

Swedish national reform programme **2011**

Europe 2020 – EU:s strategy for smart, sustainable and inclusive growth



REGERINGSKANSLIET

Government Offices
of Sweden

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1. Introduction

At its meeting on 17 June 2010, the European Council adopted a new strategy for jobs and smart, sustainable and inclusive growth - Europe 2020 Strategy. In April each year, Member States are to have drawn up a reform programme that shows how the strategy is being implemented in the national policy. Sweden's reform programme 2011 is based on the measures proposed by the Government in the 2011 Budget Bill and the 2011 Spring Fiscal Policy Bill.

The main task of economic policy in Sweden is to create the highest possible sustainable welfare by means of high sustainable growth, high sustainable employment, welfare that benefits everyone and economic stability. Economic growth must also be compatible with a good environment and health.

Taking Responsibility for Jobs

Sweden is making a strong and rapid recovery from the economic and financial crisis. The conditions are thus good for gradually reducing unemployment and achieving full employment. The Government's policy has played a decisive role in the recovery.

A responsible policy safeguarding the public finances has ensured that Sweden has stood on firm ground and has been able to manage the crisis while prepared to meet a deeper and longer downturn. The Government has been able to implement strong stabilisation policy measures to combat unemployment without large budget deficits resulting. During the downturn, the Government has also given priority to jobs with further structural measures such as a strengthened work-first principle and improvements in the functioning of the labour market.

Income taxes for low and middle income earners have been reduced in four stages via the in-work tax credit. Important measures to strengthen entrepreneurship have been implemented. The social security systems have been reformed to promote a return to work and reduce the risk of people becoming mired in passivity. Important measures have been put in place to improve various parts of the education system, meaning that in the long term more people will have more employment opportunities and higher incomes. Major measures have also been taken to protect and develop welfare.

The Government's top priority during its term of office is to guide Sweden to full employment and thus reduce exclusion. Jobs are the basis of our common welfare and provide people with the opportunity to earn a living, experience the sense of belonging that work confers and chart their own lives. The primary reason for social disparities is that people do not have jobs. The demographic trend to a growing number of older people compared to the number of people of working age also underlines the importance of a jobs policy. By championing full employment and focusing policy on getting more people working and fewer excluded, we can ensure a cohesive society. Seeing to it that employment

increases sustainably and unemployment declines safeguards cohesion and prevents society from drifting apart.

In an international context, Sweden is in a favourable position, with high growth, strong public finances and declining unemployment. There is, however, a risk that the strong recovery will be interrupted by the emergence of imbalances. The future policy direction should therefore first of all concern taking responsibility for jobs by ensuring sound growth. The goal is a policy that provides jobs without the economy overheating and ensures that growth benefits everyone. The policy should prevent groups with a weak foothold in the labour market from being left behind. The financial sector, which is often a source of imbalances, will not be allowed to disrupt the economy. If required to ensure sound growth, Sweden will take the lead in safeguarding a robust financial system.

Sound public finances are a foundation stone in the work to achieve full employment and greater welfare. Restoring and maintaining a surplus in the public finances in line with the surplus target is therefore of the highest priority. In this way, the conditions for publicly financed welfare are safeguarded. This is particularly important for well-functioning childcare, schools or health care and for social security systems to function in the event of illness or unemployment. This is being done and at the same time we are taking the necessary steps to ensure that Sweden is well-positioned for the future.

Future reforms should focus on further measures to get more people working and strengthen Sweden's long-term growth prospects. Exclusion must be reduced. All those who are able and willing will be given the opportunity to participate in the labour market. The Government presented a number of reform ambitions in the 2011 Budget Bill. If the economic situation permits and on the condition that important reforms in welfare and education can be guaranteed, the Government intends to implement important parts of the tax reductions announced as reform ambitions in the 2011 Budget Bill. In the lead-up to the 2012 Budget Bill, the policy will focus on taking responsibility for jobs by ensuring sound growth in order to get more people working without the economy overheating, build a robust financial system and strengthen the quality of the education system and welfare.

A high-quality education system

A well-functioning education enhances Sweden's competitiveness and improves individuals' skills and opportunities in life. There will also be greater social justice since education increases the chances of getting a job and good wage growth. The Government has already decided on a number of measures in compulsory school, upper secondary school and higher education. The years 2011 and 2012 will be two of the most reform intensive years in Swedish education history. Nevertheless, further measures may be needed to remedy the shortcomings in the education system. It is the Government's opinion that early measures, improved follow-up and evaluation continue to be important to

strengthen teachers' competence and improve the status of the teaching profession.

