

## SWEDEN

- Relatively strong GDP growth has been accompanied by high migration and population growth. GDP per capita is therefore just slightly above its 2008 level, and has stayed fairly constant compared to most advanced OECD countries. Productivity in Sweden has fallen compared to the best-performing countries since the mid-2000s, but has levelled out for the past half-decade. Labour force participation continued to grow, and employment losses were relatively limited during the downturn.
- Inequality of disposable income has risen since 2008, largely driven by changes in taxes and benefits. The lowest 20% income share has fallen, as less generous benefits have reduced income disproportionately for the poorest households.
- Macro-prudential policies and some supply-side measures have been implemented, but have so far not curbed house prices and credit growth sufficiently. Already comprehensive migrant integration policies have been improved further, but the scale of humanitarian and family reunion immigration, together with a high skills gap related to natives, calls for continuous efforts to co-ordinate policies and better tailor measures to individual needs. Previous tightening of disability has reduced inflows, and this reform area is no longer considered a priority in *Going for Growth*.
- Improving school results and integration, including by lowering labour market entry barriers, is necessary to keep the employment rate high and avoid increasing inequality further. More efficient housing and rental markets would increase labour mobility and enhance productivity. Shifting the composition of the tax structure could increase its efficiency in an equity-friendly way.
- The economic burden of environmental regulations could be lowered without efficiency loss by harmonising the cost of similar emissions from different sources and streamlining environmental regulations and procedures.

### Going for Growth 2017 priorities

**\*Enhance migrant integration.\***<sup>1</sup> Humanitarian and family reunion immigrants to Sweden, notably women, are on average less educated than natives, and face language and cultural barriers.

**Recommendations:** Adapt language training, education, subsidised work and recognition of foreign competencies to individual needs, and co-ordinate them between municipalities and the Public Employment Service. Address barriers to employment posed by high entry wages and strict employment protection, and increase the involvement of the social partners and civil society.

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

**Actions taken:** To contain financial risks, the Financial Supervisory Authority has introduced several macro-prudential policies in 2015 and 2016. Planning regulations have been eased somewhat, and the government has started a programme to subsidise the construction of rental apartments and enhance incentives for municipalities to allow building.

1. New policy priorities identified in *Going for Growth 2017* (with respect to *Going for Growth 2015*) are preceded and followed by an “\*”.

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## Growth performance and inequality indicators

## A. Growth

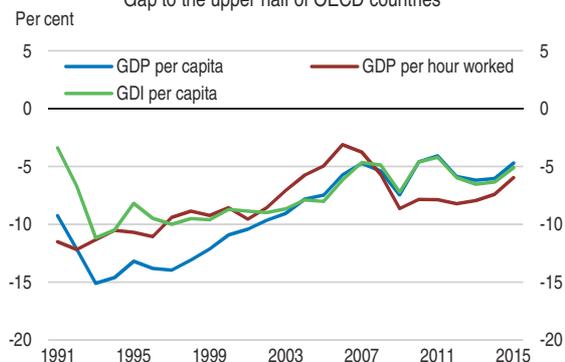
Average annual growth rates (%)	2003-09	2009-15
GDP per capita	0.9	1.8
Labour utilisation	-0.6	0.4
of which: Labour force participation rate	-0.1	0.2
Employment rate <sup>1</sup>	-0.3	0.2
Employment coefficient <sup>2</sup>	-0.2	0.1
Labour productivity	1.1	1.4
of which: Capital deepening	0.4	-0.5
Total factor productivity	0.8	1.9
Dependency ratio	0.3	0.0

## B. Inequality

	Annual variation (percentage points)	
	2013	2008-13
Gini coefficient <sup>3</sup>	28.1 (31.7)*	0.4 (0)*
Share of national disposable income held by the poorest 20%	8.7 (7.7)*	-0.1 (0)*

\* OECD average

## C. The small gaps in GDP per capita and productivity have slightly narrowed recently

Gap to the upper half of OECD countries<sup>4</sup>

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. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, Economic Outlook No. 100 Database; Panel B: OECD, Income Distribution Database; Panel C: OECD, National Accounts and Productivity Databases.

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## Policy indicators

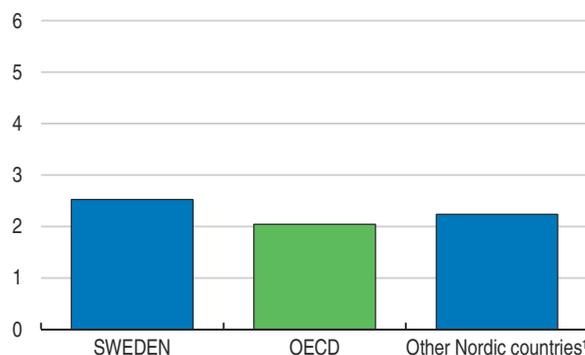
## A. The employment rate is influenced by the place of birth

Percentage points difference to native-born, 2015



## B. Employment protection on regular contracts is restrictive

Index scale of 0-6 from least to most restrictive, 2013



1. Average of Denmark, Finland and Norway.

Source: Panel A: OECD, Migration Statistics Database; Panel B: OECD, Employment Protection Legislation Database.

