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## Basic Statistics of Sweden, 2017

(Numbers in parentheses refer to the OECD average)*

### LAND, PEOPLE AND ELECTORAL CYCLE

<table>
<thead>
<tr>
<th>Population (million, 2018)</th>
<th>10.1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 15 (%, 2018)</td>
<td>17.7</td>
</tr>
<tr>
<td>Over 65 (%, 2018)</td>
<td>20.1</td>
</tr>
<tr>
<td>Foreign-born (%)</td>
<td>17.8</td>
</tr>
<tr>
<td>Latest 5-year average growth (%, 2018)</td>
<td>1.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Population density per km²</th>
<th>24.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life expectancy (years, 2016)</td>
<td>82.4</td>
</tr>
<tr>
<td>Men</td>
<td>80.4</td>
</tr>
<tr>
<td>Women</td>
<td>84.1</td>
</tr>
<tr>
<td>Latest general election</td>
<td>Sep. 2018</td>
</tr>
</tbody>
</table>

### ECONOMY

<table>
<thead>
<tr>
<th>Gross domestic product (GDP, 2018)</th>
<th>Value added shares (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>In current prices (billion USD)</td>
<td>551.1</td>
</tr>
<tr>
<td>Industry including construction</td>
<td>1.2 (2.5)</td>
</tr>
<tr>
<td>In current prices (billion SEK)</td>
<td>4 794.3</td>
</tr>
<tr>
<td>Services</td>
<td>25.1 (26.9)</td>
</tr>
<tr>
<td>Per capita (thousand USD PPP)</td>
<td>51.4 (42.5)</td>
</tr>
<tr>
<td>Per capita real per capita growth (%)</td>
<td>1.5 (1.6)</td>
</tr>
</tbody>
</table>

### GENERAL GOVERNMENT

<table>
<thead>
<tr>
<th>Per cent of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure</td>
</tr>
<tr>
<td>Revenue</td>
</tr>
<tr>
<td>Gross financial debt</td>
</tr>
<tr>
<td>Net financial debt</td>
</tr>
</tbody>
</table>

### EXTERNAL ACCOUNTS

| Exchange rate (SEK per USD, 2018) | 8.675 |
| PPP exchange rate (USA = 1)       | 8.856 |
| In per cent of GDP               |      |
| Exports of goods and services (2018) | 49.2 (45.1) |
| Imports of goods and services (2018) | 45.6 (42.6) |
| Current account balance          | 3.2 (0.4) |
| Net international investment position | 4.6 |

### LABOUR MARKET, SKILLS AND INNOVATION

| Employment rate for 15-64 year-olds (%, 2018 for Sweden) | 77.5 (67.7) |
| Men (2018 for Sweden)                                    | 79.0 (75.4) |
| Women (2018 for Sweden)                                  | 76.0 (60.1) |
| Participation rate for 15-64 year-olds (%)              | 82.5 (72.1) |
| Average hours worked per year                           | 1 453 (1 744) |
| Unemployment rate. Labour Force Survey                   | |
| (age 15 and over) (%, 2018 for Sweden)                  | 6.3 (5.8) |
| Youth (age 15-24, %, 2018 for Sweden)                   | 16.7 (11.9) |
| Long-term unemployed (1 year and over, %)               | 1.0 (1.7) |
| Tertiary educational attainment 25-64 year-olds (%, 2016) | 41.1 (35.7) |

### ENVIRONMENT

| Total primary energy supply (ktoe per unit of GDP) | 0.1 (0.11) |
| Renewable (%)                                      | 39.0 (10.2) |
| Exposure to air pollution (more than 10 µg/m³ of PM2.5, % of population, 2015) | 10.4 (79.2) |

### SOCIETY

| Income inequality (Gini coefficient, 2015) | 0.278 (0.311) |
| Relative poverty rate (% , 2015)            | 9.2 (11.3) |
| Median disposable household income (thousand USD PPP, 2015) | 29.3 (22.5) |
| Public and private spending (% of GDP)      | 493 (493) |
| Health care (2016)                         | 10.9 (8.9) |
| Pensions (2013)                             | 10.0 (9.1) |
| Education (primary, secondary, post sec. non tertiary, 2014) | 3.7 (3.7) |

### Notes

* Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 29 member countries.

Source: Calculations based on data extracted from the databases of the following organisations: OECD, International Energy Agency, World Bank, International Monetary Fund and Inter-Parliamentary Union.
Economic growth is broad-based

The expansion is strong. GDP has expanded at an average rate of close to 3% over the past five years (Figure A). The upswing has been broadly-based, with robust consumption, investment and exports.

Unemployment has receded. Employment has grown steadily and the unemployment rate has fallen (Figure A). But jobseekers are increasingly low-skilled and immigrants, who struggle to find jobs.

Figure A. Robust growth reduces unemployment

Source: OECD Economic Outlook database.

StatLink 2
https://doi.org/10.1787/888933943512

Economic growth will moderate as capacity constraints tighten. Growth will slow, as the economy now operates around full capacity and labour shortages appear in many sectors (Table A). Shrinking residential investment following housing price falls is a further drag on the economy. Exports are expected to remain solid as long as the global economy keeps expanding.

Global uncertainties weigh on the outlook. The global economic environment is laden with uncertainties. As a small open economy highly dependent on exports, Sweden is vulnerable to potential global shocks, such as further intensification in global trade tensions, as disorderly Brexit, stress in European sovereign bond markets, as well as domestic events such as a severe drop of the housing market.

Table A. Economic growth is projected to remain robust

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product</td>
<td>2.4</td>
<td>1.6</td>
<td>1.7</td>
</tr>
<tr>
<td>Private consumption</td>
<td>1.2</td>
<td>1.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
<td>3.5</td>
<td>-0.7</td>
<td>1.4</td>
</tr>
<tr>
<td>Exports</td>
<td>3.7</td>
<td>3.4</td>
<td>3.2</td>
</tr>
<tr>
<td>Imports</td>
<td>3.1</td>
<td>2.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>6.3</td>
<td>6.2</td>
<td>6.1</td>
</tr>
<tr>
<td>Consumer prices</td>
<td>2.0</td>
<td>2.0</td>
<td>2.1</td>
</tr>
<tr>
<td>CPI with fixed mortgage rate (CPIF)</td>
<td>2.1</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Current account (% of GDP)</td>
<td>2.5</td>
<td>3.4</td>
<td>3.5</td>
</tr>
<tr>
<td>General government fiscal balance (% of GDP)</td>
<td>0.7</td>
<td>0.4</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: OECD Economic Outlook, No. 104, updated based on available information as of 28-02-2019.

Rising employment has contributed to enhancing well-being and reducing poverty. However, robust capital income growth has pushed up inequality over the past few years. Nevertheless, inequality remains low, albeit higher than in the other Nordic countries (Figure B). Amending tax rules for unlisted companies and property, without increasing the overall tax burden, could help hold back inequality.

Inequality is low and well-being high


Figure B. Income inequality remains low

Ratio of ninth to first disposable income decile, 2016 or latest

Source: OECD Income Distribution Database

StatLink 2 https://doi.org/10.1787/888933943531

Environmental policies are ambitious

Sweden is a frontrunner in the fight against climate change and in greening the economy. CO₂ emissions per unit of GDP are well below the OECD average and falling. Air quality is good and environment-related patenting strong. The government has stepped up efforts, increasing investments in environmental protection and nature conservation. It has set clear objectives and policies to reduce carbon emissions and put in place an independent climate council to monitor progress. In addition to the carbon tax, the EU Emissions Trading Scheme and blending obligation for biofuels, there are measures such as subsidising solar cells, electric vehicles and charging points and supporting company and municipal investments reducing climate impact.

The macroeconomic policy stance is appropriately turning slightly counter-cyclical

Fiscal policy has supported the recovery. Two decades of prudent policy had created the fiscal space for Sweden to use fiscal expansion to dampen recessions. In recent years, additional resources have been channelled to key areas such as education, immigrant integration, health, defence and environment protection, providing some stimulus despite high capacity utilisation. The 2019 budget is slightly expansionary, which is appropriate, especially as reduced margins for monetary policy will require fiscal policy to play a greater stabilising role in the next downturn.

Monetary policy has started to tighten, but remains supportive. With inflation close to the 2% target, albeit with some help from rising energy prices, the time has come to begin withdrawing stimulus (Figure C). Inflation expectations are close to the target. The Riksbank has started withdrawing monetary support, with a 25 basis points repo rate hike to -0.25% in December 2018. The gradual normalisation of policy rates should continue, to balance the risks of inflation undershooting against those of excess inflation and debt.

Figure C. Inflation is close to the target

Note: CPIF is CPI with fixed mortgage rate.
Source: OECD Economic Outlook database and Riksbank.

StatLink 2 https://doi.org/10.1787/888933943550

The housing market has cooled

Housing prices have fallen slightly. Housing prices have fallen since mid-2017, largely as a result of increased supply of tenant-owned apartments in big cities (Figure D), but seem to be stabilising. Macroprudential measures, notably the introduction of a mortgage amortisation requirement, have also contributed to contain household indebtedness and housing price increases. Nevertheless, the housing price-to-income ratio remains about 30% above its
long-term average and household debt continues to rise. Structural reforms are needed for the housing market to become more responsive to people’s needs.

**Figure D. Housing prices have fallen in big cities**

Source: Valueguard.

StatLink 2

https://doi.org/10.1787/888933943569

Reducing regulation could lift productivity and well-being

The housing market suffers from excessive regulation that hinders the supply of new homes. The government is implementing a 22-point plan including measures to release more land for development, accelerate planning processes and subsidise the construction of affordable housing. While this is going in the right direction, broader reforms will be needed to achieve a well-functioning housing system, in particular moving towards more tenure-neutral taxation, further streamlining land-use planning procedures and easing rental regulations. Greater competition could help lower construction costs.

There is room for further progress on regulations and administrative procedures. Sweden is among the most business-friendly countries in the OECD. Nevertheless, some regulations and administrative procedures could be streamlined, taking advantage of the new opportunities offered by digitalisation.

**Evolving work patterns create challenges**

Automation increases re-skilling needs. Digitalisation offers great opportunities to raise productivity, but puts nearly a third of jobs at risk of automation or significant change. Hence investment in re-skilling and up-skilling will be crucial to inclusive growth. This requires strengthening the foundation skills of the workforce and developing adult education, in cooperation with the social partners.

Labour legislation should adapt to evolving work patterns. As unconventional forms of work gain ground, labour legislation will need to evolve to ensure the right balance between flexibility and protection for all workers. New rules should be designed in close cooperation with the social partners.

**Improving primary and lower secondary school results is crucial**

Swedish school results have declined for two decades. Issues with design and implementation of a series of reforms in the early 1990s, coinciding with a deep economic crisis, likely contributed (Figure E). School inequalities, driven by residential segregation and school choice, likely reduce equality of opportunity. A reform programme for primary and lower secondary schools should coordinate funding better and strengthen governance, combine school choice and competition with greater attention to socio-economic diversity, and increase the attractiveness of teaching.
EXECUTIVE SUMMARY

**Figure E. School results and equity have declined**

![Graph showing school results and equity over time](https://example.com/graph.png)


StatLink | ![Link](https://doi.org/10.1787/888933943588)

The institutional set-up of the school system needs strengthening. School funding has to better target needs related to pupils’ different socio-economic backgrounds. Developing a regional arm of the central government governance structure would enhance local cooperation, improve skills development, promote continuous quality improvements, and instil accountability at every level of the school system.

**Competition and school choice must be steered to deliver for the public good.** Municipalities need to take the socio-economic mix of pupils into account in municipal school entry and when investing in new schools. A liberal regime for the establishment and expansion of private schools needs to internalise a broader set of criteria, notably to counteract segregation. Municipalities should have a stronger say in such decisions. Pupils should be assigned to over-subscribed private compulsory schools by lottery, possibly with quotas reserved for pupils with unfavourable socio-economic backgrounds.