Strengthening competitiveness and entrepreneurship

It is important for Sweden to continue to build on its strengths such as its competitive industry, the growing service sector and its well-educated labour force. Swedish companies can best compete on the basis of knowledge and quality. Private and public infrastructure initiatives, education, research and innovations create the conditions for Swedish firms to compete in world markets. To reap the advantages of globalisation, it is also important for the policy to focus on promoting competition. Unnecessary obstacles to establishing companies will be removed. Competition will thereby increase, leading to lower prices and a larger and more varied selection of goods and services. More international competition also helps make Swedish firms more productive by giving them access to new knowledge and to new ideas and new production methods. The Government is working in the EU for the development and improvement of the single market, promoting an innovative business climate, facilitating restructuring to a resource efficient economy and safeguarding free trade in the form of the Common Commercial Policy.

The Government is continuously working to improve the conditions for existing companies and facilitating the establishment of more and growing companies. A number of important structural measures have been taken. The wealth tax has been abolished, and the corporate tax, employers' social security contributions and individual contributions have been lowered. The in-work tax credit also improves the incentives for entrepreneurial activities. In addition, measures have been carried out to reduce companies' administrative burden. This work continues. Furthermore, new markets have been opened for private entrepreneurs and fixed-term employment possibilities have been expanded. The Government has made a number of changes in the social security systems to improve security for entrepreneurs.

An ambitious and effective climate and energy policy

Climate change is one of the greatest challenges of our time and the Government's highest priority among environmental issues. The Government's high ambitions, combined with a forward-looking and cost-effective climate and energy policy, are creating the conditions for continued strong Swedish leadership in the ongoing international climate negotiations.

Cost-effectiveness is essential as it makes an internationally uniquely high level of ambition possible, while the long-termism gives the signals that the energy market players need. The energy policy aims to reconcile ecological sustainability, competitiveness and the security of energy supplies. The vision is that by 2050, Sweden will have a sustainable and resource effective energy supply and no net emissions of greenhouse gases in the atmosphere. Improving energy efficiency is a means of reducing greenhouse gas emissions.

Sweden's national climate policy is largely based on cooperation in the EU. The work in the EU is important for achieving emission reduction targets and crucial in producing global agreements. The EU is the platform for creating common requirements and rules for a climate policy for Europe. Therefore Sweden wants to see the EU set targets for 2030 and 2040. Sweden is working for the EU to pursue an ambitious climate policy, for example, by working for all EU Member States to introduce a national carbon dioxide tax in sectors outside the EU emissions trading system.

Europe 2020 – a strategy for smart, sustainable and inclusive growth

The Heads Of State and Government agreed on the design of the Europe 2020 strategy at the meeting of the European Council on 17 June 2010. The aim of the strategy is to improve the conditions for full employment and inclusive sustainable growth. The strategy is based on three priorities that will be mutually reinforcing:

- smart growth, developing an economy based on knowledge and innovation,
- sustainable growth, promoting a more resource efficient, greener and more competitive economy, and
- inclusive growth, fostering a high-employment economy with social and territorial cohesion.

EU Member States have agreed economic and employment policy guidelines. These guidelines refer to economic policy at both the EU and the national level. According to the guidelines, Member States are to carry out reforms aimed at achieving sound public finances, higher labour force participation by both women and men, a better business climate, better education and research, and greater resource efficiency and lower greenhouse gas emissions. The guidelines also emphasise the importance of open and well-functioning markets in order to strengthen the EU's global competitiveness. The national reform programme describes how the guidelines have been observed in national policy.

A major part of the Europe 2020 strategy consists of quantitative targets at the EU level in five areas: employment, social inclusion, education, research and development, and climate and energy. The targets are to be reached no later than 2020. EU Member States are to establish national targets in the same areas, taking into account their relative starting positions and national circumstances and in accordance with their national decision-making processes. At the prompting of the Commission, Member States presented preliminary reform programmes in November 2010. In Sweden's preliminary programme, the Government presented proposals for preliminary targets in all five areas. Sweden's national targets are presented in the 2011 Spring Fiscal Policy Bill and in the 2011 national reform programme.

