, some elements of their governance are weak. Some statutory corporations still exist which operate subject to tailored legislative frameworks.

Sweden's Service Trade Restrictiveness Index (STRI) scores are generally close to or below the OECD average (Figure 11, Panel B). However, the comparison with the OECD's best performers on these indicators suggests that there is room for lowering barriers further in accounting, broadcasting, telecoms, air and maritime transport and construction. In most cases restrictions concern foreign entry, although restrictions on the movement of people also play an important role in accounting and construction, and restrictions to competition, particularly linked to public ownership, affect telecoms, courier services, air transport and construction.

Regulation in network industries is in line with the OECD average and similar to that of other Nordic countries, except for gas where Finland and Norway have tighter regulations. However, the governance of Swedish regulators seems to be at best on par with the OECD and EU15 average (Koske et al., 2015). A better balance of financing sources, as in Germany, would promote independence further. The scope of action of regulators is limited, especially because regulators do not issue industry and consumer standards, nor guidelines or codes of conduct. Finally, accountability tends to be limited, although there are differences across sectors, with electricity scoring best.

The rigidity of land-use and housing market regulations and the lack of competition in the construction industry in Sweden are detrimental to growth, employment and welfare (*OECD Economic Survey of Sweden 2012*; European Commission, 2014). Regulation is particularly burdensome in the case of complex construction projects, for both housing and office buildings (World Bank, 2014). The inefficient planning and zoning process, combined with tight rental market regulations, results in structural under-supply of housing, which hampers labour mobility. The complexity of planning rules also acts as a barrier to entry in the construction sector, pushing building costs up. The appeal process should be reviewed in order to reduce delays. Heavy regulation of input materials in construction contributes to high costs, and should also be addressed. The government has introduced legislation intended to speed up the planning process, and has announced that a new bill with proposals to streamline the appeal process will be presented in May 2015.

Infrastructure quality is high, but there is room for enhancements in some areas

Sweden's infrastructure is good by international standards, although not among the best. The country ranks 20th on infrastructure in the World Economic Forum 2013-14 Survey, and sixth on overall competitiveness. In the past, the social return on investment projects seems to have been fairly low (NIER, 2013). The transport infrastructure is seen as a "modest advantage", but not a key driver of Sweden's competitiveness (Ketels, 2012). The 2014-25 national transport plan aims at upgrading the transport system to reduce congestion and disruptions and social returns are a significant aspect of the plan. Funding is increased by 20% relative to the previous plan period and amounts to about 14% of 2013 GDP. The plan will improve road and rail maintenance and further develop transport infrastructure. More than 150 investment projects are identified, including road upgrades, new high-speed railways, an expansion of the Stockholm underground railway system and mining-related infrastructure.

Innovation is strong but policies need to adapt to a changing environment

Sweden is one of the innovation leaders in Europe, along with Denmark, Finland, Germany and Switzerland. Strong partnerships between big firms and public research, as well as public procurement processes, have favoured innovation. However, to reflect evolving production structures and international specialisation, innovation policies should broaden their scope, avoiding an overly narrow focus on high-tech and encouraging investment in all forms of knowledge-based capital.

Both direct government support for private R&D and tax incentives have a positive impact on business R&D spending across OECD countries (Westmore, 2013). Tax incentives have the advantage of resulting in a market-based allocation of resources, exempting governments from having to "pick winners". However, they tend to be less effective in generating research than grants and, in a globalised economy, tax credits may generate windfall gains for multinational companies. Sweden, like Finland, Germany and Switzerland, long had no R&D tax incentives. However, Sweden has recently introduced an R&D tax incentive scheme targeted mainly on SMEs. Scaling up fiscal incentives for R&D as a complement to direct funding schemes could increase flexibility and broaden the scope of supported innovations.

Direct government funding should lead to the selection of R&D projects with the highest marginal social returns, although this tends to be difficult in practice. The *OECD Review of Innovation Policy in Sweden* (OECD, 2013b) suggests expanding current direct innovation funding for SMEs and broadening the scope of intervention to non R&D-based innovation, including in services and creative industries. In many fields, innovation is dependent on demand, calling for a greater focus on user needs and societal dimensions in policies, as well as using public procurement in new ways.