**Teaching needs to become more attractive** to address current teacher shortages, which are most acute in remote locations and set to intensify as the number of school-age children increases. Improving teacher education with a stronger research base, more instruction time and teaching practice, strengthened continuous learning and development, as well as feedback and support mechanisms to foster more cooperation between colleagues, would help. Furthermore, principals and education personnel should be shielded from unnecessary administrative procedures.
**EXECUTIVE SUMMARY**

<table>
<thead>
<tr>
<th>MAIN FINDINGS</th>
<th>KEY RECOMMENDATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Macroeconomic policies</strong></td>
<td></td>
</tr>
<tr>
<td>Inflation is close to the 2% target and capacity utilisation is high after several years of strong growth.</td>
<td>Continue to raise interest rates gradually, taking inflation and output developments into account.</td>
</tr>
<tr>
<td>Public finances are healthy, supported by a strong fiscal framework. Fiscal policy has supported the recovery, but is becoming less expansionary.</td>
<td>Continue to run budget surpluses while the economy remains solid. In the case of a downturn, use the space provided by the fiscal framework.</td>
</tr>
<tr>
<td><strong>Environmental and green finance policies</strong></td>
<td></td>
</tr>
<tr>
<td>Implicit carbon taxes on fossil fuels are much higher in household than in industrial use.</td>
<td>Raise taxes on industrial energy use.</td>
</tr>
<tr>
<td>Climate change and climate change mitigation policies generate new financial risks and opportunities for investors.</td>
<td>Strengthen and further harmonise climate-related disclosure requirements, especially for financial intermediaries, including banks.</td>
</tr>
<tr>
<td><strong>Housing policy</strong></td>
<td></td>
</tr>
<tr>
<td>Housing prices have stabilised, but structural weaknesses remain, with potential adverse effects on financial and economic stability, as well as on mobility and well-being. The 2015 22-point government housing plan is a step in the right direction, but broader reforms are needed.</td>
<td>Reform the recurrent property tax to better align tax charges with property values. Phase out the deductibility of mortgage interest rate payments.</td>
</tr>
<tr>
<td>Inefficient land-use planning and low incentives for municipalities to encourage construction contribute to housing shortages, which reduce affordability and labour mobility, despite useful recent measures to release land for development and speed up planning processes.</td>
<td>Enhance co-operation between central and local government in land-use planning and increase incentives for municipalities to facilitate the timely release of development land. Simplify land-use planning procedures, balancing economic, environmental and social considerations.</td>
</tr>
<tr>
<td>Strict rental regulations tend to discourage mobility, notably for low-income households, and may contribute to spatial segregation.</td>
<td>Ease rental regulations to incentivise rental housing supply, mobility and better utilisation of the housing stock, while maintaining tenant protection against abuse.</td>
</tr>
<tr>
<td><strong>Business regulations and competition policies</strong></td>
<td></td>
</tr>
<tr>
<td>Business regulations and administrative procedures are generally lean, but further streamlining could raise productivity.</td>
<td>Continue to use digital tools to improve services, simplify procedures and shorten licences and permits processing times.</td>
</tr>
<tr>
<td>The integration of immigrants has improved, thanks to enhanced integration policies and strong demand for labour. Technological developments increase re-skilling needs for a large share of workers.</td>
<td>Develop adult education, in cooperation with the social partners, including for people in unconventional forms of work.</td>
</tr>
<tr>
<td><strong>Labour market and adult skills policy</strong></td>
<td></td>
</tr>
<tr>
<td>School segregation has intensified while compensatory funding has remained relatively constant. Schools with weaker pupil backgrounds lack qualified, experienced teachers and material resources.</td>
<td>Introduce a non-binding minimum norm of school financing, integrated with the national income equalisation system, to better target funding towards disadvantaged groups, including immigrants.</td>
</tr>
<tr>
<td>The central government lacks a regional structure to steer and develop schools, while many municipalities lack the necessary scale.</td>
<td>Develop a regional arm of the central government school governance structure tasked with systematic quality improvement, inducing local cooperation, continuous teacher training and inspections.</td>
</tr>
<tr>
<td>No objective benchmark of school performance exists. Entry to upper secondary and tertiary education depend on grades, but grading practices differ between schools. The grading- and upper secondary entry systems put heavy weight on fail grades, notably in the core subjects Swedish, mathematics and English. School segregation has intensified and municipalities assign school places based on a strictly interpreted proximity principle, while private schools mostly assign places based on queuing time. Teacher quality affects pupil outcomes, but teacher education is fragmented and of relatively low status in Sweden. Mentoring and peer-to-peer learning improves teacher quality and job satisfaction, but are applied in a patchy manner across Sweden.</td>
<td>Remove sources of bias in national test grading to create an objective benchmark for school performance, and use it to remove differences in grading leniency. Weight high and low grades symmetrically and suppress the requirement to pass in certain subjects to enter upper secondary education. Take the socio-economic mix into account when investing in new schools and in school entry. Strengthen teacher education with more instruction time, teacher practice and research. Improve continuous learning and development through a regional school governance structure, systematic peer learning and continued mutually beneficial cooperation with universities.</td>
</tr>
</tbody>
</table>
Key policy insights

- The economy is growing steadily
- Macroeconomic stimulus should be withdrawn
- Structural reforms would enhance productivity and well-being
- Employment is high but some still struggle
The economy is growing steadily

Sweden is a strong knowledge-based economy, well integrated in global value chains, which ensures high standards of living, well-being, income and gender equality, as well as a high environmental quality to its inhabitants. Growth has been broad-based over the past five years, with consumption, investment and exports all contributing significantly. Meanwhile, strong domestic demand has pushed up imports (Figure 1).

**Figure 1. Output growth is robust and broad-based**

A. Real GDP growth

B. Contribution to growth

Source: OECD Economic Outlook database.

StatLink 2 [https://doi.org/10.1787/888933943607](https://doi.org/10.1787/888933943607)

Measures of the output gap and indicators of capacity utilisation suggest the economy is operating close to full capacity (Figure 2). Even so, monetary policy remains expansionary, while fiscal policy is slightly expansionary.
Sweden’s employment rate is the highest in the European Union, reflecting the strength of the economy, high participation of women and labour market institutions generating strong work incentives (Figure 3). Labour shortages appear in various economic sectors, even though the unemployment rate remains higher than the OECD average (Figure 4). Unemployment is now concentrated among the most vulnerable groups, notably the low-skilled and immigrants, which makes further reductions more challenging, notwithstanding some recent progress.

Productivity growth is among the highest in the OECD, even though it has slowed over the past decade, following the global trend. Nevertheless, it is uneven across sectors, and there is scope for improvement, particularly in sectors with relatively limited exposure to foreign competition. Early adoption and diffusion of technology can foster productivity growth, raise competitiveness and provide the opportunity to develop new economic processes,
which could lift well-being, as well as help tackle essential issues such as climate change and the consequences of population ageing. However, it also raises concerns that many jobs could be at risk of automation, with consequences for employment, skills requirements, social protection and income inequality.

**Figure 3. The employment rate is among the highest in the OECD**

*2018 Q4 or latest*


StatLink [https://doi.org/10.1787/888933943645](https://doi.org/10.1787/888933943645)

**Figure 4. Unemployment has declined**

Source: OECD Economic Outlook database.

StatLink [http://dx.doi.org/10.1787/888933943664](http://dx.doi.org/10.1787/888933943664)

A new government appointed on 21 January 2019 plans to reform labour market and rent regulations and invest further in education, inclusiveness and the environment (Box 1).
### Box 1. The new government’s programme

A new government, composed of Social Democrats and Greens, came into office on 21 January 2019. The most economically significant lines of its programme, which results from an agreement with the Centre and Liberal parties, are as follows:

**Labour market**
- Labour legislation will be revised to allow more exceptions to the order of lay-off rules.
- Access to adult education and skills development will be enhanced.
- The Public employment service will be reformed. A new system with private providers will be developed.
- Measures to facilitate the integration of immigrants will be reinforced, including through the *Entry agreement* negotiated by the social partners (see main text) and an *Integration year* scheme combining vocational education and training with Swedish language learning. Women’s labour market integration will receive particular attention.

**Education**
- The implementation of the School Commission’s recommendations to enhance equality in schools will continue (see Box 1.3 in Chapter 1).
- Teacher education will be reformed, with higher standards and admission requirements.
- Struggling students will receive more support, notably through additional courses and homework help.
- The study environment will be improved with strengthened security and bans on mobile phones.

**Housing**
- Rent setting for new dwellings will be liberalised.
- The investment support for the construction of rental housing will be concentrated, streamlined and targeted at rental housing throughout the country.
- A broad tax reform will be initiated which, among other goals, aims to reduce household indebtedness and improve the functioning of the housing market.
- Tax payments on capital gains from selling primary residences can be postponed without paying interest. Earlier legislation demanded that taxpayers paid interest to postpone paying this tax.

**Welfare**
- Pensions will increase for low-income households.
- An extra week of paid parental leave will be introduced.

**Health**
- A general plan for shortening health-care queues will be drafted.
- A broad primary care reform will be implemented, in particular to facilitate the recruitment of doctors and enhance access to care in rural areas.
**Taxes and social contributions**

- Taxes on pensions will be lowered and tax rules for pensioners fully aligned on those for wages.
- Tax deductions for household work will be increased.
- Employer social contributions will be reduced for companies hiring their first employee, low-skilled youth or newly arrived immigrants.
- The fight against tax evasion and avoidance will be stepped up.
- Taxes on environmentally-harmful activities will be raised and those on work and entrepreneurship will be reduced.

**Environment**

- Climate requirements for aviation will be tightened.
- Capacity for charging and fuelling fossil-free vehicles throughout the country will be expanded.
- Recycling will be encouraged further.
- Protection of bio-diversity will be reinforced.
- The possibility to emit a government green bond will be investigated.

**Other**

- Resources for police and defence will increase.
- Sweden will continue to support the Global Deal, which the OECD is taking over as host organisation.


Against the background of a strong economy, amid a fast-moving global environment, the main messages of this *Economic Survey* are the following:

- Monetary policy stimulus should be gradually withdrawn and fiscal policy should be broadly neutral as long as the economy remains solid.
- Structural weaknesses should be addressed to enhance productivity and well-being, notably alleviating obstacles to housing affordability and enhancing the efficiency of public services by seizing the opportunities offered by digitalisation.
- Maintaining a high level of workforce skills is essential to sustain growth, competitiveness and social cohesion, calling for action to lift educational performance and promote lifelong learning.

**The economic expansion has peaked**

Output growth is projected to slow markedly as capacity constraints become increasingly binding in many sectors, and as residential investment contracts following falls in housing prices in the biggest cities. Household consumption is set to continue expanding at a measured pace, as labour market tightness only gradually feeds through to wages, and housing market and global uncertainties encourage household saving. Demand from Sweden’s main trading partners should continue to support exports and business investment, although less vigorously, as global growth prospects weaken (Table 1).

The housing market remains vulnerable, and further housing price falls could weigh on consumption, especially as many households are heavily indebted. The current global economic environment is characterised by an increasing risk of a sharp slowdown in growth and unusually high uncertainty. Several shocks could have a major impact on the Swedish
economy. An intensification of global trade tensions would weigh on the export outlook and pose a major risk to Sweden, which is deeply integrated in global value chains. Vulnerabilities are to some extent mitigated by the product diversification of exports (Figure 5, Panel A). More than 40% of Swedish exports go to the economies of Northern Europe, which are solid but also vulnerable to trade shocks (Panel B).