2. The economic situation

Protracted global recovery

The global economy is in a recovery phase. High domestic demand in the emerging economies and an expansive economic policy in large parts of the world are behind the economic recovery. This has contributed to a substantial upturn in world trade, which has benefited export-oriented countries such as Sweden. But the world economic outlook is split. In the emerging economies, resource utilisation is near normal and economic policy tightening is expected to rein in growth in the coming period. Nonetheless, the emerging economies, with greater growth potential than the rest of the world economy in the next few years, will continue to drive growth in the global economy in the coming period. At the same time, GDP growth is expected to be moderate in the euro area and the United States in the next few years despite the current very low resource utilisation. One contributing factor is that several countries in the euro area have weak public finances and will pursue a tight fiscal policy in the next few years. Resource utilisation will thus rise slowly and the recovery will be a period of low growth. All in all, the recovery in the global economy will continue during the period 2011–2015, but at a slower pace than in 2010. Global GDP is expected to grow by about 4.5 per cent over the next few years and world demand will increase by around 7 per cent a year.

The international financial markets have gradually begun to function better. But weak public finances in several EU countries have caused some continued concern in the interest and credit markets in 2010. The support package from the International Monetary Fund, the euro countries and the EU, together with the fiscal consolidations announced, has helped stabilise the financial markets somewhat. But the fundamental problems in government finances in a number of Southern European countries and Ireland persist, reflected in the high risk premium they have to pay to borrow. Other European interest rate differentials, for example, between inter-banking swap rates and government borrowing rates with short maturities (the TED spread), continue to be somewhat higher than normal. This indicates that financial market conditions have not yet fully normalised.

Rapid economic growth in Sweden in 2011 and 2012

The Swedish economy was in a strong recovery phase in 2010 and GDP increased by 5.5 per cent (see Table 2). There are several mutually reinforcing factors underlying the turn upwards. The global cyclical rebound and the sharp increase in world trade resulted in a rapid increase in the demand for Swedish exports. The continuation of an expansive monetary policy, a clear turnaround in the labour market and reduced uncertainty led to an increase in household consumption. At the same time, businesses became all the more optimistic and increased investment and built up stocks. Public consumption also increased strongly as a result of higher central government grants to the local government sector. Despite the strong recovery in 2010, resource utilisation in the economy

as a whole is still low. This indicates relatively strong economic growth in Sweden over the next few years.

Table 1 Balance of resources

Annual percentage change in volume

	2009	2010	2011	2012	2013	2014
	SEK billion					
Household consumption expenditure	1 527	3.5	3.9	4.0	3.3	2.7
General government consumption expenditure	858	2.6	0.9	0.6	0.6	0.6
Gross fixed capital formation	550	6.3	10.4	8.8	6.4	4.8
Change in inventories ¹	-47	2.1	0.0	-0.3	0.0	0.0
Exports	1 495	10.7	9.2	7.0	7.0	6.4
Imports	1 294	12.7	9.1	7.3	6.6	6.5
GDP	3 089	5.5	4.6	3.8	3.6	2.8
GDP, calendar adjusted	3 090	5.3	4.6	4.1	3.6	2.9

¹ Change in inventories is expressed as contributions to GDP growth (percentage points) and not as volume change in per cent.

Note: in constant prices.

Sources: Statistics Sweden and own calculations.

The recovery is due to high domestic demand and a global recovery. Unlike the economic upturn after the crisis in the 1990s, household consumption and business investment are expected to be a more dominant force than exports in the recovery in the next few years. All in all, this development will lead to high GDP growth this year and next. GDP is expected to rise by 4.6 per cent in 2011 and 3.8 per cent in 2012.

Strong increase in employment in 2011

The rapid increase in production and the growing optimism in the business sector have contributed to the increase in employment. The fall in employment in connection with the financial crisis has already been recouped. Forward-looking indicators such as recruitment plans and newly registered job vacancies together with the continuation of a strong increase in production point to a rapid upturn in employment in 2011 (see Table 2). As in 2010, employment growth is expected to be particularly strong in the construction industry and in certain service industries such as business and household-related services (which includes health care and education enterprises). All in all, employment is expected to increase by more than 110 000 people in 2011.