The *OECD Review of Innovation Policy in Sweden* shows that the Swedish innovation system is characterised by relatively limited ministry leadership, a multitude of strong agencies, decentralisation and traditional sectoral technology policies involving public-private partnerships. The complexity of the system raises co-ordination and governance issues. Funding of innovation-related activities is scattered between about 20 mostly mid-sized agencies, with high ambitions but often modest budgets. Streamlining the research and innovation system to create stronger players would facilitate their integration into international research and innovation networks. The government has set up an Innovation Council. The Council will focus on creating jobs and fostering sustainable growth through identifying obstacles to innovation, protecting and developing current areas of strength, and improving co-ordination between policies and actors to improve the efficiency of public support. A broad dialogue with external actors will be the main input to the Innovations Council´s work. Two areas have so far been identified for the Innovation Council Agenda, namely life sciences and climate technologies. Although Sweden performs external evaluations of government-funded activities, their coverage is still uneven. Further enhancement of evaluations would reinforce efficiency and help policy design (OECD, 2013b).

Entrepreneurship is strong but further support could help firms to grow

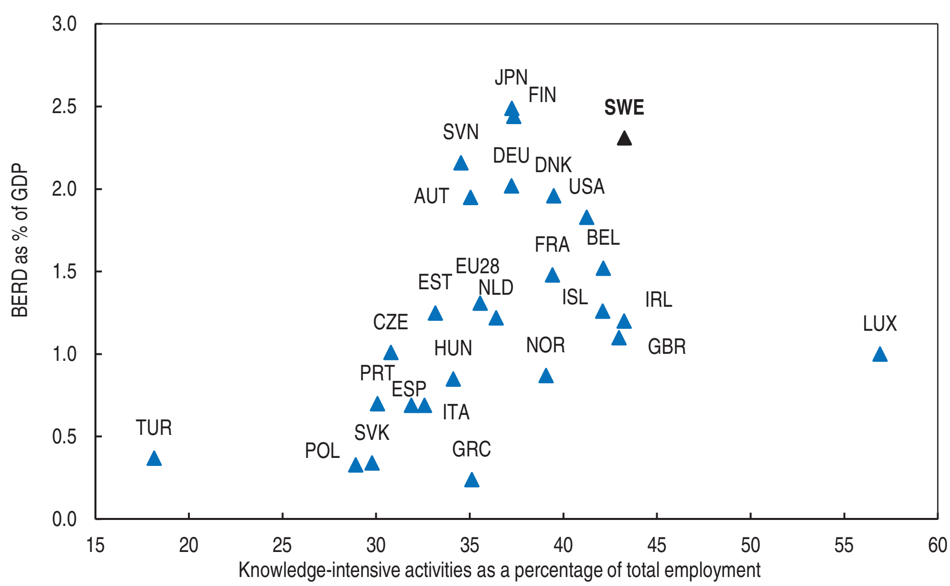
SMEs accounted for 57% of value added and 65% of private sector jobs in 2012. Furthermore about 90% of new jobs created over the past 20 years were in SMEs, especially young growth firms (gazelles). However, young firms face challenges, both in very early stages and subsequently when trying to scale up their operations. Overall access to finance is fairly good by international standards, even for SMEs (European Commission, 2013). Nevertheless, almost one third of Swedish companies report difficult access to finance as the main obstacle to tangible investment. For a quarter of firms, it is also the main obstacle to investment in intangibles (Boumediene and Grahn, 2014). Financing further growth seems even more difficult (OECD, 2014c). The World Bank has recently suggested that Sweden could increase the coverage of credit information, clarify its legal framework for secured lending, strengthen the protection of minority shareholder rights, and make the processes for both registering property and resolving insolvency speedier and less costly (World Bank, 2014). Such measures would lower financing constraints by fostering the development of debt and equity instruments and platforms for corporate finance. The development of non-traditional investment vehicles in SME and entrepreneurship finance (e.g. asset-based lending, alternative forms of debt, crowdfunding and hybrid instruments) can support innovation and growth provided a regulatory framework which balances financial stability, investor protection and the opening of new financing channels for SMEs is in place (OECD, 2015).