<table>
<thead>
<tr>
<th>Table 1. Macroeconomic indicators and projections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual percentage change, volume, unless otherwise specified¹</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product (GDP)</td>
<td>2.5</td>
<td>2.4</td>
<td>2.4</td>
<td>1.6</td>
<td>1.7</td>
</tr>
<tr>
<td>Private consumption</td>
<td>2.8</td>
<td>2.3</td>
<td>1.2</td>
<td>1.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Government consumption</td>
<td>3.2</td>
<td>0.4</td>
<td>1.1</td>
<td>1.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
<td>3.9</td>
<td>6.5</td>
<td>3.5</td>
<td>-0.7</td>
<td>1.4</td>
</tr>
<tr>
<td>Housing</td>
<td>11.2</td>
<td>11.5</td>
<td>-0.8</td>
<td>-9.3</td>
<td>-3.2</td>
</tr>
<tr>
<td>Business</td>
<td>0.6</td>
<td>5.1</td>
<td>4.5</td>
<td>0.9</td>
<td>2.3</td>
</tr>
<tr>
<td>Government</td>
<td>8.1</td>
<td>4.9</td>
<td>5.6</td>
<td>4.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Final domestic demand</td>
<td>3.2</td>
<td>2.8</td>
<td>1.8</td>
<td>1.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Stockbuilding²</td>
<td>-0.1</td>
<td>0.1</td>
<td>0.4</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Total domestic demand</td>
<td>3.0</td>
<td>2.9</td>
<td>2.1</td>
<td>1.1</td>
<td>1.6</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>2.6</td>
<td>3.7</td>
<td>3.7</td>
<td>3.4</td>
<td>3.2</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>4.0</td>
<td>5.2</td>
<td>3.1</td>
<td>2.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Net exports²</td>
<td>-0.4</td>
<td>-0.4</td>
<td>0.4</td>
<td>0.5</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Other indicators

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential GDP</td>
<td>2.1</td>
<td>2.1</td>
<td>2.1</td>
<td>2.1</td>
<td>2.0</td>
</tr>
<tr>
<td>Output gap³</td>
<td>0.4</td>
<td>0.7</td>
<td>1.0</td>
<td>0.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Employment</td>
<td>1.5</td>
<td>2.3</td>
<td>1.8</td>
<td>1.2</td>
<td>0.6</td>
</tr>
<tr>
<td>Unemployment rate⁴</td>
<td>6.9</td>
<td>6.7</td>
<td>6.3</td>
<td>6.2</td>
<td>6.1</td>
</tr>
<tr>
<td>GDP deflator</td>
<td>1.7</td>
<td>2.2</td>
<td>2.2</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>CPI</td>
<td>1.0</td>
<td>1.8</td>
<td>2.0</td>
<td>2.0</td>
<td>2.1</td>
</tr>
<tr>
<td>CPIF⁵</td>
<td>1.4</td>
<td>2.0</td>
<td>2.1</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Household saving ratio, net⁶</td>
<td>16.0</td>
<td>15.1</td>
<td>17.9</td>
<td>19.2</td>
<td>19.9</td>
</tr>
<tr>
<td>Trade balance⁷</td>
<td>4.4</td>
<td>3.7</td>
<td>3.4</td>
<td>3.5</td>
<td>3.6</td>
</tr>
<tr>
<td>Current account balance⁷</td>
<td>4.3</td>
<td>3.2</td>
<td>2.5</td>
<td>3.4</td>
<td>3.5</td>
</tr>
<tr>
<td>General government fiscal balance⁷</td>
<td>1.1</td>
<td>1.5</td>
<td>0.7</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Underlying government net lending⁷</td>
<td>0.8</td>
<td>1.0</td>
<td>0.1</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Underlying government primary balance⁷</td>
<td>0.7</td>
<td>0.9</td>
<td>-0.1</td>
<td>-0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Gross government debt (Maastricht)⁷</td>
<td>42.4</td>
<td>40.8</td>
<td>37.6</td>
<td>35.8</td>
<td>34.6</td>
</tr>
<tr>
<td>General government net debt⁷</td>
<td>-30.7</td>
<td>-34.7</td>
<td>-33.9</td>
<td>-33.0</td>
<td>-32.2</td>
</tr>
<tr>
<td>Three-month money market rate, average</td>
<td>-0.5</td>
<td>-0.5</td>
<td>-0.4</td>
<td>0.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Ten-year government bond yield, average</td>
<td>0.5</td>
<td>0.7</td>
<td>0.7</td>
<td>0.9</td>
<td>1.1</td>
</tr>
</tbody>
</table>

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 104 database, updated based on available information as of 28-02-2019.
If the United Kingdom left the European Union without a negotiated agreement, the direct trade impact on Sweden would be relatively modest. However, indirect effects through disruption in European supply chains, uncertainty and financial market turbulence might inflict greater pain. Stress in some European sovereign bond markets could lower growth and increase uncertainty EU-wide, which would affect Swedish exports and investment. Table 2 shows shocks that could hit the Swedish economy.

### Table 2. Shocks which would affect economic performance

<table>
<thead>
<tr>
<th>Vulnerability</th>
<th>Possible outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global or regional financial crisis</td>
<td>The Swedish financial system is dominated by a few large banks, which are dependent on foreign wholesale funding. A liquidity crisis triggered by events outside Sweden could lead to difficulties in the banking sector, falls in asset prices and a credit squeeze, which would cause a deep recession.</td>
</tr>
<tr>
<td>Escalation of global trade tensions</td>
<td>As a small open economy, Sweden is exposed to weakness in world trade, which would lower exports and output.</td>
</tr>
<tr>
<td>Disorderly Brexit</td>
<td>Although the overall direct impact of a disorderly Brexit on Sweden would be modest, some sectors (e.g. food, motor vehicles) would be more severely affected. Moreover, indirect effects such as supply-chain disruptions, financial market disturbances and higher uncertainty could amplify the impact on output growth.</td>
</tr>
<tr>
<td>Housing market crash</td>
<td>Falls in housing prices have been modest so far. A collapse in housing prices, which remain high by historical standards, could trigger a sharp fall in consumption, which could in turn result in economic and financial distress in the wider economy.</td>
</tr>
</tbody>
</table>

**Poverty recedes but capital income outpaces wages, raising income inequality**

Poverty is extremely low in Sweden, which has the lowest severe material deprivation rate in the European Union (Figure 6). However, an upward trend in income inequality, which was interrupted by the global financial crisis, resumed after 2013, as the strength of the economy boosted capital income (Figure 7, Panel A). The upward trend in income inequality partly results from structural factors, such as ageing, changing family structures,
educational achievement and immigration (Robling and Pareliussen, 2017[1]; Pareliussen et al., 2018[2]). Nevertheless, economic and policy factors also play a role, in particular the rise in capital income, taxed at moderate levels relative to labour income (Fiscal Policy Council, 2018[3]), and the slow uprating of benefits since the 1990s.

**Figure 6. Poverty is extremely low**

Share of population living in material and social deprivation, 2018 or latest¹

![](https://example.com/figure6.png)

1. Material and social deprivation refers to the inability to afford at least five out of thirteen items. For example, an inability to pay unexpected expenses, have regular leisure activities, or keep their home adequately warm.

*Source:* Eurostat.

Interest and dividends pushed up inequality, as higher-income households benefitted most from investment income growth (Ministry of Finance, 2018[4]; Fiscal Policy Council, 2018[3]). The rules governing the taxation of unlisted companies since 2006 have allowed business owners to receive a larger part of their revenue in the form of capital income, taxed at lower rates than labour income. The favourable taxation of property, including generous mortgage interest deductibility, also increases inequality, even though realised capital gains on property are more evenly distributed than those on financial assets.

Notwithstanding the rise in overall inequality, relative poverty has stabilised and it even declined slightly in 2016, the last year for which data are available (Figure 7, Panel B). The pick-up in employment has helped disadvantaged households, which also benefit more than others from increases in the child and housing allowances and from a reduction in taxes on pensions in 2018.
Figure 7. Income inequality is increasing but relative poverty is contained

A. Gini coefficient after taxes and transfers

B. Relative poverty

Note: Relative poverty refers to individuals in households with disposable income below 60% of the median. Continuous series over the whole period are not available. The series covering the 1991–2013 period (full lines) are based on household finance surveys and the series starting in 2011 (dotted lines) on income and tax statistics. Source: Statistics Sweden.

StatLink https://doi.org/10.1787/888933943721

Table 3. Past recommendations on income inequality and action taken

<table>
<thead>
<tr>
<th>Main recent OECD recommendations</th>
<th>Action taken since the 2017 Survey or planned</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Review annually</strong> the distributional consequences of uprating social benefits, taking equity, fiscal costs and work incentives into consideration.**</td>
<td>No systematic review has been introduced. However, child and housing allowances increased and taxes on pensions were reduced in 2018.</td>
</tr>
</tbody>
</table>

Sweden’s strong economic performance is rooted in a highly skilled workforce and high investment in R&D (Figure 8). Sweden’s labour productivity is on par with the upper half of OECD countries (Figure 9) and, although it followed the global slowdown over the past decade, its long-run growth is faster than in most of the main OECD areas and neighbouring countries (Figure 10). Sweden’s competitiveness in world markets has also remained steady, with market shares roughly stable over the past decade (Figure 11). Despite the strength of the economy, wage increases have remained moderate. Combined with a weak krona, this has enhanced competitiveness (Sveriges Riksbank, 2018[5]). Wage moderation is driven by a wage bargaining process in which the industrial sector sets the benchmark
for other sectors. In practice, wage increases have followed developments in Germany closely in recent years (IMF, 2017[6]). The current account surplus remains large, despite a recent erosion as strong domestic demand growth has boosted imports.

**Figure 8. Sweden invests heavily in R&D**

StatLink [https://doi.org/10.1787/888933943740](https://doi.org/10.1787/888933943740)

**Figure 9. The level of productivity is close to the average of top OECD countries**

GDP per hour worked, deviation from the average of the upper half of OECD countries, 2017

Note: Advanced economies include all OECD countries, except Chile, Mexico and Turkey.  
Source: OECD, National Accounts, Productivity and Economic Outlook databases.  
StatLink [https://doi.org/10.1787/888933943759](https://doi.org/10.1787/888933943759)
Figure 10. Labour productivity has been growing faster than in most other countries

Note: Productivity is measured as GDP per hour worked.
Source: OECD, National Accounts, Productivity and Economic Outlook databases.
StatLink 2 http://dx.doi.org/10.1787/888933943778

Figure 11. Export performance remains solid but the current account surplus has steadily narrowed

Source: OECD, Economic Outlook database.
StatLink 2 https://doi.org/10.1787/888933943797

Strong output and employment growth underpins well-being

Sweden performs well in all dimensions of well-being (Figure 12). Its employment rate – the highest in the EU and one of the highest in the OECD – largely contributes to inclusive growth and a high level of well-being, although earnings are close to the OECD average. Life satisfaction is among the best in the OECD and the work-life balance is good, with only 1% of employees regularly working very long hours. The indicators for health status of the population, personal security, air and water quality, civic engagement and governance are high. While adult skills are among the best in the OECD, the cognitive skills of 15 year-olds are only about average. This calls for improving educational outcomes
to support the development of the knowledge-based economy and lifting the performance of struggling pupils to strengthen inclusiveness. A relatively inefficient housing system is reflected in low affordability and overcrowding in some places, which points to the need for reform.

**Corruption is low but further progress on foreign bribery is needed**

Sweden’s perceived level of corruption is among the lowest in the world, ranking sixth in the 2017 Transparency International Corruption Perceptions Index, a score similar to the other Nordic countries (Figure 13). The Rule of Law Index, provided by the World Justice Project, ranks Sweden third out of 113 countries as regards absence of corruption (World Justice Project, 2018[7]). Fighting corruption is important for ethical and economic reasons, as it harms the business climate, distorts competition and diverts public resources into overpriced or worthless projects, and generates mistrust in institutions and corrodes the social fabric. More than two-thirds of respondents to the 2017 Eurobarometer in Sweden consider that corruption is rare in their country, compared to about one-third in the European Union. Moreover, only about a tenth of respondents in Sweden report being affected by corruption in their daily lives, compared to a quarter in the European Union. Corruption is seen as more widespread in private companies than in the public administration, which enjoys a high level of trust. Like individuals, companies perceive that corruption is low, with less than one in ten reporting that corruption in Sweden is a problem for their business, as against over a third EU-wide. The most widespread form of corruption is nepotism, which is seen as much more common than tax fraud or bribes and kickbacks in Sweden (European Commission, 2017[8]).

However, Swedish companies face corruption challenges when conducting business abroad in high-risk jurisdictions and sectors. According to the OECD Working Group on Foreign Bribery, Sweden’s system of corporate liability for foreign bribery does not meet the requirements of the OECD Anti-Bribery Convention and Sweden has still not implemented reforms on corporate liability recommended by the OECD Working Group on Bribery in 2012 (OECD, 2012[9]; OECD, 2014[10]). In particular, maximum fines for companies paying bribes are low, companies may not be liable for foreign bribery unless individuals are convicted and prosecuted, and current legislation contains loopholes allowing Swedish companies to avoid liability if they pay bribes abroad, notably through business partners such as foreign subsidiaries (OECD, 2017[11]). Sweden has taken institutional measures to step up enforcement, as noted by the Working Group on Bribery, but in practice this has been limited to natural persons (OECD, 2017[12]).
Figure 12. How’s life in Sweden?