Table 2 Key indicators

Percentage change unless otherwise indicated

	2010	2011	2012	2013	2014
Employed, 15-74 years	1.1	2.5	1.4	1.3	1.1
Unemployment, 15-74 years ¹	8.4	7.3	6.6	5.8	5.2
Hours worked ²	1.9	1.9	2.0	1.8	1.3
GDP gap ³	-3.8	-1.9	-0.7	-0.1	0.1
Hourly wage increase ⁴	2.5	2.6	3.2	3.4	3.5
CPI, annual average	1.2	2.5	2.0	2.8	2.7

¹ As a per cent of the labour force.

² Calendar adjusted.

³ Percentage of potential GDP.

⁴ In the economy as a whole according to short-term wage statistics.

Sources: Statistics Sweden and own calculations.

The upturn in employment has been broad in several respects. First, employment has increased in most business sectors. Second, both permanent and fixed-term employment have increased. Increasing permanent employment is a sign of a robust upturn. The increase in employment is, however, unevenly distributed over different education levels. Employment has increased strongly among people with a post-secondary school education but not at all for people with no more than a pre-upper secondary education, the group hardest hit by the economic downturn in the wake of the financial crisis.

In the public sector, the picture is mixed. Employment in the state sector has increased in 2010, while the number employed in the local government sector has continued to decline. One of the reasons for the decline in employment in the local government sector is the increasing extent to which businesses in the private sector provide parts of local government sector services such as schools and elderly care. This shift in the provision of welfare services has helped increase the number of people employed in the business sector. This implies that local government financed employment has not declined as much as employment in the local government sector.

A brighter labour market

Despite the strong recovery, spare capacity in the labour market is expected to continue. The most obvious sign of this is the high unemployment (7.3 per cent in 2011) which is about 1 percentage point higher than the anticipated equilibrium rate of unemployment in 2011.

Indicators from the National Institute of Economic Research's Economic Tendency Survey indicate that an increasing percentage of companies in most sectors have recently specified a shortage of labour as an obstacle to increasing production. This suggests that businesses need to increase their staff to meet the increasing demand. Indicators of resource utilisation in the labour market are Statistics Sweden's statistics on the time it takes for companies to recruit and the survey by the Swedish Public Employment Service of companies' prospects of finding appropriate staff, which both indicate that there is still spare capacity in the labour market.

All in all, employment is expected to increase substantially in the next few years without the emergence of any significant labour shortage. The anticipated negative employment gap from 2011–2013 reflects this.

Higher wage growth when resource utilisation rises

The 2010 sectoral agreements included approximately 3.3 million employers. The majority of the agreements concluded in 2010 were for about two years. The agreements concluded covering white collar staff in industry were for a shorter period, 18 months, and thus will be renegotiated in autumn 2011. The weak resource utilisation in the labour market is clearly reflected in the wage increases agreed. The sectoral agreements are considerably lower than those negotiated in the 2007 round of wage negotiations. Wages in the business sector are expected to increase by 2.6 per cent in 2011 according to the short-term wage statistics definition. Under the national accounts definition, a 2.4 per cent increase in wages is anticipated. The two wage measures differ from each other in the sense

that various types of benefits such as bonuses, holiday pay, etc. are included in the wage measure in the national accounts but not in the short-term wage statistics.

As the labour market situation improves, wages are expected to accelerate, if at a relatively modest pace, in the next few years. The next time that new sectoral agreements are negotiated, around the turn of the year 2011/2012, the cyclical situation will be much stronger than it was when the current agreements were signed. Both the sectoral agreements and the wage increases on top of the agreements are therefore expected to be higher in the next round of agreements. When productivity growth, price developments for businesses, profitability and the Government's reforms are factored in, firms' labour costs are expected to increase by 3.7 per cent a year from 2012–2015. Wages in the business sector are also expected to increase by 3.7 per cent, in national account terms, in the period 2012–2015.

Low underlying inflationary pressures in 2011 and 2012

Underlying inflation measured as CPIF (CPI with fixed interest rates) is well below the Riksbank's (the Swedish central bank) target of two per cent in 2011 and 2012. Low resource utilisation and the slow increase in companies' unit costs are the main explanations for this. As the economic situation improves and companies' unit labour costs increase more rapidly, the price of goods and services will increase at a faster pace between 2013 and 2015. The CPIF will gradually rise and be in line with the Riksbank's inflation target of 2 per cent from 2013 onwards.