Continued investment in human capital and skills is essential

Sweden's specialisation in the knowledge-based economy reflects the availability of a wide pool of skilled workers. It is crucial for Sweden to retain its advantage in skills to sustain competitiveness and living standards. Across OECD countries, a high level of business R&D is strongly associated with knowledge-intensive employment and Sweden is a leading country in these areas (Figure 12).

Figure 12. **R&D expenditure and knowledge-intensive jobs go together**

Business Enterprise R&D Expenditure 2012[1]



1. Data for Iceland, Turkey and the United States refer to 2011; for Japan to 2010.

Source: Eurostat.

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Recommendations on strengthening foundations for growth

- Simplify regulatory procedures, in particular regarding licences and permits.
- Streamline land-use planning and zoning regulations and increase incentives for municipalities to release land.
- Invest to improve the quality of roads and rail, with careful consideration of social returns.
- Continue to broaden support for innovation and enhance co-ordination of innovation and research policies. Lower financing constraints by fostering the development of debt and equity instruments and platforms for corporate finance.

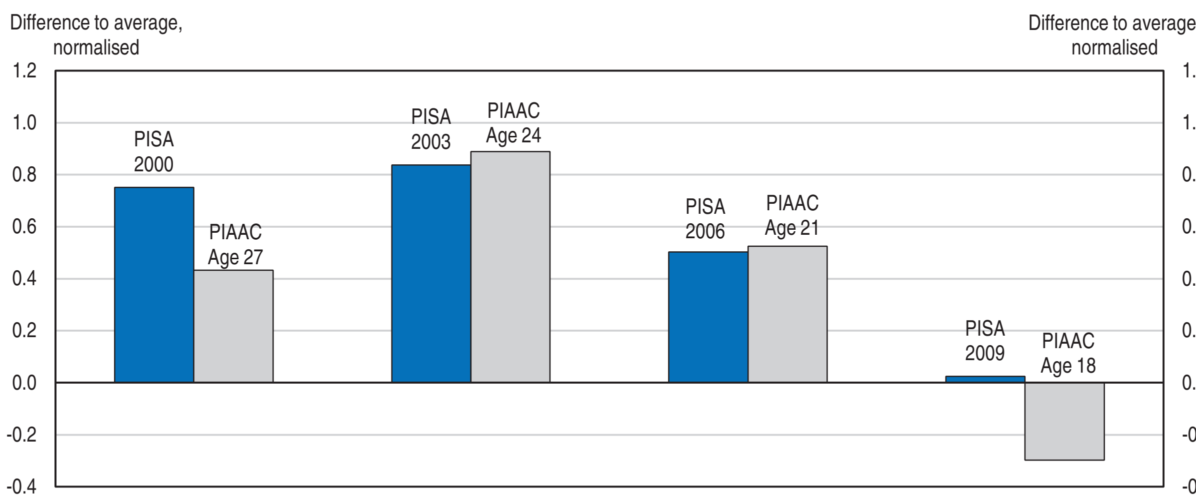
Enhancing the skills and integration of disadvantaged groups

Reversing the slide in young people's skills

Both educational attainment and skills, as measured in the OECD Survey of Adult Skills (PIAAC), are high in Sweden. However, over the past decade Sweden has experienced the most rapid decline of all OECD countries in the performance of 15-year olds in the OECD Programme for International Student Assessment (PISA). From a position well above average in 2000, Sweden fell below average in 2012. Low PISA performance is consistent with weaker results of younger cohorts of Swedish adults in PIAAC (Figure 13; OECD, 2012d; OECD, 2013c). Learning outcomes depend on a range of factors, such as teachers' skills, working methods, curriculum and classroom discipline, as well as school leadership, resource allocation and governance and how these factors fit together within the wider education policy framework.

