

## SWEDEN

- GDP per capita is lower than in leading OECD economies due to lower productivity, but the gap continues to narrow. Labour force participation and employment grow at healthy rates despite an ageing population, while labour productivity growth has slowed.
- The government is taking initiatives to improve the performance of the education system. Macro-prudential policies are being introduced to limit household debt-related risk. In contrast little has been done to improve the supply-side of the housing market and to ease job protection.
- Marginal income tax cuts would strengthen work incentives. Easing employment protection on permanent workers and rigidities in the housing market would encourage labour mobility and boost productivity. Enhanced efficiency in education would foster human capital accumulation.
- Earlier intervention would improve employment and earning prospects for the long-term sick and disabled, thereby reducing inequalities and supporting growth. Reducing protection of permanent workers would facilitate the integration of vulnerable groups into the workforce.

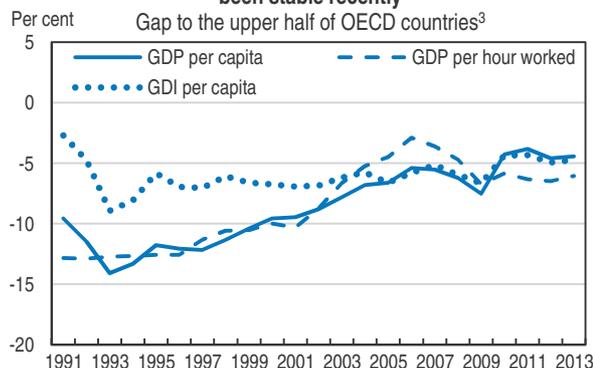
### Growth performance indicators

#### A. Average annual trend growth rates

Per cent

|   | 2003-08 | 2008-13 |
|---|---------|---------|
| Potential GDP per capita                  | 1.5     | 1.0     |
| Potential labour utilisation              | -0.1    | 0.0     |
| of which: Labour force participation rate | 0.1     | 0.2     |
| Employment rate <sup>1</sup>              | 0.0     | -0.1    |
| Trend employment coefficient <sup>2</sup> | -0.2    | -0.1    |
| Potential labour productivity             | 1.6     | 0.9     |
| of which: Capital deepening               | -0.1    | -0.1    |
| Labour efficiency                         | 1.4     | 0.6     |
| Human capital                             | 0.3     | 0.3     |

#### B. Gaps in GDP per capita and productivity have been stable recently



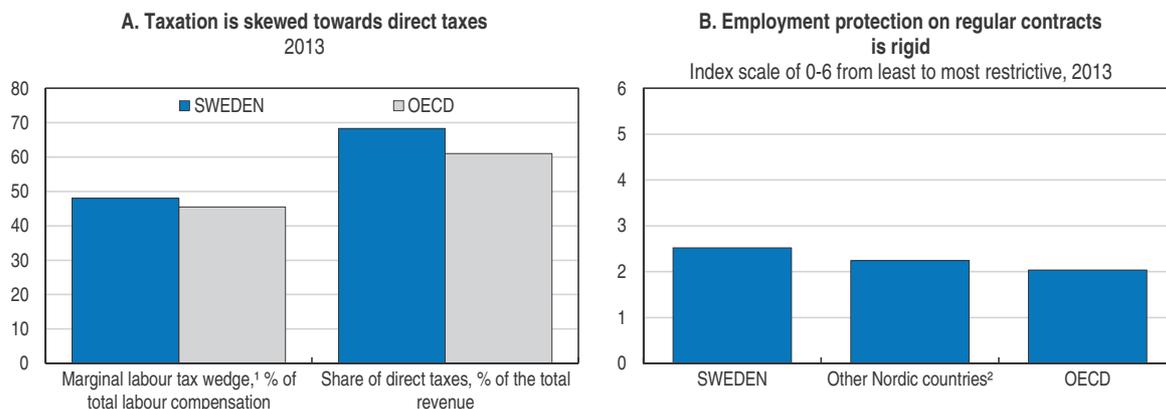
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

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## Policy indicators



1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Marginal labour tax wedge for a single person at 100% of average earnings without child.
2. Average of Denmark, Finland and Norway.

Source: Panel A: OECD, *Revenue Statistics and Taxing wages Databases*. Panel B: OECD, *Employment Protection Database*.