Inflation measured by the CPI will rise sharply in the next few years and come to about 2.8 per cent in 2013 and 2014. The CPI will rise more than the CPIF largely owing to the increase in household mortgage rates when the Riksbank raises the repo rate. The difference between inflation measured with the CPIF and with the CPI will therefore be historically large in the next few years. But in the long run, when the interest rate changes no longer affect the CPI, inflation will be in line with the CPI and the CPIF.

Potential growth

In total, potential GDP is expected to grow an average of 2.7 per cent in 2011–2015. The potential number of hours worked is expected to increase by an average of 1 per cent and potential productivity by an average of 1.7 per cent during the same period. From 2011 to 2015, the potential number of hours worked will thus grow more strongly than the historical average of 0.6 per cent¹, on account of the Government's structural reforms, which are expected to increase the potential number of hours worked by 5.7 per cent in the long run². A lower rate of increase in the capital stock in connection with the financial

¹The average applies to the years 1994–2009.

²The reforms included in the estimates are the in-work tax credit; the reforms in the unemployment insurance, sickness insurance and labour market policy; the tax credit for household services and the RMI tax credit; the increase in the tax threshold, and the general and targeted social security contribution reductions. The estimates of the effect of Government's structural reforms on the economy's growth potential are based on a major review conducted by the Ministry of Finance of the methods and estimates used to assess developments in the functioning of the labour market. This review has been published as a report in connection with the Spring Fiscal Policy Bill.

crisis of 2008 and the labour stimulus policy will, however, cause potential productivity in 2011 through 2015 to grow at a rate that is somewhat lower than the historical average of 2.0 per cent³. Most of the labour market effects are expected to have been realised by 2015, after which the potential number of hours worked and thus potential GDP are expected to grow at a more normal pace from a historical perspective.

³ The average applies to the years 1994–2009.

3. Macroeconomic development and policy objectives

Ensuring a surplus is the highest priority

Guideline 1

Sweden is in a favourable position, with high growth, strong public finances and declining unemployment. There is, however, a risk that the strong recovery will be interrupted by the emergence of imbalances. The aim of economic policy is to reach full employment and improved welfare by ensuring sound growth without the economy overheating and by growth that benefits everyone. The financial sector, which is often a source of imbalances, will not be allowed to disrupt the economy. Sound public finances are a cornerstone of the policy. The economic policy stance is that the public finances will be in balance and show a surplus of 1 per cent of GDP. Respecting the fiscal framework is a prerequisite for the success of any other policy. Established expenditure ceilings will be observed and a surplus in the public finances will be secured relatively rapidly.

Sweden's robust fiscal position has proved to be absolutely crucial in its success in tackling the financial and economic crisis. Thanks to Sweden's strong position, the Government was able to take forceful stimulus measures to dampen the fall in production and employment and avoid a painful fiscal consolidation. The extensive reforms in recent years have helped both to alleviate the effects of the crisis and to increase sustainable employment. The measures have been effective and have contributed to a strong recovery in the Swedish economy and the labour market. The strong recovery in the Swedish economy implies a more rapid improvement in public finances than that foreseen in the preliminary reform programme in 2010. Surpluses in the public finances are now expected as early as in 2011. The surplus is expected to increase gradually to about 4.5 per cent of GDP by 2015.

Table 3 Net lending and indicators for its reconciliation with the surplus target

*Per cent of GDP and potential GDP
Outcome 2010, forecast 2011–2015*

	2010	2011	2012	2013	2014	2015
Net lending	-0.3	0.3	1.8	2.8	3.6	4.4
Seven-year indicator	1.3	1.3	1.6			
cyclically adjusted ¹	2.1	2.3	2.7			
Structural net lending	1.9	1.4	2.2	2.9	3.6	4.5
GDP gap	-3.8	-1.9	-0.7	-0.1	0.1	0.0
Seven-year average	-1.4	-1.8	-1.9			

¹The cyclical adjustment is made by decreasing the indicator's value by the GDP gap during the corresponding period multiplied by an elasticity of 0.55. Sources: Statistics Sweden and own calculations.