Figure 13. **Young adults show no signs of catching up from low PISA scores**

Comparison of mean reading scores in PISA with literacy scores in PIAAC for the corresponding cohorts[1]



1. The test score averages are normalised by the cross-country PISA and PIAAC averages and standard deviations for comparison reasons. A three-year band is used in the Survey of Adult Skills to increase size and reliability of estimates, i.e. the group "adults 24" consists of the age group from 23 to 25. The mix of countries contributing to the average in PISA and PIAAC differs, which may contribute to differences in countries' average scores relative to the overall averages in either study.

Source: Survey of Adult Skills (2012) and OECD, *PISA 2009 Database*, Table A5.6 (L).

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Good teachers and school principals are critical to student outcomes, but Sweden currently struggles to attract the best students into teaching. Only 5% of Swedish teachers report that their profession is valued in society, as against 60% in Finland. The attractiveness of the profession and motivation of teachers could be raised through more wage progression and clearer career paths. Job satisfaction could be improved by increasing flexibility with respect to working hours outside of the classroom, expanding autonomy on ways to reach learning targets, enhancing coaching and feedback, and granting teachers more influence on issues concerning pupils and the working environment (OECD, 2014e). Freeing up teacher resources by reducing administrative burdens would give teachers more time to teach and prepare for teaching and enable principals to engage more in pedagogical leadership. Measures to improve career paths and reduce the administrative burden have been progressively implemented since 2012, and efforts continue. Teacher quality could be enhanced through more rigorous teacher education. For example, Finnish teachers receive extensive training in detecting learning difficulties and adapting instruction accordingly, are subject to higher requirements in school subjects and go through longer and higher-quality supervised teaching practice (OECD, 2011a).

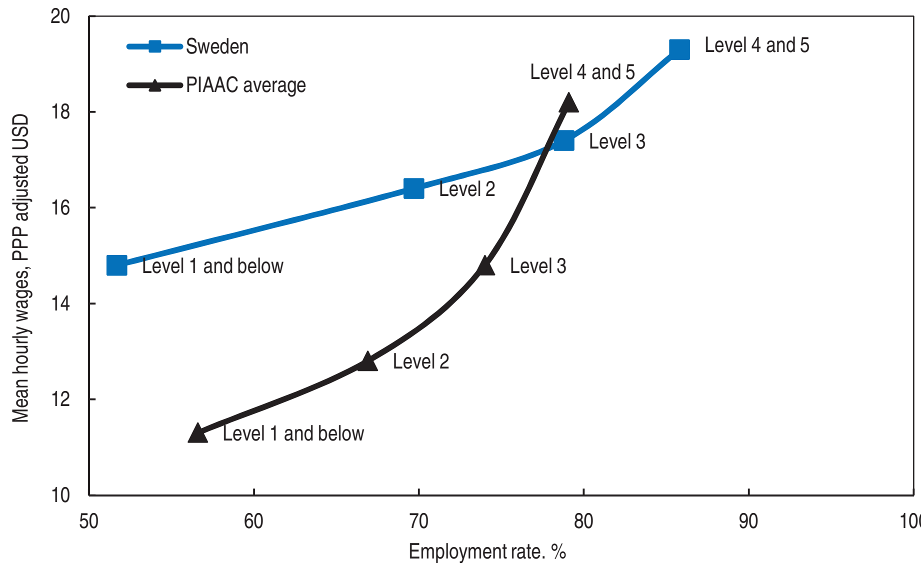
School results started to deteriorate before the decentralisation reforms in the 1990s, but these reforms seem to have accelerated the slide as learning targets became unclear and more responsibility for learning was given to pupils. Following the decentralisation, resources per pupil and teachers' wages fell, partly as a consequence of larger student cohorts and tight budget constraints imposed by the economic downturn. Poor organisation, lack of expertise and unclear responsibilities are still major issues in many municipalities two decades after the reforms (SNAE, 2011; Schools Inspectorate, 2014). Much of the administrative burden facing teachers stems from central and local government interventions to regain control after student results started deteriorating. The school choice reforms implemented in 1992, one allowing for publicly funded private schools ("independent schools") and the other giving pupils the right to choose schools freely, seem to have had a minor positive impact on results, but may have contributed to inequalities (Holmlund et al., 2014; Wondratschek et al., 2013; Böhlmark and Lindahl, 2015). Going forward, Sweden should ensure that education policy proposals are evidence-based, consistent over time, accepted by relevant stakeholders and implemented at a measured pace. One way of achieving this would be to consolidate existing institutions in charge of advising on and supervising education policies into a council of experts and stakeholders tasked with evaluating the appropriateness and consistency of education policies. Such a permanent council, with a secretariat consisting of independent academics and council members representing expertise from academia, teachers' unions, municipalities and other central stakeholders, could also guide the formation of a long-term reform programme.