OECD Better Life Index, 2017

Note: This chart shows Sweden’s relative strengths and weaknesses in well-being when compared with other OECD countries. For both positive and negative indicators (such as homicides, marked with an “*”), longer bars always indicate better outcomes (i.e. higher well-being), whereas shorter bars always indicate worse outcomes (i.e. lower well-being).


StatLink  
http://dx.doi.org/10.1787/888933943816
Figure 13. Perceived corruption is low

Corruption Perceptions Index, 2018

Note: The Corruption Perceptions Index uses a scale of zero (highly corrupt) to 100 (very clean).
Source: Transparency International.

Innovation and policy incentives foster green growth

Sweden is a frontrunner in the fight against climate change and in greening the economy. CO₂ emissions per unit of GDP are well below the OECD average and have continued to fall (Figure 14). This reflects nuclear energy use as well as a large, and rising, share of renewable energy production. It is backed up by ample availability of water and wood, and a long-standing policy to substitute fossil fuel with biomass, including through CO₂ taxes, of which certified sustainable biomass is exempt. The energy intensity of GDP has fallen but is still about the OECD average. Air quality is good. Strong environment-related patenting reflects high investment in clean technologies. Built-up areas are modest relative to population. Population density in urban areas has increased on average. However, low population density in some parts of the country may keep car dependency high (OECD, 2018[13]). Environmental tax revenue as a share of GDP is close to the OECD median. Biomass is used extensively in industry and electricity generation and is largely untaxed. If biomass resources are managed sustainably, biomass use reduces CO₂ emissions and is therefore also exempt from the European Union’s Emission Trading Scheme. Even low-carbon energy sources should be used effectively. Sweden has set a national target for reducing its energy intensity of GDP by 20% between 2008 and 2020.

Sweden has adopted climate policy targets well beyond its obligations in the context of the European Union’s burden sharing agreement. It aims at reducing domestic greenhouse gas (GHG) emissions (mostly CO₂ emissions), by 85% by 2045, yielding zero net GHG emissions, including emission reductions abroad. Intermediate goals of reducing overall emissions by 63% and transport sector emissions by 70% compared to 1990 by 2030 have been set. These targets are relatively well aligned with the objective of the Paris agreement to limit global warming to well below 2 degrees, which requires reducing CO₂ emissions worldwide to zero on a net basis by 2060, although high-income countries need to reach
zero net emissions earlier. To reach these targets, in addition to the carbon tax and blending obligation for biofuels, the government adopted measures such as increased government subsidies for solar cells, electric vehicles and charging points, as well as support for company and municipal investments reducing climate impact. Fuel and vehicle taxation has been overhauled in 2018 to incentivise further reductions in carbon emissions. Moreover, the government is now required to report on progress towards climate policy targets when it presents its annual budget. An independent climate council set up in early 2018 monitors the government’s progress (Ministry of the Environment and Energy, 2017[14]).

Sweden could reach its climate objectives more efficiently with a more consistent approach to carbon taxation. Implicit carbon taxes on fossil fuels are much higher in household than in industrial use (OECD, 2018[15]). They are well below EUR 60 per ton of CO₂, a midpoint estimate of carbon costs in 2020, as well as a forward-looking low-end estimate of carbon costs in 2030 (OECD, 2018[16]). However, approximately 30% of Swedish emissions are from industries included in the EU Emissions Trading Scheme, where the carbon price and overall emission reductions are only to a limited extent under national control. Fuel taxes are much higher in transport but they also reflect other costs, such as infrastructure use. Since July 2018, transport fuel taxes also apply to low-blended petrol and diesel biofuels. Sweden certifies the sustainability of its forests and only sustainable biomass benefits from tax exemption, which also applies to high-blended biofuels and in sectors other than transport. Improving energy efficiency is key to reach climate policy objectives at low cost (International Energy Agency, 2017[17]).

Adaptation policies are also crucial, as the effects of climate change are already apparent and warming will be most intense at high latitudes (Intergovernmental panel on climate change, 2018[18]). Significant progress has been achieved in recent years, particularly in flood and landslide prevention and research on climate-related risks, but further measures are needed, including a clarification of the roles and responsibilities of different stakeholders and better coordination between them (Andersson et al., 2015[19]).

Table 4. Past recommendations on environmental policy and action taken

<table>
<thead>
<tr>
<th>Main recent OECD recommendations</th>
<th>Action taken since the 2017 Survey or planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continue to gradually phase out exemptions to the carbon tax.</td>
<td>Fuel and vehicle taxation has been overhauled in 2018 to incentivise further reductions in carbon emissions. But implicit carbon taxes on fossil fuels remain much higher in household than in industrial use.</td>
</tr>
</tbody>
</table>
Figure 14. Sweden scores well on environmental indicators

1. Switzerland has the largest share of emissions priced at EUR 30 and above. The relatively low share of emissions priced above EUR30 in Sweden is mainly due to the fact of the large share of emissions within the EU ETS. Another explanation is the high share of biofuels used in Sweden, exempted from carbon tax.

Source: OECD Green Growth Indicators database.

StatLink: https://doi.org/10.1787/888933943854
Macroeconomic stimulus should be withdrawn

**Monetary policy needs to be tightened gradually**

Monetary policy has been very expansionary, with a negative policy rate since 2015 (Figure 15, Panel A) and a bond purchase programme which has brought Riksbank’s holdings of government bonds to SEK 330 billion by August 2018 (about 7% of GDP).

This has supported the recovery and helped lift inflation and inflation expectations to near the 2% inflation target (Panel B). The gradual normalisation of policy rates as the economy strengthens is, to some extent, constrained by the monetary policy of other central banks, notably the European Central Bank. Changes in interest rate differentials could trigger shifts in exchange rates, which could make it more difficult to attain the inflation target. The depreciation of the krona over recent months, reflecting relative interest rate expectations and increasing global financial uncertainties, has pushed up import prices, contributing to higher consumer price inflation (Panel C). Rising energy and food prices...
have pushed up headline inflation. Overall, the weakness of inflation relative to the cyclical position of the economy and concerns over a potential appreciation of the krona, which would exert downward pressure on prices, have encouraged the Riksbank to maintain a very expansionary monetary stance. The krona is estimated to be undervalued by 5% to 14% in the third quarter of 2018 (Riksbank, 2018[20]). Going forward, exchange rate developments will depend on relative interest rate paths, but also on global uncertainties, which usually tend to weaken the krona. The strength of the pass-through of the exchange rate to consumer prices is also difficult to assess and depends on the nature of the shocks affecting the economy (Corbo and Casola, 2018[21]).

The Riksbank started withdrawing monetary support with a quarter percentage point repo rate hike in December 2018 and forecasts a gradual increase in the repo rate, whose interval mid-point would reach 0.5% by end-2020 and 1% by end-2021 (Riksbank, 2018[22]). Such a tightening of monetary policy is welcome given the strength of the economy and the potential negative side effects of a long period of very low interest rates, which may generate excessive risk taking and indebtedness, fuel asset price bubbles and lead to a misallocation of resources harmful to productivity (Borio et al., 2015[23]; Adrian and Shin, 2008[24]; BIS-IMF-OECD, 2018[25]). Inflation gauged by the consumer price index with a fixed mortgage rate (CPIF), which is the targeted measure, has been close to 2% since early 2017 and inflation expectations are close to 2% (Panel D). Even if cooling food and energy prices were to pull back headline inflation somewhat in the coming months, normalisation is unlikely to affect the credibility of the inflation target.

Looking forward, the dramatic reduction in the use of cash in Sweden is bound to affect the operation of the payment system, as well as monetary and financial policy. The Riksbank is already investigating these issues, and in particular considering the introduction of an e-krona (Box 2). Sweden is well ahead of other OECD countries in that respect, even though other central banks, including the Bank of Canada and the Bank of England are also investigating the issue (Barrdear and Kumhof, 2016[26]; Engert and Fung, 2017[27]). However, most central banks are so far unconvinced that the benefits of introducing a central bank digital currency for retail payments outweigh the costs in the context of their specific market conditions (Barontini and Holden, 2019[28]).

### Table 5. Past recommendations on monetary policy and action taken

<table>
<thead>
<tr>
<th>Main recent OECD recommendations</th>
<th>Action taken since the 2017 Survey or planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gradually withdraw monetary stimulus as inflation rises towards the 2% target (2017).</td>
<td>The Riksbank stopped net purchases of government bonds at the end of 2017, but principal and coupon payments will be reinvested until further notice. The reinvestment calendar implies, however, that the Riksbank’s holdings of government bonds will increase temporarily in early 2019. The policy rate was raised by a quarter percentage point to -0.25% in December 2018.</td>
</tr>
</tbody>
</table>

**Box 2. Moving towards a cashless society: potential policy implications**

The use of cash has been halved over the past decade. Only 13% of Swedes reported having paid their latest purchase in cash in 2018, compared to nearly 40% in 2010. This evolution, while permitted by technological advances in payment systems, seems essentially demand-driven, most consumers now preferring digital payments. Six out of ten now use the Swish mobile payment service, which allows instant transfers from person to person or between
individuals and companies (Erlandsson and Guibourg, 2018[29]). The rapid decline in cash use has policy implications, in particular:

- About seven out of ten Swedes say they could manage without cash. However, some groups would struggle to do so, because they have difficulties accessing or using digital tools. According to the Swedish Post and Telecom Authority, digital exclusion affects at least half a million people. Hence, banks should be required to provide access to cash throughout the country.

- As the use of cash dwindles, payments may become increasingly dependent on private institutions and economies of scale and network effects may result in monopoly positions, creating incentives for under-supply of services and excessively high prices. The confidence in money and the payment system has the characteristics of a public good, which calls for an active government role (Ingves, 2018[30]). In particular the government guarantee ensures a level of safety inaccessible to private players.

- Digital developments and consumer preferences suggest potential benefits from introducing a central bank electronic currency akin to cash. The Riksbank has decided to start technical development work on a simple token-based e-krona pilot. The intention is to explore design possibilities from a technological perspective. The Riksbank is also investigating related legal issues (Riksbank, 2018[31]). While most e-krona transactions would go through an instant settlement system, being able to use e-krona offline would be useful to address both digital exclusion and cybersecurity issues. Importantly, the e-krona would be a complement rather than a substitute to cash (Skingsley, 2016[32]).

- A smaller role for cash may help fight illegal activities and tax evasion (Rogoff, 2016[33]). However, digitalised payments may lead to new forms of tax evasion (Kireyev, 2017[34]). In addition, there would be a high cost in terms of privacy if anonymous transactions became impossible.

- Monetary policy could become marginalised if cash is no longer used and a digital alternative is not provided. The public could become completely dependent on private bank money and, if confidence in the banking system erodes at some point in time, seek alternatives assets and means of exchange, like cyber currencies or foreign currencies (Ingves, 2018[30]). Conversely, assuming the krona retains a central role, a cashless monetary system could in theory allow interest rates to go further into negative territory.

- Financial stability would also be affected if the reduction in cash use led to a decline of the role of the central bank in the financial system, which in particular lowers counterparty risk and provides last-resort liquidity. The ability to transfer funds to a safe digital currency almost instantly may increase the risk of bank runs (Danmarks Nationalbank, 2017[35]; Bank for International Settlements, 2018[36]).

- Consumer protection and information is critical in periods of deep innovations. In particular, it is important that government institutions make it clear to the public that crypto-currencies are not money, but rather high-risk assets (Ingves, 2018[37]).