There is, however, considerable uncertainty and thus in the Government's opinion, there needs to be a safety margin related to the surplus target. In accordance with the surplus target, general government net lending must equal 1 per cent of GDP on average over a business cycle. The Government estimates that in 2012 some room for reform will emerge and that this room will gradually increase in subsequent years. The scope for reform is now expected to be somewhat larger than forecast in the preliminary reform programme in November 2010. At the same time, there remain a number of risks which, if

realised, may affect the public finances negatively. The Government's position is that it is more responsible to correct too high a permanent net lending afterwards by taking urgent structural and welfare reforms than to be forced to make cuts should the downside risks be realised.

Safeguarding the recovery and forcing down unemployment

There is considerable uncertainty about international developments and the economic recovery is thus fragile. Sweden's ability to meet a new economic downturn has to be safeguarded. The economic policy will focus on nurturing the recovery and ensuring that the public finances are in surplus before the next economic downturn. One important goal of economic policy is to achieve a balanced economic development and strong international competitiveness by preventing bottlenecks and tendencies towards overheating as the economy picks up. The concrete and detailed measures adopted in accordance with the Government's 2011 Budget Bill amount to approximately SEK 13 billion (0.4 per cent of GDP). The aim of the measures is to further improve labour and business conditions and safeguard and improve welfare.

The reform ambitions presented by the Government, many of which were presented in the preliminary reform programme in November 2010, are dependent on the existence of a sustainable scope for reform. Further reforms will be proposed only when it is certain that the surplus target will be met, the expenditure ceiling observed and there is sustainable scope for reforms. The scope for reform that arises should, in the Government's opinion, first be used for structurally warranted reforms which strengthen employment and improve the functioning of the economy. The Government will thus give priority to measures that ensure sound growth by pursuing a tax and business policy promoting growth. Unemployment will be driven down without imbalances emerging in the labour market and the robustness of the financial system will be strengthened. The quality of the education system and welfare will be further improved.

To enable a consideration of all the tax proposals together with their budget effects in the 2012 Budget Bill, a special ministry memorandum has been referred for consideration with tax proposals to be considered for the 2012 fiscal year:

- the reform ambition to reinforce the in-work tax credit, raise the lower income tax bracket for the state income tax, reduce taxes for pensioners and reduce income tax for those resident abroad,
- the reform ambition for a reduced taxable benefit for certain green cars,
- the reform ambition for an increase in the excise tax on tobacco and alcohol,
- simplification of the expert tax⁴,

⁴ The expert tax consists of those rules that under certain conditions provide special tax relief for foreign experts, researchers or other key people. The rules were introduced in 2001. For those who meet the provisions, both the basic taxable amount of their income and the employer's social security contributions decrease by 25 per cent for the first three years that the person works in Sweden.

- an expanded deduction for companies' research and development expenses, and
- changes in the 3:12-rules⁵ and the rules for the self-employed and for informal tenant-owner associations.

Whether the tax measures referred for consideration are presented in the Budget Bill as proposals for the 2012 fiscal year, and what their range and volume is to be, will depend on the assessments of the economic situation, the scope for reform, and financing needs and the priorities that the Government will set in the final work on the Budget Bill after summer 2011.

Guideline 1 Against this background, the Government is now preparing further reforms for growth which focus on getting more people working and more and growing companies. An additional stage in the in-work tax credit and a rise in the lower threshold for the state income tax combined with reduced taxes for pensioners and a reduction in the VAT for restaurants are the priorities.

A well-functioning education system is essential to strengthen Sweden's competitiveness. A good education improves individuals' knowledge and life chances and leads to greater social justice since education increases job prospects and the likelihood of good wage growth.

Guideline 1 Welfare that is publicly financed in a spirit of solidarity should maintain the highest possible quality and benefit everyone. A fair distribution of the welfare is a key starting point. Sweden will safeguard its position as one of the world's most equitable and gender-equal countries. The Government has carried out a number of reforms to improve quality, provide more freedom of choice and increase the accessibility of welfare. In the coming period, the policy direction will be to continue improving quality, accessibility and freedom of choice in health and elderly care and improve the situation for vulnerable children and young people. In addition, results and efficiency in the judicial system will be further improved.