Early interventions for struggling students improve the chances of successful student outcomes, which in turn facilitates future labour market integration. Both high formal qualifications and high skills are necessary to succeed in the Swedish labour market (Bussi and Pareliussen, 2015). High minimum wages and rigid employment protection pose additional barriers to the low-skilled and those with low qualifications (Figure 14). Enhancing skills is all the more critical as specialisation is increasing demand for high-skilled workers. Adult education is well developed in Sweden and helps many struggling students obtain skills and qualifications later in life. However, most pupils who fall behind early on have difficulties catching up, highlighting the importance of giving children from all social backgrounds the opportunities and the support they need to succeed in compulsory school.

Municipalities are responsible for the allocation of resources to schools, but many allocate insufficient resources to schools with a disadvantaged socio-economic mix of pupils (SNAO, 2014). This should be addressed, if necessary by more centralised control of school financing. The planned increase in support for disadvantaged schools as from 2015 is a step in the right direction. Pre-school classes for six-year-olds are already well attended, but making this first year compulsory, as foreseen, could improve the attendance of children from disadvantaged socio-economic backgrounds, who will benefit the most. Better aligning resources with needs would also make it possible to reward teachers and school principals who work in challenging areas, as disadvantaged students gain most from good teachers and principals (Böhlmark et al., 2012).

Figure 14. **Skills and labour market outcomes**

Mean hourly wages and employment rates by PIAAC skill levels



Source: OECD (2013c), *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills*, Tables A6.3 and A6.4, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264204256-en.*

How to read this figure: Sweden shows high employment rates for middle- and high-skilled individuals, but low employment for the low-skilled (Level 1 and below). At the same time wages are high for those low-skilled individuals who are employed and wages increase less with skills than for the PIAAC average, indicating that high minimum wages reduce employment prospects for the low-skilled in Sweden.