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## Going for Growth 2015 priorities

**Priorities supported by indicators**

**Reform sickness and disability benefit schemes.** Late intervention for people on long-term sickness leave and disability benefits increases the risk of exclusion from the labour market.

**Actions taken:** No action taken.

**Recommendations:** Assess the remaining work capabilities of individuals at risk of long-term sickness or disability earlier. Promote the return to work by enhancing co-operation between the social insurance agency and the public employment service.

**Reduce job protection on permanent contracts.** Job protection on permanent contracts is the most stringent among Nordic countries, raising concerns about labour reallocation, productivity growth and exclusion of vulnerable groups.

**Actions taken:** No action taken.

**Recommendations:** Reduce stringency in areas that unduly hinder productivity enhancements, such as the “first in, last out” rule, obligations related to internal reassignment and the priority for dismissed workers to be re-hired following justified individual or collective dismissal. Engage with social partners to reform employment regulations in those industries in which they are tightened by collective agreements.

**Reduce marginal tax rates on labour income and shift the tax structure towards property and consumption.** High marginal taxes on above-average income reduce incentives to work longer and weaken productivity growth.

**Actions taken:** No action taken.

**Recommendations:** Cut marginal tax rates on above average earnings by shifting part of the tax burden towards recurrent taxes on immovable property and inheritance tax, and by removing VAT exemptions.

**SWEDEN****Other key priorities**

**Increase the efficiency of the education system.** Skills are declining, drop-out rates from compulsory school are high, labour market relevance is unsatisfactory and students spend too much time in tertiary education before graduation.

**Actions taken:** Several new policies are being implemented, bringing most importantly an increased focus on reading and mathematics, and an improved education and career progression for teachers.

**Recommendations:** Improve career prospects and work-life balance for teachers to attract the best talents. Develop systems to improve low-performing schools. Enhance education and career counselling and match education supply better with the needs of employers. Encourage shorter completion times in tertiary education.

**Reduce housing market distortions.** Overly rigid planning and rental regulations impede labour mobility, reduce competition in construction and increase the risk of build-up of financial and macroeconomic imbalances.

**Actions taken:** Increases in risk weights for mortgages and the introduction of a countercyclical capital buffer (2014) have reduced macroeconomic risks. Planning regulations and rent controls were eased marginally in 2013.

**Recommendations:** Deregulate the rental market and increase the transparency and efficiency of spatial planning. Reinstate recurrent housing taxation and/or remove mortgage interest deductibility.

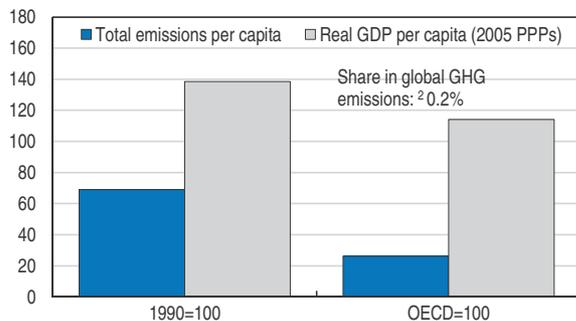
**Reform areas no longer considered a priority in *Going for Growth***

For Sweden, all priority areas from the 2013 issue of *Going for Growth* are maintained.

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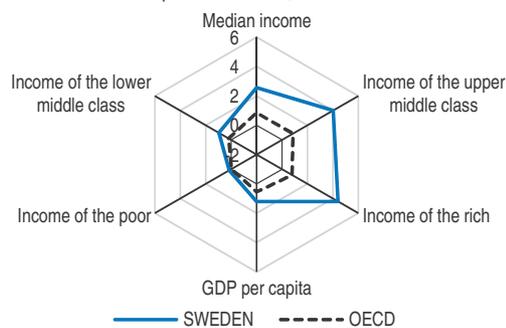
## Beyond GDP per capita: Other policy objectives

**A. Emissions per capita are below the 1990 level and well below OECD average**  
Average 2008-12<sup>1</sup>



**B. Rich households experienced strong income gains<sup>3</sup>**

Average annual growth rate in real household disposable income, 2005-11<sup>4</sup>



1. Total GHG emissions including LULUCF in CO<sub>2</sub> equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2004-11 for Sweden.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink  <http://dx.doi.org/10.1787/888933178834>