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**Recommendations:** Ease planning and rental regulations and phase out mortgage interest deductibility to help contain the rise in housing prices and household debt, improve financial and macroeconomic stability and access to housing.

**Improve the efficiency of the tax structure.** 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.

**Increase the efficiency of the education system.** School results, as measured by PISA and other international tests, have fallen rapidly over the past decade, even though some improvement is visible in the most recent surveys.

**Actions taken:** Several policies were introduced in 2015 and 2016, notably to improve results in reading and mathematics, and to strengthen 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.

**Reform job protection for permanent contracts.** Relatively stringent job protection for permanent contracts raises concerns about labour reallocation, productivity growth and exclusion of vulnerable groups such as migrants.

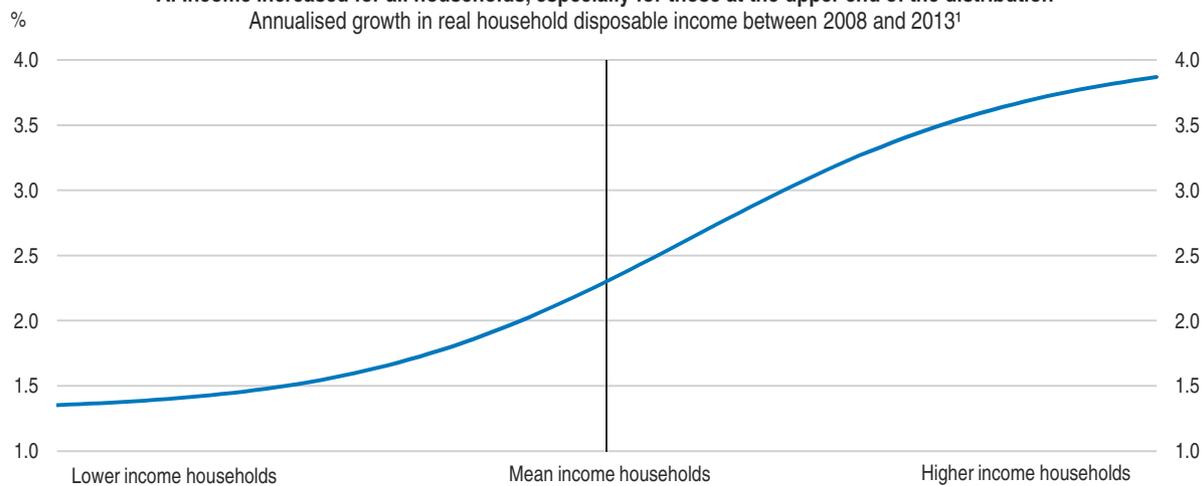
**Actions taken:** No action taken.

**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 the industries in which they are tightened by collective agreements.

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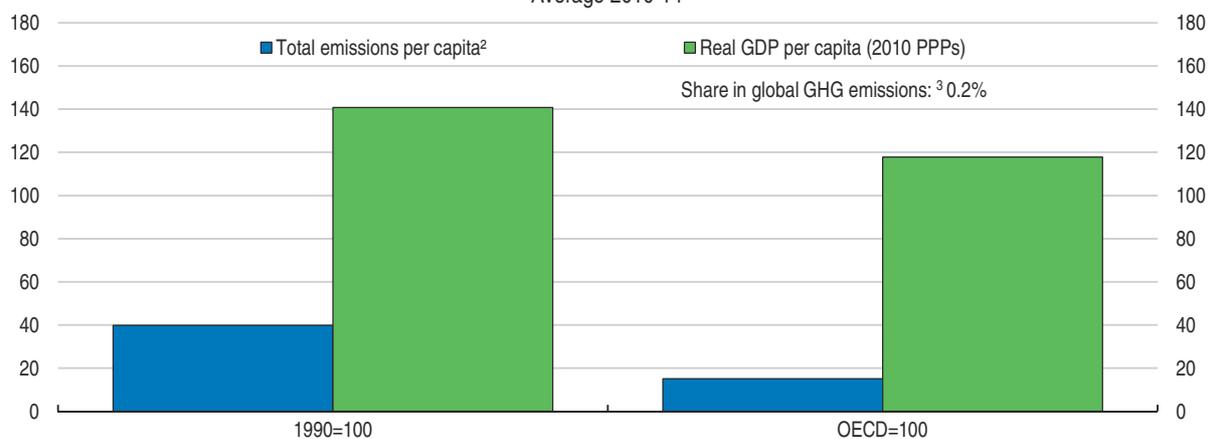
## Beyond GDP per capita: Other policy objectives

## A. Income increased for all households, especially for those at the upper end of the distribution

Annualised growth in real household disposable income between 2008 and 2013<sup>1</sup>

## B. Emissions per capita are below the 1990 level and well below OECD average

Average 2010-14



1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2013. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO<sub>2</sub> equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

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

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