StatLink *http://dx.doi.org/10.1787/888933199086*

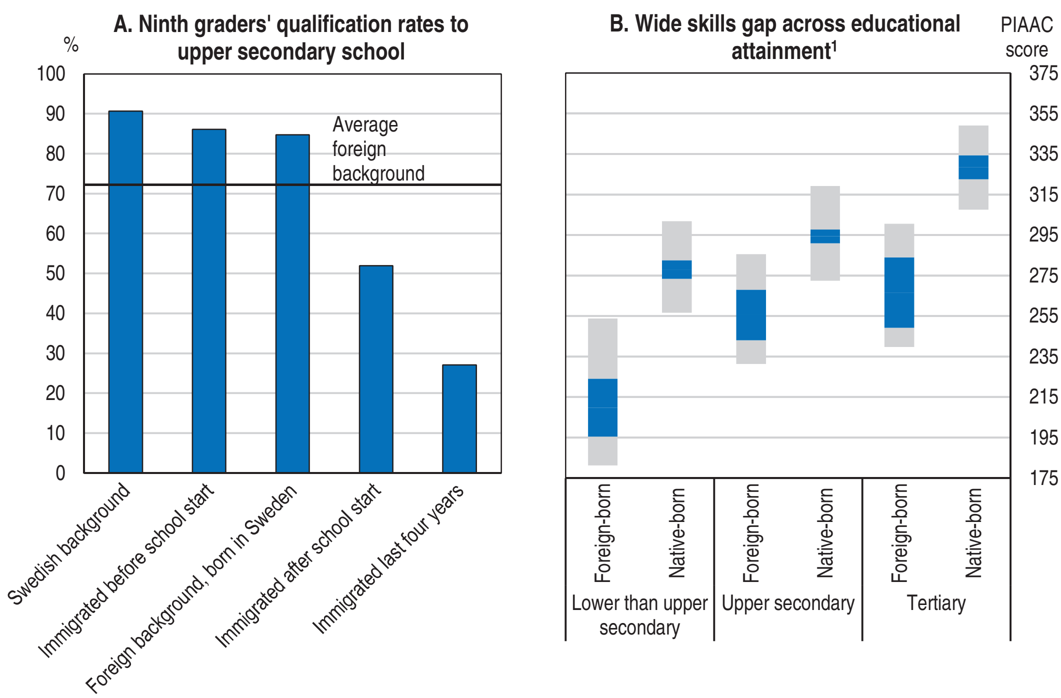
Only 74% of Swedish teachers report that their school provides extra assistance to students with special needs, the second lowest percentage in the OECD behind Mexico (OECD, 2014e). Despite a recent easing of procedures to procure support, decisions are often taken at the principal level without sufficient analysis and oversight of what happens in the classrooms. Poor co-ordination with municipalities and unclear allocation of responsibilities further reduce chances that the necessary resources reach those students who need them most (Schools Inspectorate, 2014). Special needs teachers in Sweden require one and a half year of extra studies, which is not sufficiently reflected in better wages and career paths.

Labour market outcomes of Swedes without an upper secondary diploma are poor. Upper secondary participation is already 98%, but roughly one in ten students drops out. A reform of vocational education and training in 2011 increased co-operation with employers and aimed at better aligning education with labour market demand. Enhanced academic content and high-quality work placements would improve learning outcomes and could increase completion rates (OECD, 2012c). Students who fail to qualify for the upper secondary school national programmes have since 2011 had access to five “introductory programmes”. These programmes can be valuable alternatives for students who lack passing grades in a few subjects and can help fill knowledge gaps among immigrants. Equipping students with the right skills to benefit from further education or find jobs should have priority over expanding their stay in school (OECD, 2011b). Learning and labour market outcomes of the Introductory Programmes ought to be monitored closely.

Improving language training for immigrants

In 2013, 16% of Sweden's population was born abroad. The immigrant population is set to increase further in the coming years, and many immigrants are asylum seekers and refugees who need more help to integrate than those who migrate for employment (OECD, 2013d). Seventy-four per cent of children immigrating less than five years before the end of compulsory school and 48% of those immigrating after school starts, fail to qualify for the national upper secondary programmes (Figure 15, Panel A). Immigrant pupils who struggle with the Swedish language study Swedish as a Second Language instead of regular Swedish classes. Of the 9% of ninth-grade students enrolled to study Swedish as a Second Language in 2013, 26% failed, meaning that they also automatically failed to qualify for the national upper secondary programmes. The reception of immigrant children and how they catch up, especially in the Swedish language but also in other subjects, is crucial. It requires effective provision of extra support and well-functioning reception classes.

Figure 15. **Immigrants struggle in school**



1. The interquartile range is depicted in grey. The mean's 95% confidence interval is depicted in blue.
Source: SNAE (2014), *Betyg i grundskolan årskurs 9 läsår*, No. 2013/14, Table 1C and OECD Survey of Adult Skills (2012).

StatLink http://dx.doi.org/10.1787/888933199099

Adult immigrants have lower literacy proficiency than natives irrespective of educational attainment, harming their labour market prospects (Figure 15, Panel B; Bussi and Pareliussen, 2015). Swedish Tuition for Immigrants is provided free of charge by municipalities to all immigrants above compulsory school age, except Norwegians and Danes. Refugees have strong incentives to participate since non-participation may lead to the loss of benefits. "Step in Jobs", a subsidised employment scheme for immigrants, is contingent on participating in Swedish Tuition for Immigrants, while New Start Jobs, a similar scheme with a slightly lower subsidy but no strings attached, creates incentives to go straight into work without necessarily continuing Swedish Tuition for Immigrants. For some immigrants, the short-term benefit of going into a New Start Job may come at the cost of failing to develop the language skills that would improve the chances of successful integration in society and the labour market in the long term (SNAO, 2013). Still, for immigrants without much formal education, learning Swedish may be as effective in the workplace as in a classroom. Some employers may also hire under New Start Jobs as an alternative to apprenticeships and the new Vocational Introduction Contract. Hence, the envisaged cap on the New Start Jobs subsidy from 2015 is welcome.