**Stronger supply and macroprudential measures have cooled the housing market**

Real housing prices have more than tripled since the mid-1990s (Figure 16, Panel A) and the housing price-to-income ratio is about 30% above its long-term average (Panel B). Declining interest rates and weak amortisation requirements until recently have allowed households to borrow more. Gross household debt has increased from less than 90% of
disposable income in 1995 to more than 185% in 2017 (Panel C). Most mortgages carry variable interest rates, making households vulnerable to rate increases, even though most of them have substantial financial buffers (Finansinspektionen, 2018[38]). The high level of household debt and the associated interest rate sensitivity of the economy may also complicate the normalisation of monetary policy (Bachmann et al., 2017[39]). Since mid-2017, housing prices have fallen, particularly for tenant-owned flats in big cities, but they now seem to be stabilising (Panel D). The fall in prices is associated with a sharp decline in residential investment from an historically high level, which is expected to reach about 15% by early 2020. Sharper falls in housing prices do not seem very likely, as a general housing shortage provides some support to prices, but cannot be ruled out. They could reduce consumption and hence output growth substantially, as happened during the latest housing price collapses in Denmark and the Netherlands.

Several steps have been taken since 2010 to contain the rise in household indebtedness. A cap on loan-to-value ratios was introduced, followed by minimum capital risk-weights on mortgages and a compulsory amortisation requirement for new loans with a loan-to-value above 50%. The latter is estimated to have reduced the size of mortgages relative to income by almost 9% and the price of homes bought by households with new mortgages by about 3% on average (Finansinspektionen, 2017[40]). In March 2018, the amortisation requirement was tightened further for borrowers with new mortgages exceeding 450% of their gross income. While macroprudential tightening is containing financial risk, structural measures are needed to address imbalances in the housing market, as discussed below.

The Swedish banking system is large, interconnected and heavily reliant on wholesale funding, which creates some vulnerabilities. Swedish banks have high risk-weighted capital ratios (Figure 17, Panel A). However, as mortgages with relatively low risk weights account for a large share of their loan portfolio, their overall leverage ratio is much weaker (Panel B). Return on equity is very high, despite fairly conservative lending practices (Panel C). Liquidity buffers have been strengthened over recent years, reducing vulnerability to disruptions in global financial markets (Panel D). Banks’ exposure to residential and commercial real estate is high (Panel E) and bank lending to non-financial corporations with property as collateral would compound risks associated with household debt in the case of a property crisis (Riksbank, 2018[41]). Non-performing loans have been very low so far, partly reflecting stronger economic performance than in most other European countries (Panel F).
Promoting further green finance would reinforce financial stability

Climate change and climate change mitigation policies generate new financial risks and opportunities for investors. The Swedish financial sector does not currently look overly exposed to climate-related risk (Finansinspektionen, 2016). Nevertheless, enhanced information and transparency from financial institutions, including banks, would allow better monitoring exposure through international investments (Box 3).

Source: OECD Economic Outlook database and Valueguard.

StatLink 2 https://doi.org/10.1787/888933943892
Figure 17. The banking system is solid but with some weaknesses

A. Regulatory tier 1 capital to risk-weighted assets, 2018Q2

B. Capital to assets, 2018Q3

C. Return on equity, 2018Q3

D. Liquid assets to total assets, 2018Q3

E. Distribution of the major banks’ credit, 2018Q2

F. Non-performing loans at European banks²

1. OECD averages exclude countries not shown in the figure.
2. Non-performing loans are defined as loans in which the borrower has paid neither interest nor amortisation in the past 90 days.

Source: BIS, Riksbank, Finansinspektionen, and IMF Financial Soundness Indicators database.

StatLink 2 https://doi.org/10.1787/888933943911

Box 3. Promoting green finance

Climate change and climate change mitigation policies generate new financial risks and opportunities for investors. Stranded assets could amount to one trillion US dollars worldwide for the energy supply and industry sectors alone, and could treble if decisive climate mitigation action is delayed to 2025 (OECD, 2017[42]). Additional losses on assets could result from climate change itself. Enhancing disclosure requirements on businesses and other organisations, and in particular financial intermediaries, can help individual investors avoid risks and identify new investment opportunities, thereby improving the
allocative role of financial markets and supporting the effectiveness of climate mitigation policy.

Sweden has therefore taken steps to promote green finance. It supports the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD, 2018[43]). Stricter carbon disclosure requirements entered into force in 2016 for non-financial firms and in 2018 for investment funds and international cooperation to develop tools to finance the transition towards low-carbon and climate-resilient economies was stepped up. The possibility of emitting a government green bond is being investigated. The new disclosure rules require investment funds to provide information to obtain an understanding of the funds’ management with regard to sustainability, including environmental aspects. This is particularly welcome because of their important role in old-age pension provision. However, the new rules on investment funds do not apply to banks.

Since 2017 the European Union has required firms with more than 500 employees to disclose information related to energy, land, materials and water use as well as greenhouse gas emissions. The European Commission is also preparing voluntary guidelines for institutional investors and asset managers to disclose how they incorporate environmental, social and governance criteria in their risk assessment and how their financial investments contribute to sustainability goals. It is developing a taxonomy of economic activities according to how environmentally sustainable they are. It will also propose to develop alternative stock market indices which would include and give larger weight to quoted companies which contribute to lower CO2 emissions. Indeed, stock market indices are often used in passive investment strategies to minimise management costs. Existing stock market indices comprise well-established large firms including companies exposed to strong fossil-fuel use.

The Task Force on Climate-related Financial Disclosures has recommended more ambitious and concrete disclosure practices. For example, all businesses with disclosure requirements should describe how resilient their strategies are to climate-related risks and opportunities, taking into consideration a transition to a lower-carbon economy consistent with a 2°C or lower scenario. Banks should describe significant concentrations of credit exposure to carbon-related assets. Pension funds should describe the positioning of their asset portfolio with respect to the low-carbon transition and provide data on carbon intensity for their investments. In this context, the European Commission’s proposal to develop alternative stock market indices is of particular interest to Sweden, as most funds in its compulsory second pension pillar follow passive investment strategies using stock market indices. Strengthening and further harmonising climate-related disclosure for financial intermediaries, including banks, would improve the resilience of financial intermediaries and complement Sweden’s ambitious approach to climate mitigation policy.
Table 6. Past recommendations on macroprudential policy and action taken

<table>
<thead>
<tr>
<th>Main recent OECD recommendations</th>
<th>Action taken since the 2017 Survey or planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduce a cap on household debt-to-income ratios.</td>
<td>No cap has been introduced. However, amortisation requirements have been tightened for borrowers with new mortgages exceeding 450% of gross income.</td>
</tr>
</tbody>
</table>

Fiscal policy has supported the recovery but is appropriately turning less expansionary

Public finances are strong, with low public debt (Figure 18). Prudent fiscal policy since the 1990s has created space for counter-cyclical fiscal policy to dampen recessions. The fiscal stance was expansionary in 2017 and especially in 2018, when discretionary measures weakened the budget balance by about 0.9% of GDP, despite the strong economy. Part of the additional spending relates to necessary investment in the areas of education, immigrant integration, health, defence and environment protection. The alignment of tax rules for pensions on those of wages and the increase in the child allowance reduce income inequality. However, some permanent measures are financed by temporary receipts. The underlying fiscal surplus has narrowed significantly in 2018 and is set to edge down further in 2019 (Figure 19).

Figure 18. Government debt is low

2017

Source: OECD Economic Outlook database.

StatLink | https://doi.org/10.1787/888933943930
Figure 19. Government surpluses largely reflect the strength of the economy

The new fiscal framework (Box 4) entering into force in 2019 lowers the surplus target from 1% to 1/3% of GDP over the business cycle and gross government debt is rapidly falling towards the new debt anchor of 35% of GDP. Nevertheless, with the economy operating close to full capacity and very expansionary monetary policy, fiscal stimulus is hardly needed and the fiscal stance should be neutral as long as the economy remains solid without overheating, not least to strengthen fiscal buffers as monetary policy margins are bound to be limited during the next recession, shifting more of the burden of macroeconomic stabilisation to fiscal policy.

Box 4. The new fiscal policy framework

A new fiscal policy framework is entering into force in 2019 (Ministry of Finance, 2018[44]). The main changes from the 2011 framework are as follows:

- The government budget surplus target over the business cycle is lowered from 1% to 1/3% of GDP.
- Deviations from the target will be assessed in real time on the basis of the structural budget balance. An eight-year backward-looking average of actual net lending will be used to determine ex post whether the target has been met. This is a welcome simplification over the previous system, which used a variety of indicators to evaluate deviations from the target.
- The Fiscal Policy Council’s role is strengthened, with respect to evaluating the Government’s macroeconomic and budgetary forecasts, as well as assessing whether the fiscal position deviates from the target and whether deviations are justified.
- A debt anchor at 35% of GDP is introduced. The government will have to explain deviations of more than 5 percentage points from this benchmark to Parliament.
- The surplus target and debt anchor will be reviewed at the end of every second electoral term, i.e. every eight years.

1. Underlying government net lending in % of potential GDP.

Source: OECD Economic Outlook database.

StatLink 2 https://doi.org/10.1787/888933943949

The new fiscal framework (Box 4) entering into force in 2019 lowers the surplus target from 1% to 1/3% of GDP over the business cycle and gross government debt is rapidly falling towards the new debt anchor of 35% of GDP. Nevertheless, with the economy operating close to full capacity and very expansionary monetary policy, fiscal stimulus is hardly needed and the fiscal stance should be neutral as long as the economy remains solid without overheating, not least to strengthen fiscal buffers as monetary policy margins are bound to be limited during the next recession, shifting more of the burden of macroeconomic stabilisation to fiscal policy.

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1. Underlying government net lending in % of potential GDP.

Source: OECD Economic Outlook database.

StatLink 2 https://doi.org/10.1787/888933943949
The framework retains many key features of the former system, including the balanced budget rule for local authorities, the top-down budget process, the three-year expenditure ceiling and adherence to the European Stability and Growth Pact.

Demographics are driving up demand for public services, particularly education, health and elderly care. The dependency ratio is set to increase by eight percentage points between 2015 and 2025 (Figure 20). This is slightly more than the high-income countries and Northern Europe averages, but lower than the European average, partly as a result of strong immigration. A notable difference is that a much larger share of the increase is due to young age dependency in Sweden.

At the current juncture, subnational finances are strong at the municipal level but less so than at the national level. Municipalities have received central government grants to finance the intake of refugees and benefited from growing tax revenue from capital and development gains thanks to the construction boom, albeit with wide variations across the country. The financial situation of the county councils, whose main responsibility is to provide health care, is weaker. The Swedish Association of Local Authorities and Regions predicts a financing gap in the order of 1% of GDP for the aggregate local government sector by 2021 in the absence of new measures (Sveriges Kommuner och Landsting, 2017[45]).

Notwithstanding, the outlook for general government finances is bright. Fiscal pressures arising from pensions are absent as the pension system established in the early 1990s is designed to ensure fiscal sustainability by basing pensions on lifetime contributions. Planned reforms will reinforce sustainability by lengthening the period of contributions and linking eligibility of payments to life expectancy. In December 2017, a cross-party parliamentary group reached agreement on gradually raising the minimum public pension age from 61 to 64 in 2026, pushing back the working-age right from 67 to 69 by 2023, and raising the minimum age for receiving the guaranteed pension and housing allowance from 65 to 66. The agreement also calls for the introduction of a benchmark pension age related to life expectancy, although further investigation is needed to determine the share of life expectancy gains which should be spent working. Measures to reduce discrimination against older workers and enhance their employability and to move towards more gender-equal pensions are part of the agreement, which also states that the reform must be neutral for public finances (Swedish Government, 2017[46]).

The National Institute of Economic Research’s central fiscal sustainability scenario shows that government debt sustainability is not a concern, with gross government debt below 40% of GDP in 2040 and still below 50% in 2060. This scenario assumes, in addition to the demographic effect, an increase in welfare spending of 0.6% per year for quality enhancements (Konjunkturinstitutet, 2018[47]). A similar picture emerges from OECD long-term scenarios, which show how much the government primary revenue-to-GDP ratio has to increase to stabilise government debt at its current level when age-related cost pressure increases (Figure 21). In the baseline scenario, which assumes no policy change, revenue has to increase by two percentage points of GDP by 2040 and nearly six percentage points of GDP by 2060, notably to compensate for rising health care costs. Increases in the legal retirement age as life expectancy rises and labour market reforms lifting the employment rate would reduce the financing need. A combination of labour market reforms and containment of health care spending growth would stabilise debt at the current level without any increase in the revenue-to-GDP ratio.
Digitalisation offers great opportunities for enhancing the quality and responsiveness of public services, developing new services and raising efficiency, even though in some cases there is a risk that innovations could lead to higher demand for services and higher spending if adequate regulations and incentives are not in place. For example, easy access and low fees has increased demand for tele-medicine recently, prompting concern about overuse and quality of care (Blix and Jeansson, 2018[48]). Sweden has an ambitious digitalisation strategy, including many initiatives to develop the provision of on-line public services, and scores among the best on most indicators included in the EU e-government benchmark report (European Commission, 2017[49]).

