

Sweden

While Sweden is a country with low inequality, the COVID-19 crisis is exacerbating difficulties for some and risks scarring youth working prospects. Inequality in educational outcomes risks widening further, as students from disadvantaged social backgrounds may face greater difficulties to adapt to distance learning. These are top priorities for a more resilient and equitable recovery.

Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income 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.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m³ of PM_{2.5}.

Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

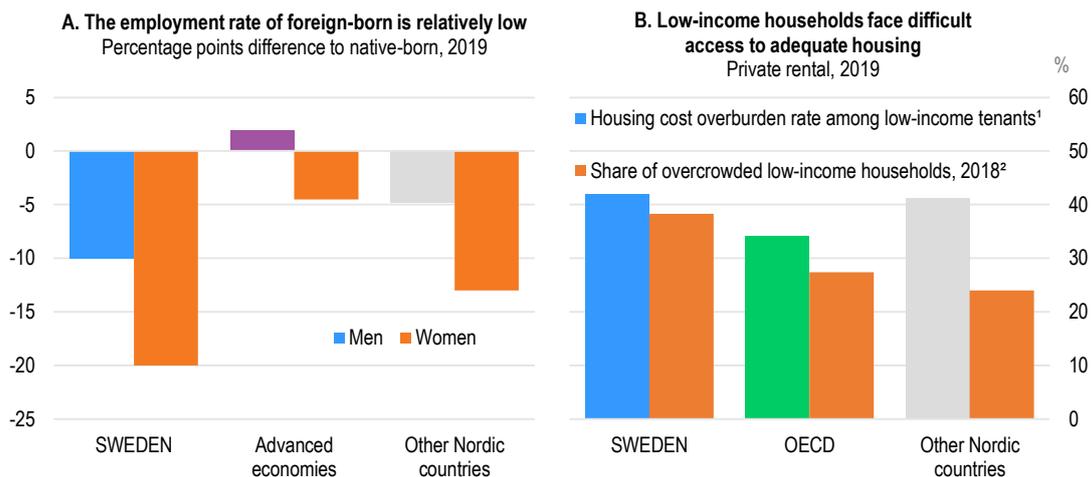
StatLink  <https://stat.link/25kq1v>

Recovery policies to boost skills and employability of disadvantaged groups

Integration of low-skilled workers, particularly foreign-born, into the labour market is challenging (Panel A). In the wake of the 2015 refugee crisis, Sweden introduced a range of integration measures, which along with strong economic growth, allowed significant progress in foreign-born employment. Additional resources for integration and extensive support for employment in the context of the COVID-19 crisis have been introduced. Nevertheless, **further investment in vocational education and training, and job counselling**, would help the low-skilled and immigrants move towards growing sectors. The impact of such policies could be reinforced by the introduction of a new type of subsidised jobs, combining employment and education. However, implementation of this measure has been delayed.

Even though average school results have improved in the latest vintage of PISA tests, differences between students from different social-economic backgrounds continue to increase, and gaps are likely to widen further following the COVID-19 crisis. **Strengthening the governance and steering of the school system and better targeting funding to pupils' needs** would help reduce educational inequalities and raise employment and productivity. Reinforcing continuous teacher education and instigating more cooperation, feedback and support between colleagues would raise teacher quality and the status of the profession. Continued monitoring of results at the school level is necessary to ensure that struggling students get appropriate support.

Vulnerabilities and areas for reform



1. Share of tenants in the bottom quintile of the income distribution spending more than 40% of disposable income on rent.

2. Households in the bottom income quintile. In Sweden, the whole rental market is considered as private.

Source: Panel A: OECD, Migration Database; Panel B: OECD, Affordable Housing Database.

StatLink  <https://stat.link/7qsex8>

A better functioning housing market would facilitate labour mobility, as housing in big cities is often unaffordable or restricted by long rental waiting lists (Panel B). The pandemic highlighted housing shortages, as people living in overcrowded dwellings were disproportionately affected by the disease and experience poorer conditions for working and studying from home. **Loosening planning and rental regulations** would improve access to adequate housing and facilitate labour mobility. Support for housing construction should be revised to improve its efficiency and target it towards rental housing throughout the country. A more stable housing market would also reduce macroeconomic and financial stability risks associated with high household debt. Reducing the bias towards homeownership resulting from low property taxation coupled with generous mortgage interest deductibility, would both enhance stability and reduce inequality. Reforming the dual income tax system, which allows tax shifting from labour to less

taxed capital income, would also reduce income inequality. Any tax increases need to be phased-in gradually over the medium term in order not to hamper the recovery.