Reducing labour market barriers

High minimum wages set by the social partners hamper access to jobs for the low-skilled (Forslund et al., 2014; Eliasson and Skans, 2014). The government has increased work incentives for low-wage earners over recent years with several tax breaks, notably the Earned Income Tax Credit. However, the employment effects are small for some of the tax breaks, which leads to hiring one group of workers instead of another with limited aggregate effect and generates high deadweight costs, as many beneficiaries would be employed even without the tax break. In particular reduced social security contributions for youth and reduced VAT in restaurants seem to bring limited benefits compared to their costs (Fiscal Policy Council, 2014). To increase employment prospects for the low-skilled further, social partners should allow more flexibility in entry wages. Furthermore, increasing the room for employers to differentiate wages locally to take into account company performance and to reward skills, efforts and experience would support employment and work incentives (NIER, 2014).

Sweden's employment protection legislation for regular contracts is the strictest in the Nordics, and the gap between permanent and temporary contracts is among the highest in the OECD. Even though temporary contracts help youth and vulnerable groups gain work experience and many of them subsequently move to permanent employment, temporary jobs have tended to become more concentrated on vulnerable groups, especially immigrants and those with low qualifications, and transitions from temporary jobs to inactivity are fairly common (*OECD Economic Survey of Sweden 2012*). Looser employment protection legislation on regular contracts would help these groups get a more solid foothold in the labour market.

Recommendations on improving skills and making growth more inclusive

- Raise the attractiveness of teaching by increasing monetary incentives, offering clearer career paths, and improving teacher education.
- Increase support for struggling students, including immigrants, through early intervention and targeting resources based on socio-economic background.
- Enhance support and incentives for immigrants to learn Swedish.
- Consider consolidating existing institutions in charge of advising on and supervising education policies into an education policy council.
- Reduce the gap in employment protection between permanent and temporary contracts and increase flexibility in entry level wages.

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ANNEX

Progress in structural reform

This annex summarises key recommendations made in previous Surveys and actions taken since the OECD Economic Survey on Sweden *published in December 2012.*

Macroeconomic and financial stability policies

Recommendations in previous *Surveys*	Actions taken
If the economic outlook turns out to be weaker than projected, the government should let the automatic stabilisers work in full. In the event of a sharp or prolonged downturn, discretionary stimulus would be warranted.	In response to weak economic growth, the government has let the automatic stabilisers work in full and has provided additional support to the economy foremost through corporate and personal income tax cuts.
The Riksbank should use the room it has to lower the interest rate further if weak inflationary pressures and the slowdown in activity persist longer or are more pronounced than expected.	In response to persistently below-target inflation, the Riksbank has cut policy rates several times between December 2013 and October 2014, when they were set at zero.
Address gaps in the macro-prudential toolkit to supervise and influence financial institutions. Clarify the role of and relationship between the Riksbank, the Financial Supervisory Authority, the National Debt Office and the Ministry of Finance.	In 2014, the Financial Supervisory Authority was given the main responsibility for all macro-prudential tools, complementing micro-prudential and consumer protection duties. A Financial Stability Council was created to ensure close dialogue between stakeholders. Macro-prudential measures have been taken, including raising minimum capital requirements and risk-weights on mortgages.
Consider introducing a leverage ratio as a backstop to the risk-weighted capital measures. Continue to closely monitor banks' progress in reducing their wholesale funding dependence and further improve their liquidity reporting framework.	No leverage ratio has been introduced. Monitoring of liquidity positions has been enhanced, extension of the maturity of funding has been encouraged and reporting requirements on liquidity coverage ratios have been strengthened.