Guideline 2 Ensuring financial stability and a well-functioning credit market for both businesses and households is an important part of economic policy. A stable financial system is of key importance to the economy. One lesson from the economic crisis is that preventive measures are needed to lessen the risks of instability in the financial system. Measures aimed at ensuring financial stability to counter risks associated with household debt and banks' risk-taking and foreign exposure will be considered. The Government first intends to review the possibility of increasing banks' capital requirements in order to make them better able to withstand financial market turmoil. Moreover, the Government has proposed an extension of the existing transitional rules for Swedish banks' capital adequacy with the aim of at least keeping the requirements at the current level.⁶

⁵ Where the owner works in the company, there are special rules known as the '3:12 rules', governing the distribution of the owner's income between capital income and earned income. The reason for the rules are that in Sweden earned income over SEK 380 000 a year is taxed more heavily than capital income.

⁶Matters that concern household debt are also discussed in Chapter 4.3 of the Convergence Programme.

4. A policy for high sustainable growth, high sustainable employment and inclusive welfare

One challenge for economic policy in the long run is to take advantage of the benefits ensuing from globalisation while facilitating adjustment to changed conditions. Sound and sustainable public finances, low inflation, stable rules of engagement for the labour market, maintaining the work-first principle, education initiatives, research and innovation, a well-developed infrastructure and a good business climate and a long-term sustainable and cost-effective climate and energy policy form the basis of the Government's policy for facing the challenges of globalisation and for creating the conditions for a good capacity to adjust.

This section presents the Government's structural policy. The policy helps lay the groundwork for an inclusive smart and sustainable growth and thus meets the Europe 2020 strategy's targets and guidelines. The Government's policy will focus on carrying out important structural reforms to strengthen the economy's growth potential, try to prevent imbalances and prolong the economic upturn without the risk of overheating and thus lay the foundation for high sustainable growth, full employment and economic stability. Safeguarding strong public finances is the top priority. For the Government's reform ambitions to be realised, the surplus target in the public finances must be ensured and the expenditure ceiling observed. The reforms will only be implemented when it is certain that a sustainable scope for reform exists.

Sweden's national targets for employment, social inclusion, education, research and development, and climate and energy are presented in the sections that follow. Sweden's national targets will be ambitious, realistic, consistent and compatible with sustainable growth and sound public finances. Sweden will play its part in meeting the targets at the EU level but those countries farther from the target levels should contribute more.

4.1 Full employment and reduced exclusion

Policy challenges

Providing more women and men with the opportunity to get a job is a matter of fundamental fairness. There is no divide as great as that between those who have work and those excluded from the labour market. So that everyone has the same chance to shape their own lives, it must be possible for women and men, like all groups, to enter the labour market. This is not only crucial from a fairness perspective, but also for effective use of society's resources. Sustainably increasing the labour supply and employment is essential to safeguard welfare and alleviate the burden on public finances resulting from an ageing population.

In 2010, the labour market began a broad-based recovery following the economic crisis. Employment rose throughout the year and unemployment

began to drop. Labour force participation has also begun to increase again. With more people looking for work, however, the decline in unemployment is expected to be gradual, despite the increase in employment. Another positive sign is that the number of job vacancies is increasing. Firms' recruitment plans are also positive. These forward-looking indicators suggest that employment will continue to increase in autumn 2011.

Table 4 Key indicators

*Percentage change unless otherwise stated
Outcome 2010, forecast 2011–2015*

	2010	2011	2012	2013	2014	2015
Productivity ¹	3.4	2.7	2.1	1.8	1.5	1.8
Hours worked	1.9	1.9	2.0	1.8	1.3	0.6
Employed ²	1.1	2.5	1.4	1.3	1.1	0.6
Unemployment ³	8.4	7.3	6.6	5.8	5.2	4.9

¹ Value added at base price per hour worked, calendar adjusted.

² Aged 15-74.

³ Percentage of the labour force aged 15-74.

Sources: Statistics Sweden, National Mediation Office and own calculations.

But while the labour market outlook has brightened, the number of people registered with the Public Employment Service remains relatively high. As a result of the economic crisis, the percentage of people with long registration periods at the Public Employment Service has also increased sharply. There is thus still a risk of persistent long-term unemployment, particularly among people born outside Europe, older people and people with no more than a pre-upper secondary education, who are more apt to be long-term unemployed than other groups. One serious problem, accordingly, is that unemployment spells have been protracted on account of the crisis. This may lead to permanent exclusion from the labour market and increased social exclusion. At the same time, it risks slowing down the upturn in sustainable employment. The next few years with high growth must therefore be used to advantage so that more people, including those who historically have had difficulty getting established in the labour market, have the opportunity to begin working.