Nevertheless, there is room for improvement in some areas, including promoting usage of digital public services among lagging groups and territories, as well as enhancing interoperability of IT systems and data sharing. Two features of the Swedish government system make this task challenging: the separation of strategic and implementation roles between ministries and autonomous agencies; and decentralisation. Hence, coordination between different bodies at different levels of government is needed. The creation in 2017 of a Digital Council of ten members, aimed at providing leadership and coordination in digitalisation policy, and of a new Agency for Digital Government in September 2018 with 50-70 staff to coordinate and support public sector digitalisation will help achieve these goals. Nevertheless, further steps may be necessary to build a whole-of-government approach, such as the establishment of a “Digitalisation Co-ordinator” (a single person or small agency), with a discretionary budget to co-finance policies and incentivise cooperation between public institutions (OECD, 2018[50]).

**Figure 20. The dependency ratio is rising markedly**

Percentage point increase, 2015-25

Note: The dependency ratio relates the number of younger (0-19 years old) and older persons (65 years or over) to the working-age population (20-64 years old). Based on the medium variant of United Nations projections. High-income countries are defined on the basis of the 2016 gross national income per capita from the World Bank. Northern Europe includes the Baltic and Nordic countries, Ireland and the United Kingdom.


StatLink [link](http://dx.doi.org/10.1787/888933943968)
1. The retirement age increases by three years between 2018 and 2060. As a result the employment rate of the population aged 15-74 increases by about two percentage points.

2. A package of labour market reforms implemented between 2020 and 2030 (e.g. reduction in tax wedges; active labour market policy measures) closes half of the gap with the five leading OECD countries on a set of labour policy indicators. As a result the employment rate of the population aged 15-74 increases by about five and a half percentage points by 2060.

3. Labour market reform as in (2) and health care spending growth halved compared to the baseline scenario, which assumes 1.3% growth per year, based on historical trend. For more detail, see Guillemette and Turner (2018) [51], “The Long View: Scenarios for the World Economy to 2060”, OECD Economic Policy Paper, No. 22.

Source: Economic Outlook Long-term projections database.

Table 7. Past recommendations on fiscal policy and action taken

<table>
<thead>
<tr>
<th>Main recent OECD recommendations</th>
<th>Action taken since the 2017 Survey or planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continue to pursue prudent fiscal policy, while accommodating temporary immigration-related spending to facilitate integration.</td>
<td>Fiscal expansion has appropriately been used to support the recovery and finance temporary spending, but the fiscal stance has turned more expansionary in 2018.</td>
</tr>
</tbody>
</table>

Structural reforms would enhance productivity and well-being

The housing market remains unbalanced

Although housing prices seem to be stabilising, the housing system remains plagued by a number of problems, including an overall shortage of housing, tax rules encouraging household indebtedness and worsening inequalities, tight rental regulations preventing an efficient use of the existing housing stock and discouraging mobility, inefficient land-use planning and low incentives for municipalities to encourage development holding back housing supply and a lack of competition in construction pushing up construction costs (Box 5). The 2015 22-point government housing plan, which is being gradually implemented, includes measures to release more land for development, lower construction costs and accelerate planning processes, as well as to provide subsidies for the construction of rental housing in exchange for rent caps over a span of 15 years (Ministry of Finance, 2016[52]). These measures can contribute to reducing the housing shortage, but a comprehensive package of reforms would be needed to restore housing affordability. Such
policies have been outlined in previous *OECD Surveys of Sweden* and the main recommendations are summarised in Table 8.

**Table 8. Past recommendations on housing policy and action taken**

<table>
<thead>
<tr>
<th>Main recent OECD recommendations</th>
<th>Action taken since the 2017 Survey or planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reform the recurrent property tax to better align tax charges with property values. Phase out the deductibility of mortgage interest rate payments.</td>
<td>No action taken so far but a broad tax reform is to be initiated which, among other goals, aims to reduce household indebtedness and improve the functioning of the housing market.</td>
</tr>
<tr>
<td>Enhance co-operation between central and local government in land-use planning and increase incentives for municipalities to facilitate the timely release of development land. Simplify land-use planning procedures, balancing economic, environmental and social considerations.</td>
<td>The 2015 22-point housing plan, which includes measures to release land for development and speed up planning processes, is being implemented.</td>
</tr>
<tr>
<td>Ease rental regulations to incentivise rental housing supply, mobility and better utilisation of the housing stock, while maintaining tenant protection against abuse.</td>
<td>No action taken so far but rent setting for new dwellings is to be liberalised.</td>
</tr>
</tbody>
</table>

**Box 5. Reforming housing policy**

Sweden experienced one of the largest increases in housing prices in the OECD over the past two decades, which eroded housing affordability and pushed up household debt. Macroprudential measures can help contain financial risk, but structural measures are needed to restore access to affordable housing for all. The provision of new dwellings is insufficient to meet the needs generated by rapid population growth (Boverket, 2018[53]). A tightly regulated rental market and almost lacking prioritisation in the allocation of municipal housing result in long rental housing waiting lists, especially in Stockholm (*OECD Economic Survey of Sweden, 2017*). While previous governments took some measures to improve the functioning of the housing market, including the 2015 22-points plan being currently implemented (see main text), a broader and more ambitious approach to housing challenges is warranted. Policy measures can reinforce each other if implemented within a coherent package of reforms, while measures taken in isolation may be less efficient or even counterproductive. This box summarises the main ingredients required for a successful reform, as they have been outlined in previous *OECD Economic Surveys of Sweden*.

**Property taxation**

With no taxation of imputed rents, low property taxes and generous deductibility of mortgage interest, the tax system is favouring homeownership over renting. Gradually phasing out mortgage interest deductibility is the most straightforward way to move towards tenure neutrality, although achieving this objective through raising property taxes or taxing imputed rents while maintaining mortgage interest deductibility would have distributional advantages, notably for younger households. Several OECD countries are currently cutting down mortgage interest deductibility, including Finland and the Netherlands.

**Land-use planning**

Inefficient land-use planning and low incentives for municipalities to encourage construction contribute to housing shortages. Hence, it would be desirable to enhance co-operation between central and local government in land-use planning and increase incentives for municipalities to facilitate the timely release of development land. Land-use planning procedures should also be simplified, balancing economic, environmental and
social considerations. The 22-point housing plan includes measures to release more land for development and accelerate planning processes, which are steps in the right direction.

**Rental regulations**

Sweden’s rental regulations are among the most restrictive in Europe (Cuerpo, Kalantaryan and Pontuch, 2014[54]), discouraging investment in rental housing, hampering mobility and leading to an inefficient use of the housing stock. Furthermore, they seem to increase, rather than reduce, spatial segregation (Lind, 2015[55]). Recent US research confirms the negative effects of rent control on mobility and housing supply (Diamond, McQuade and Qian, 2018[56]). The new government aims at liberalising rent setting for new dwellings, which would strengthen incentives to invest in rental housing. Gradually easing regulations further, while maintaining tenant protection against abuse, should be considered. Finland provides a successful example of rental deregulation in the early 1990s (Kettunen and Ruonavaara, 2015[57]; de Boer and Bitetti, 2014[58]).

**Competition in construction**

Construction costs are higher than in most other EU countries. Competition in the construction and building materials sectors should be encouraged (see section on productivity).

Other measures could also be contemplated, including further government support for affordable housing and prioritising the allocation of municipal housing according to needs.

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**There is scope for productivity gains in some sectors**

The Swedish business environment fosters entrepreneurship and competition, as reflected in a vibrant start-up ecosystem and in the OECD product market regulation (PMR) indicators (Figure 22). Sweden’s 2018 overall PMR indicator value is close to the average of the five best performing countries. On most sub-indicators, Sweden performs better than the OECD average. The exception is public ownership. Furthermore, the administrative burden on start-ups is close to the OECD average and substantially heavier than in the best-performing countries, despite shortening the time limit to register a company to five days in 2015. The impact of the above-average degree of public ownership is mitigated by the high quality of governance in Swedish state-owned enterprises. Nevertheless, strong productivity growth in sectors exposed to intense international competition has generally not been matched in more sheltered sectors, with the exception of retail trade. To some extent, this reflects the difficulty in raising service sectors productivity, compared to manufacturing. However, ongoing advances in technology offer vast potential to enhance productivity even in services, if combined with the right policies (Blix, 2015[59]; Sorbe, Gal and Millot, 2018[60]).

There seems to be scope for productivity gains in sectors such as construction and public services. Construction costs remain higher than in most other EU countries, even after taking into account the positive relation between price and income levels (Figure 23). If prices in construction were at a similar level as consumption prices relative to the EU, they would be nearly 20% lower. Assuming that differences in prices reflect differences in productivity, this would translate in a whole economy productivity level about 1.2% higher than currently. This is a lower bound, as it only includes direct effects. Building and planning regulations have been made available online in foreign languages to promote foreign competition in the construction sector. Nevertheless, competition remains weak. A recent report from the Swedish competition authority recommends further investigations in
three areas to strengthen competition: the impact of special requirements at the municipal level on housing construction and competition; the low number of bids in municipal construction procurement; the lack of studies on competition in the construction materials market (Konkurrensverket, 2018[61]).

Sweden has generally efficient business regulations and administrative procedures, and simplification measures have recently been taken in the restaurant and tourism sectors (Table 9). Nevertheless, there is scope for improvement, which can be facilitated by digitalisation. Regulation sandboxes, which allow testing products and services in a controlled environment, could be promoted as an innovative approach to the design and implementation of policies and regulations in the digital economy (OECD, 2018[37]). Innovation policy supports entrepreneurship, including for immigrants and women, and since 2018 taxes on stock options in companies with less than 50 employees have been reduced. However, recent OECD research suggests that the Swedish insolvency regime penalises failure more than in some other OECD countries (Adalet McGowan, Andrews and Millot, 2017[42]). Ongoing work on a new EU Directive on business insolvency (European Commission, 2016[62]), aimed at facilitating company restructuring at an early stage and giving reputable bankrupt entrepreneurs a second chance, should lead to improvements in the Swedish insolvency regime.

Figure 22. Product market regulations are lean

2018

Note: The indicators range from 0 (least stringent) to 6 (most stringent).
Source: Preliminary OECD 2018 PMR database (as of 20-02-2019).

StatLink  https://doi.org/10.1787/888933944006
Figure 23. Construction costs are high

Reading note: Countries above the 45° line have higher price levels relative to the EU28 average for construction than for consumer goods. Sweden’s construction price level is more than 60% above the OECD average compared to less than 40% for the consumer price level.

Source: Eurostat.

StatLink  
https://doi.org/10.1787/888933944025

Table 9. Past recommendations on business regulations and action taken

<table>
<thead>
<tr>
<th>Main recent OECD recommendations</th>
<th>Action taken since the 2017 Survey or planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Streamline building requirements across municipalities. Enhance the access of small and foreign firms to the public procurement process by improving its timeliness, predictability and clarity.</td>
<td>The 2015 22-point government housing plan, which is being gradually implemented, includes measures to release more land for development, lower construction costs and accelerate planning processes. An investigation into simplifying and increasing flexibility in procurement regulations, including measures to reduce appeals, has been started. Building and planning regulations have been made available online in foreign languages.</td>
</tr>
<tr>
<td>Simplify regulatory procedures, in particular regarding licences and permits.</td>
<td>Some promising initiatives to digitalise and simplify procedures have been taken, notably in restaurants and tourism. Some administrations are using digital tools to improve services, simplify procedures and shorten processing times.</td>
</tr>
</tbody>
</table>

Employment is high but some still struggle

Even though Sweden has the highest employment rate in the European Union, matching workers and jobs is increasingly difficult (Figure 24). Labour shortages have appeared in many sectors, notably IT, data processing, health and education ( Arbetsförmedlingen, 2018 [63] ).