Labour market and social policies for greater inclusion

Recommendations in previous *Surveys*	Actions taken
Reduce the gap between the labour cost and the productivity of workers at risk. The government should continue talks with social partners to develop employment contracts that improve employment opportunities for such workers. Studies on the impact of minimum wages on employment should be commissioned and published regularly.	The earned income tax credit has been increased in multiple steps, reducing pressure on gross wages in the lower part of the wage distribution. The Vocational Introduction Contract, an apprenticeship offering youth 75% work practice and 25% education has been eligible for public support since January 2014.
Consider extending the coverage of unemployment insurance by easing the entitlement conditions in terms of duration of past work, and moving to a system with mandatory contributions to unemployment insurance.	No action taken.
Develop further apprenticeship programmes and work placement in vocational education.	Vocational Introduction Contracts have been eligible for public support since January 2014. Subsidies to employers who take on apprentices have been increased. A remuneration for apprentices has been introduced.

Policies to enhance the efficiency of capital taxation and the housing market

Recommendations in previous *Surveys*	Actions taken
Move towards more neutral taxation across types of assets. In particular, to tax owner-occupied housing like other assets, a tax on imputed-rent would be first-best. A property tax based on market value could proxy imputed-rent taxation. Alternatively, abolish mortgage interest deductibility.	No action taken.
Phase out the restrictions on apartment rentals, including on buying an apartment to rent it out. Continue to phase out rent controls so as to more closely align rents with market values.	Rules on rent setting and notification periods for sublets have been eased in 2013.

Climate change mitigation policies

Recommendations in previous *Surveys*	Actions taken
Continue to gradually phase out exemptions to the carbon tax. Clarify the role and the expected costs and benefits of the long-term priority to have a fossil-fuel independent vehicle fleet by 2030.	The tax rate for diesel was increased in 2013. Carbon tax exemptions to industry outside the EU ETS, agriculture, forestry and fish farming have been gradually reduced. The tax refund granted for diesel used as propellants in agriculture and forestry has gradually been decreased.

Chapter summaries

Chapter 1. Strengthening foundations for growth

Productivity growth, which is key to sustaining competitiveness and high employment, has slowed in recent years. This reflects cyclical but also structural factors, notably the increasing role of services, heightened international competition and the exhaustion of gains from previous deregulation. Barriers to competition and entrepreneurship remain high in some areas, including regulatory procedures regarding licences and permits, land-use planning and regulation of network industries. Bottlenecks appear in road and rail transport. Public support for innovation is strong but remains fragmented and faces the challenge of adapting to an economy in which services and SMEs play a growing role. A productivity commission could be set up for researching and building a case for the structural reforms needed in Sweden to sustainably raise growth.

Chapter 2. Skills and inclusive growth

A highly skilled workforce is crucial to sustain competitiveness and contain the rise in income inequality. Recent surveys of adult skills and educational performance suggest that younger cohorts are doing less well than their predecessors. Many immigrants struggle both in school and in the labour market partly because of low skills and language difficulties. Educational outcomes could be improved through raising the attractiveness of the teacher profession, improving teacher education and increasing support for struggling students. A more flexible labour market would facilitate access to jobs for youth with low qualifications and immigrants.

This Survey is published on the responsibility of the Economic and Development Review Committee (EDRC) of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of Sweden were reviewed by the Committee on 16 February 2015. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 3 March 2015.

The Secretariat's draft report was prepared for the Committee by Christophe André and Jon Pareliussen, with contributions from Marguerita Bussi, under the supervision of Vincent Koen. Research assistance was provided by Thomas Chalaux and Clara García. Secretarial assistance was provided by Nadine Dufour and Mercedes Burgos.

The previous Survey of Sweden was issued in December 2012.

Information about the latest as well as previous Surveys and more information about how Surveys are prepared is available at www.oecd.org/eco/surveys.

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See also *http://www.oecd.org/eco/surveys/Sweden*.

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