Stringent job protection for permanent contracts still hampers labour mobility and reallocation as well as productivity growth. **Reforming job protection for permanent contracts** would enhance the resilience of the labour market and boost productivity growth. The platform economy is also gaining ground, which requires labour legislation 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. While recent tax reforms have aimed at enhancing work incentives or reducing inequality, **further improvements to the tax structure would support inclusive and green growth**.

Sweden: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Labour market: Enhance training and counselling for the low-skilled, especially migrants	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Additional funding has been allocated to Swedish courses for immigrants (2020). <input checked="" type="checkbox"/> Municipalities which received relatively large numbers of immigrants received additional grants in 2020 and will continue to receive similar grants in the coming years. <input checked="" type="checkbox"/> A social contribution deduction has been introduced to facilitate entry into the labour market for young people and newly arrived immigrants (2020). 	<ul style="list-style-type: none"> <input type="checkbox"/> Continue to invest in skills development, including vocational education and training, and step up job counselling for the low-skilled and immigrants. <input type="checkbox"/> Introduce the Entry Agreements negotiated by the social partners.
Education and skills: Increase the efficiency of the education system	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Places in higher education and vocational training have been increased in response to the COVID-19 crisis with financing secured until 2023. <input checked="" type="checkbox"/> Distance education opportunities have been expanded in response to the COVID-19 crisis. 	<ul style="list-style-type: none"> <input type="checkbox"/> Strengthen the governance and steering of the school system and better target funding to pupils' needs. <input type="checkbox"/> Improve teacher education, strengthen continuous learning and instigate more cooperation, feedback and support between colleagues to raise teacher quality and the status of the profession. <input type="checkbox"/> Continue to closely monitor results at the school level to ensure that struggling students get appropriate support.
Housing: Reduce housing market distortions	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Support for housing construction has been revised to improve its efficiency and target it towards rental housing throughout the country in 2020. <input checked="" type="checkbox"/> The ceiling for deferred capital gains when selling a home will be raised permanently in 2020. 	<ul style="list-style-type: none"> <input type="checkbox"/> Support for housing construction should be revised to improve its efficiency and target it towards rental housing throughout the country. <input type="checkbox"/> The ceiling for deferred capital gains when selling a home will be raised permanently. <input type="checkbox"/> Gradually ease rental regulations. <input type="checkbox"/> Simplify land-use planning procedures, balancing economic, environmental and social considerations.

2019-2020 Reforms	Recommendations
Labour market: Promote job mobility	
<p>No action. A loosening of EPL legislation is part of the government's programme and implementation is being negotiated with the social partners.</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Reduce stringency in areas that unduly hinder productivity enhancements, including 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. <input type="checkbox"/> Develop adult education, in cooperation with the social partners, including for people in unconventional forms of work.
Tax system: Improve the efficiency of the tax structure	
<ul style="list-style-type: none"> <input checked="" type="checkbox"/> The upper bracket for central government income tax has been abolished in 2020 to increase the number of hours worked. <input checked="" type="checkbox"/> A "Green tax shift", to gradually increase environmental taxes and reduce taxes on jobs and entrepreneurship has been initiated in 2019. <input checked="" type="checkbox"/> The gap in taxation between wages and pensions has been closed in 2019, to increase pensioners' income. 	<ul style="list-style-type: none"> <input type="checkbox"/> Reform the recurrent property tax to better align tax charges with property values. Phase out mortgage interest deductibility to help contain the rise in household debt. <input type="checkbox"/> Continue shifting from labour to environmental taxes. <input type="checkbox"/> Review the dual income tax system to prevent tax shifting from labour to capital income.

Recent progress on structural reforms

Substantial action has been taken to address the structural weaknesses of the Swedish economy, notably regarding education, migrant integration and taxation, even though the COVID-19 outbreak has delayed some reforms.