Refugees and low-skilled workers still struggle to find jobs. The unemployment rate of the foreign-born is around 15%, versus less than 4% for natives, and the number of foreign-
born jobseekers has increased sharply since 2009 (Figure 25). However, integration of refugees into the labour market has improved for more recent cohorts, as a result of enhanced integration policies and strong demand for labour (NIER, 2018[64]).

Measures have been taken to facilitate the integration of long-term unemployed, recently arrived immigrants and people with disabilities into the labour market, as high entry-level wages make it difficult to employ low-skilled workers (OECD Economic Survey of Sweden, 2017). Five employment subsidy programmes were merged into a new scheme (Introduction jobs) in May 2018, with a subsidy of 80% up to a gross wage ceiling of SEK 20 000 per month. Subsidies for those further away from the labour market have increased, eligibility conditions have been harmonised and regulations have been simplified to reduce the administrative burden on the employer and the public employment service. In addition, the former government and the social partners agreed, in March 2018, to introduce so-called Entry agreements, combining employment and municipal adult education within the formal education system and targeting new immigrants and long-term unemployed. Compensation will be a combination of wage and state benefits. Entry agreements are part of the new government’s programme (see Box 1). Employment protection legislation for permanent contracts is tight, which tends to complicate access to jobs for low-skilled workers (OECD, 2017[65]) and reduce productivity growth (Martin and Scarpetta, 2012[66]; Uddén Sonnegård, 2017[67]). The new government plans some easing in employment protection legislation for permanent contracts. New forms of work, like platform jobs, may also call for updating labour legislation and broadening the coverage of collective agreements.

Figure 24. Labour market mismatch is increasing

Note: An outward (inward) shift of the Beveridge curve over time implies a decrease (increase) in the efficiency of labour market matching.


StatLink  http://dx.doi.org/10.1787/888933944044
Figure 25. Numbers of registered unemployed remain high in vulnerable groups

Source: Swedish Public Employment Agency.

StatLink [image] https://doi.org/10.1787/888933944063

Table 10. Past recommendations on labour market policy and action taken

<table>
<thead>
<tr>
<th>Main recent OECD recommendations</th>
<th>Action taken since the 2017 Survey or planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce the gap in employment protection between permanent and temporary contracts and increase flexibility in entry level wages.</td>
<td>No action taken. The new government is set to appoint a committee that will investigate how a better balance can be created in employment protection for staff with different terms of employment.</td>
</tr>
<tr>
<td>Continue to simplify the procedures to help migrants get residence and work permits.</td>
<td>Policies to speed up the integration of migrants have been stepped up, including an education and training obligation, recognition of qualifications and compensation to municipalities for refugee reception.</td>
</tr>
<tr>
<td>Rationalise by merging and harmonising various wage subsidy schemes to better target the most vulnerable workers, ease the related administrative burden and increase take-up.</td>
<td>Five employment subsidy programmes were merged into a new scheme (Introduction jobs) in 2018, with a subsidy of 80% up to a gross wage ceiling of SEK 20 000 per month.</td>
</tr>
</tbody>
</table>

The workforce is highly skilled but policies need to look forward

Recent OECD research confirms that human capital is a key driver of growth (Égert et al., 2019[68]) and a highly qualified workforce is one of Sweden’s main strengths. Swedes rank highly in all areas of the OECD Survey of Adult Skills (PIAAC), especially in problem solving in a technology-rich environment (Figure 26). Nevertheless, the fast pace of technological change creates new challenges, requiring new skills and putting some jobs at risk of automation and many more at risk of significant change (Figure 27). Sweden’s proportion of tertiary graduates in science is above the OECD average and has remained broadly constant over the past decade, while the proportion of ICT graduates is close to the OECD average. However, shortages of qualified ICT workers are acute.

Women are under-represented among both science and ICT graduates, which may reflect preferences, but also social norms and stereotypes. The entry and progression of women in science and technology-related professions could be facilitated by further encouraging networking and cooperation between schools and trade associations, civil society groups and the business community (OECD, 2015[69]). This would extend the pool of skilled workers, bring advantages associated with diversity and contribute to increasing further gender equality, as technology-related professions are generally highly valued both in terms of wages and social status.
Note: Percentage of adults scoring at level 2 or 3 in the PIAAC test. Problem solving is the ability to use digital technology, communication tools and networks to acquire and evaluate information, communicate with others, and perform practical tasks. 
Source: OECD Survey of Adult skills (PIAAC).

StatLink 2 https://doi.org/10.1787/888933944082

Figure 27. Many jobs are at least partially at risk of automation

Note: Jobs are at high risk of automation if their likelihood of being automated is at least 70%. Jobs at risk of significant change are those with a likelihood of being automated estimated at between 50 and 70%. 

StatLink 2 https://doi.org/10.1787/888933944101

The acceleration in technological change requires individuals to adapt to new tasks and develop their skills during their whole working life. This necessitates both strong foundation skills and adequate lifelong learning. Even though Sweden enjoys one of the highest levels of adult skills in the OECD, nearly one person in five has low literacy or numeracy skills, or both (Figure 28).
Nearly one adult in five lacks some foundation skills


In a country where low-skilled jobs represent only about 5% of employment and routine tasks are increasingly being automated, individuals with low foundation skills are at a strong disadvantage. Hence, it is crucial to make sure that youth, including those from disadvantaged backgrounds, acquire solid foundation skills and that adults lacking those skills, including immigrants, are offered opportunities to acquire them.

School results and equity need strengthening

Swedish school results declined for two decades since the early 1990s. Reforms to decentralise the school system, introduce choice, competition and management by objectives likely played a role, not because of their general direction (several successful school systems in the OECD are decentralised, with some choice, management by objectives and private provision) (OECD, 2017[70]), but because of concrete issues of design and implementation. The latest edition of the OECD Programme for International Student Assessment (PISA) showed an improvement, but Sweden’s educational performance only climbed back to close to the OECD average (OECD, 2016[71]; Gustafsson, Sörlin and Vlachos, 2016[72]).

Inequalities across pupils and schools are widening. Children’s performance is increasingly determined by who their parents are and where in the country they live. This trend partially reflects lower education among foreign-born pupils’ parents and immigrants’ entry at an older age into Swedish schools compared to earlier cohorts. School inequalities are driven by residential segregation and school choice (Figure 29). Even though evidence of peer effects in Swedish schools is ambiguous, there is a clear risk that these trends deprive pupils of equal opportunities. Furthermore, they may reduce the average performance of the school system to the extent pupils from weak backgrounds lose more from segregation than strong pupils gain (Skolverket, 2018[73]; Böhlmark, Holmlund and Lindahl, 2016[74]).
OECD, 2016; Sund, 2009). The OECD has identified facilitating the access of immigrants to school choice as a priority area for closing the gap between immigrant and native pupils in Sweden, along with building teaching capacity, providing language training and strengthening the management of diversity (Cerna et al., 2019). The Government initiated a public enquiry in 2018 to analyse increasing school segregation and propose policies to reduce it and foster equal opportunities within the compulsory school system.

Recruiting enough quality teachers is challenging after years of declining status of the profession. The problem is particularly acute in remote parts of the country, as the young with higher education tend to migrate to the cities (SKL, 2018; Mellander and Bjerke, 2017). Demographic pressures add to the challenge, with the number of pupils in Swedish schools set to increase in the coming years, while the existing teacher population is ageing.

A common understanding of the mechanisms behind these challenges and ways to address them is gradually replacing the piecemeal reform approach prevalent from the late 2000s. The 2015 School Commission played an important role in building consensus (School Commission, 2017). However, proposals central to improving the school system’s ability to give all children the same opportunities to succeed in school, notably to assign places at over-subscribed schools by lottery and to introduce a minimum school level funding requirement, remain politically divisive.

Figure 29. School segregation leads to diverging school results
Between-school grade variation controlling for socio-economic background

Note: Grades are grade point averages of 9th grade pupils. Between-school variation is the share of total grade points variation explained by between-school average grade points variation.

StatLink  http://dx.doi.org/10.1787/888933944139

Well-performing school systems in many countries contain elements similar to Sweden’s, and the general direction of the 1990s reforms of decentralisation, choice and private provision was not bound to lead to falling learning outcomes. For example, Finland has a highly decentralised system, but a strong teacher profession maintains high education quality, and the government promotes educational equity with a central grant covering around half of compulsory school funding (OECD, 2015). The Dutch school system has
strong similarities with the Swedish one. Entry of private providers is liberal, and private schools are funded equivalently to public schools, but in contrast to Sweden, only non-profit providers receive public funding (Patrinos, 2011[80]). In the United States, 41 states and the District of Columbia permit charter schools to operate. Charter laws vary across states, but defining characteristics common to the Swedish system are that they cannot charge tuition fees, and they are not permitted to impose admission requirements. If oversubscribed, they must select pupils by lottery. Even though charter schools do not outperform public schools on average when controlling for pupil backgrounds, many charter schools, and charter school districts (such as New York City) appear to outperform traditional public schools according to various measures, and individual schools and the sector as a whole seem to improve over time (Epple, Romano and Zimmer, 2016[81]). Several states have school voucher programmes or tax credits to offset the cost of attending private schools. These programmes often raise the results of their direct beneficiaries, notably when targeted towards groups of low socio-economic status (Anderson and Wolf, 2017[82]). However, it is not clear whether the improvements reflect higher school productivity or peer effects, and the system-wide effects of these voucher programmes remain uncertain (Urquiola, 2016[83]).

However, decentralisation and the transition to a hands-off approach to management were too abrupt and went too far. Both the centrally articulated objectives and the 1994 curriculum were too vague, with too much emphasis on pupils’ responsibility for their own learning (OECD, 2015[69]; OECD, 2015[84]). Many activities benefit from a broader perspective than the municipal one. Without central steering and funding, some important aspects of policy inputs, such as teacher wages, compensatory funding of socio-economic needs and continuous learning activities for teachers drifted in the wrong direction. Indeed, many municipalities still lack the organisational capacity to run schools effectively (OECD, 2015[69]).

A liberal establishment regime for private providers, competition for pupils and opening up for private profits introduced a new set of incentives calling for strengthening governance and control. Instead, governance structures were weakened, notably by closing the regional education boards (Gustafsson, Sörlin and Vlachos, 2016[72]). Many countries have a large share of private schools dependent on public funding, but they typically limit dividends and/or limit entry of for-profit school providers. Only Sweden has a large publicly funded for-profit sector after Chile ended public funding of for-profit schools on equity grounds with the 2015 Inclusion and Equity Law (OECD, 2018[85]). The private school sector is growing strongly in Sweden, almost exclusively in the for-profit segment (Werne, 2018[86]).

The institutional set-up of the school system needs strengthening, with the central government reinstating some of the steering levers removed in the 1990s, notably an increased share of centralised funding and regional education boards. The government is introducing a block grant to better align school funding with socio-economic needs. This grant could be supplemented or replaced by a centrally set non-binding minimum funding norm, integrated with the national system for income equalisation between municipalities. Better aligning school funding with needs and equity objectives would allow schools with the highest needs to acquire good equipment and compete for the best personnel (Figure 30). A regional arm of the central government school governance structure should be developed to enhance cooperation, improve skill development, promote continuous quality improvements, and instil accountability at every level of the school system.
Competition and school choice do not deliver fully in line with the public good in Sweden today, because of information asymmetries and because the interests of private school providers, teachers and pupils do not align with the public interest. It increases school segregation (Böhlmark, Holmlund and Lindahl, 2016[74]; Yang Hansen and Gustafsson, 2016[87]). Many private schools are high-performing, but there is some evidence that on average private schools obtain lower results than public schools when controlling for socio-economic backgrounds (André, Pareliussen and Hwang, 2019[88]; OECD, 2016[89]; Skolverket, 2018[73]). Competition could still be positive if it raised the average performance of all schools. However, such effects are very small at best, and may even be negative, insofar as negative peer effects in low-performing schools dominate positive effects from competition in a context where competition increases school segregation over time (Wondratschek, Edmark and Frölich, 2013[90]; André, Pareliussen and Hwang, 2019[88]). Drawing the benefits from choice and competition, while limiting negative side-effects calls for addressing information asymmetries, and taking the socio-economic mix into account in compulsory school entry and when investing in new schools.

Information asymmetries should be addressed by turning national tests into an objective benchmark of skills. This could be achieved by securing the integrity of test material and independent grading. Ensuring that grades fairly represent a pupil’s skills and knowledge is important, as sorting from compulsory to upper secondary school depends exclusively on grades, and grades are the main sorting mechanism from upper secondary school to tertiary education. The grading scale places a heavy weight on fail grades, and individual fail grades in core subjects prevent entry into upper secondary national programmes. This system heavily incentivises tilting schools’ efforts towards avoiding failure, but also creates failure, as it somewhat arbitrarily creates losers through threshold effects around the fail grade (Gustafsson, Sörlin and Vlachos, 2016[72]). Weighing high and low grades symmetrically and suppressing the requirement to pass in certain subjects to enter upper secondary education would constitute a more balanced approach towards helping pupils achieve their full potential. High grades would still be necessary to enter the most popular programmes and the most popular schools, but pupils would not be excluded from a wide range of educational choices predominantly based on their performance in their weakest subjects.
Municipalities need to take the socio-economic mix of pupils into account when investing in new schools and in municipal school entry. For localisation decisions to effectively counteract segregation, some coordination between the municipality and private providers is needed. Today’s liberal establishment of private schools therefore needs better coordination. The potential effects on school segregation should become an explicit criterium for opening a new school, taking over a school or increasing pupil numbers in existing ones. Municipalities need a stronger say in these matters. Pupils should be assigned to over-subscribed private schools by lottery, or with quotas reserved for pupils with unfavourable socio-economic backgrounds (Figure 31). Successful examples of school choice with socio-economic quotas exist in Nijmegen in the Netherlands and Flanders in Belgium (OECD, 2015[84]).

Figure 31. Private schools’ over-performance reflects pupil selection

National test results, difference to public schools, controlling for inputs and pupil backgrounds

Note: Difference to public schools in the logarithm of national mathematics test scores for 9th graders. The columns are coefficients for private for- and non-profit dummies in a random-effects panel regression with data covering the years 2013-17. “All controls” corresponds to the main specification in André, Pareliussen and Hwang (2019[62]). “Parent education and new immigrants” controls for the education level of parents and the share of pupils having immigrated during the four years preceding the test. “Inputs and organisation” controls for the average municipal expenditure per pupil, the share of certified teachers, the number of pupils per teacher and a survey measure of adaptation of education to pupils’ needs. Source: Authors’ calculations based on André, Pareliussen and Hwang (2019[62]).

Only 5% of teachers in Sweden report that teaching is a valued profession in society, compared with 59% in Finland, 31% in Norway and the TALIS average of 31% (Figure 32). Increasing the attractiveness of teaching is important to recruit enough high-quality teachers going forward. Better teacher education with a stronger research base, more instruction time and more teaching practice, enhanced continuous learning and development through a regional school governance structure and more cooperation, as well as feedback and support between colleagues would help. Furthermore, principals and education personnel should be shielded from unnecessary administration and red tape so they can concentrate on core teaching and leadership tasks. Teachers should face incentives to progress, perform and take on challenging tasks. The government has taken steps the past few years to strengthen teacher pay and career paths. Earnings for young teachers are now well above the OECD average (OECD, 2018[91]). Strengthened steering from a regional governance structure, clear lines of responsibility and accountability for results should help.
Figure 32. The teacher profession is unattractive

Percentage of teachers who agree that the teaching profession is valued in society

Source: OECD, TALIS 2013 Database, Tables 7.2 and 7.2 web.

StatLink  http://dx.doi.org/10.1787/888933944196

Investment in lifelong learning can foster inclusive growth

As many jobs are at risk of automation or of significant change in tasks and skills requirements, re-skilling will be critical for inclusive growth over the coming years. Workers with the right skills will be essential for productivity and competitiveness. Allowing displaced workers to retrain will be crucial for employment, equality and social cohesion. The government has introduced the Knowledge boost programme to provide around 100,000 study slots in higher vocational education and other types of adult education, with a focus on fields crucial to society, such as engineering and medicine (Government Offices of Sweden, 2018[92]). Nevertheless, more will need to be done over the coming years to meet rapidly evolving skill needs.

Key requirements for the development of adult education and training include favouring compatibility between training and employment (e.g. time flexibility, training leave, online learning), enhancing responsiveness to different and evolving needs and improving the recognition and certification of learning. Co-financing, as well as tax credits and allowances can be used to ensure adequate financing and incentives for re-skilling (OECD, 2017[93]).

Meeting the re-skilling challenge will require close cooperation between employers, trade unions and government. Sweden should build on its strong social dialogue tradition to find innovative solutions. For example, the social partners could consider giving more weight to training in collective bargaining. Re-skilling needs to be widely available, including to SME employees, workers in unconventional forms of employment and the unemployed. Sweden has one of the highest rate of participation in training in the OECD. However, as in other countries, the low-skilled participate less in training than higher-skilled individuals (Figure 33).

Some countries have put in place individual learning accounts (e.g. Canada, Netherlands, United States) and education vouchers (e.g. Austria, Germany, Switzerland) to widen access to training. The public employment service also needs to offer unemployed people training which matches evolving labour market needs, plus effective career guidance.
Figure 33. The low-skilled receive less training than others
Participation in training over a 12-month period

Note: Low-skilled adults are defined as people scoring at or below a PIAAC literacy score of 225 points.
Source: OECD calculations based on the Survey of Adult skills (PIAAC).

StatLink https://doi.org/10.1787/888933944215

Table 11. Past recommendations on education and action taken

<table>
<thead>
<tr>
<th>Main recent OECD recommendations</th>
<th>Action taken since the 2017 Survey or planned</th>
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<tbody>
<tr>
<td>Raise the attractiveness of teaching by increasing monetary incentives, offer clearer career paths, and improve teacher education.</td>
<td>The “Teacher salary boost” offers enhanced career pathways and pay, financed by grants from the central government.</td>
</tr>
<tr>
<td>Increase support for struggling pupils, including immigrants, through early intervention and targeting resources based on socio-economic background.</td>
<td>The 2018 reading-writing-mathematics guarantee introduced mandatory evaluations of pupils’ reading, writing and mathematics skills from an early age, followed by extra support for those who need it.</td>
</tr>
<tr>
<td>Enhance support and incentives for immigrants to learn Swedish.</td>
<td>New regulations, better coordination between agencies and strengthened funding contribute to shorter processing times for new immigrants, more flexible integration activities and clearer expectations to migrants’ own efforts.</td>
</tr>
</tbody>
</table>

Bibliography


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Ministry of Finance (2016), *Sammanfattning av regeringens förslag om 22 steg för fler bostäder*.


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Annex Progress in structural reforms

This annex summarises recommendations made in previous Surveys and main actions taken since the OECD Economic Survey on Sweden was published in February 2017.
### Recommendations in previous Surveys

<table>
<thead>
<tr>
<th>Business regulations, infrastructure and innovation</th>
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<tbody>
<tr>
<td>Simplify regulatory procedures, in particular regarding licences and permits.</td>
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<tr>
<td>Streamline building requirements across municipalities. Enhance the access of small and foreign firms to the public procurement process by improving its timeliness, predictability and clarity.</td>
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<tr>
<th>Actions taken</th>
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<tr>
<td>Some promising initiatives to digitalise and simplify procedures have been taken, notably in restaurants and tourism. Some administrations are using digital tools to improve services, simplify procedures and shorten processing times.</td>
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<tr>
<td>The implementation of the 2015 22-point housing plan, which includes measures to release land for development and speed up planning processes, continues. An investigation into simplifying and increasing flexibility in procurement regulations, including measures to reduce appeals, has been started. Building and planning regulations have been made available online in foreign languages.</td>
</tr>
</tbody>
</table>

| 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. |

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<th>Actions taken</th>
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<tr>
<td>The Government has made major investments in railway maintenance and investments in public transport in rural areas.</td>
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<tr>
<td>Innovation and research policy is being gradually strengthened, but governance, leadership and strategic vision need further improvement.</td>
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<tr>
<th>Skills and education</th>
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<tr>
<td>Raise the attractiveness of teaching by increasing monetary incentives, offer clearer career paths, and improve teacher education.</td>
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<tr>
<td>Increase support for struggling pupils, including immigrants, through early intervention and targeting resources based on socio-economic background.</td>
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<td>Enhance support and incentives for immigrants to learn Swedish.</td>
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<td>The “Teacher salary boost” offers enhanced career pathways and pay, financed by grants from the central government.</td>
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<tr>
<td>The 2018 reading-writing-mathematics guarantee introduced mandatory evaluations of pupils’ reading, writing and mathematics skills from an early age, followed by extra support for those who need it.</td>
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<tr>
<td>New regulations, better coordination between agencies and strengthened funding contribute to shorter processing times for new immigrants, more flexible integration activities and clearer expectations to migrants’ own efforts.</td>
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<tr>
<th>Labour market and social policy</th>
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<tr>
<td>Reduce the gap in employment protection between permanent and temporary contracts and increase flexibility in entry level wages.</td>
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<tr>
<td>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.</td>
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<tr>
<td>Continue to simplify the procedures to help migrants get residence and work permits.</td>
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<tr>
<td>Rationalise by merging and harmonising various wage subsidy schemes to better target the most vulnerable workers, ease the related administrative burden and increase take-up.</td>
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<tr>
<td>Review annually the distributional consequences of uprating social benefits, taking equity, fiscal costs and work incentives into consideration.</td>
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<th>Actions taken</th>
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<tr>
<td>No action taken. The new government is set to appoint a committee that will investigate how a better balance can be created in employment protection for staff with different terms of employment.</td>
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<tr>
<td>No action taken. An inquiry on the design of income-based unemployment insurance and ways to increase coverage has been opened in 2018, including an analysis of the opportunity to modify the length and level of unemployment benefit compensation.</td>
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<td>Policies to speed up the integration of migrants have been stepped up, including education programmes, recognition of qualifications and compensation to municipalities for refugee reception.</td>
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<tr>
<td>Five employment subsidy programmes were merged into a new scheme (Introduction jobs) in 2018, with a subsidy of 80% up to a gross wage ceiling of SEK 20 000 per month.</td>
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<tr>
<td>No systematic review has been introduced. However, child and housing allowances increased and taxes on pensions were reduced in 2018.</td>
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<tr>
<th>Gender equality</th>
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<tr>
<td>Encourage parents to split parental leave more equally by continuing to increase the share reserved for each parent.</td>
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<tr>
<td>Enhance active labour market policy for foreign-born women when the Introduction programme ends, to prevent them from drifting away from the labour market.</td>
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<th>Actions taken</th>
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<tr>
<td>No action taken.</td>
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<tr>
<td>The government has, in addition to general measures to speed up the integration of newly arrived immigrants, taken initiatives focusing on foreign-born women, e.g. funding to increase the possibilities for persons on parental leave to take part in Swedish language courses and training, improving the quality of education in Swedish for immigrants and outreach and study motivation actions for foreign-born women..</td>
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<tr>
<td>Housing policy</td>
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<td>Introduce a cap on household debt-to-income ratios.</td>
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<td>Reform the recurrent property tax to better align tax charges with property</td>
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<td>values. Phase out the deductibility of mortgage interest rate payments.</td>
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<td>Enhance co-operation between central and local government in land-use planning</td>
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<td>and increase incentives for municipalities to facilitate the timely release</td>
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<td>of development land. Simplify land-use planning procedures, balancing</td>
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<td>economic, environmental and social considerations.</td>
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<td>Ease rental regulations to incentivise rental housing supply, mobility and</td>
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<td>better utilisation of the housing stock, while maintaining tenant protection</td>
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<td>against abuse.</td>
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<th>Climate change mitigation policies</th>
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<td>Continue to gradually phase out exemptions to the carbon tax.</td>
<td>Fuel and vehicle taxation has been overhauled in 2018 to</td>
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<td>incentivise further reductions in carbon emissions. But implicit</td>
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<td>carbon taxes on fossil fuels remain substantially higher in</td>
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<td>household than in industrial use.</td>
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