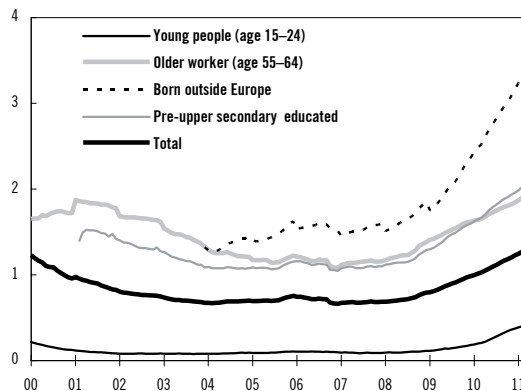
Experience shows that some groups, such as young people, older people, the foreign-born, people with disabilities that impair their capacity to work, and people with no more than a pre-upper secondary school education, have a relatively weak foothold in the labour market. It should, however, be pointed out that there are significant differences within groups, particularly with respect to the foreign-born. Limited work experience or few references from previous employers may be contributing factors to employers' hesitancy to recruit young people and people born abroad. A further explanation is that national employment legislation redistributes unemployment among various groups and thus may affect both young people and the foreign-born who have been in Sweden for a short time. Weaknesses in the education system resulting in too many young people quitting upper secondary school without completing a school-leaving certificate also explain the high youth unemployment. But labour force participation, the employment rate, unemployment and the percentage of people in work in recent years have grown more strongly for young people

compared with the population as a whole. This should be seen in the light of the starting position, i.e. the labour market situation for young people in the fourth quarter of 2009, which was quite worrisome. The improvement reflects young people's ability to get jobs relatively quickly when the labour market recovers. For those born abroad, ethnic discrimination, inadequate language skills, employers' difficulties in assessing foreign qualifications and less access to informal networks through which many jobs are filled are aggravating circumstances. Discrimination, inadequate knowledge and insufficient accessibility make it more difficult for people with disabilities to enter the labour market.

Unemployment among older people is low, but those who are affected are at risk of long spells of unemployment. The reasons for older workers' relatively weak position in the labour market include employers' cost of employing them, employers' attitudes towards older workers, the design of the occupational pension systems and the retirement norms. The labour market problems of people with relatively little education are due in some cases to competition from people with more education for the same jobs and to the tendency for the relative demand for people with little education to decline over time. Many young people who have left upper secondary school without a school-leaving certificate can be found in this group.

Figure 1 The unemployed and programme participants registered for more than two years

Per cent of population



Note: Seasonally adjusted monthly values.

Sources: The Public Employment Service and Statistics Sweden.

Everyone who works is at risk of becoming sick or unemployed for shorter or longer periods. Therefore various types of social security systems, both public and other, are needed. By working, individuals qualify for sickness and unemployment insurance. As a safety net of last resort, social assistance can be paid after means-testing. Young adults and the foreign-born, who have not yet got a firm foothold in the labour market, are more likely to have social assistance compared with the population as a whole. The trend to fewer social assistance recipients was broken in 2008. In 2009, more than 400 000, or 4.5 per cent of the population, received social assistance or introductory compensation at some time during the year. Compared with 1996 however, when the number receiving assistance was highest, the number of recipients has declined by 40 per cent. The increase in the number of those receiving financial assistance in recent times can

largely be attributed to the economic crisis and higher unemployment. The number of long-term recipients of financial assistance has increased in recent years. Compared with 1997 however, the number of long-term recipients is 30 per cent lower. Costs have continued to increase in 2010, but at a somewhat lower rate. Despite this development, the number of children in households with financial assistance recipients is low from a long-term perspective.

A national employment policy framework

The Government thinks that employment policy should be based on a thorough analysis of the main problems limiting sustainable employment and the measures that are likely to best solve the problems, and an evaluation of the success of the measures already implemented. The Government has therefore developed a framework for employment policy. Its aim is that the policy will contribute to sustainably higher welfare in the most effective way possible. Key tasks in the work on the framework are to discuss employment policy objectives and design indicators that will identify important problems in the labour market at an early date and can also be used to follow up the policy to see if it is having the intended effect. The indicators, together with the Government's opinion, will be published once a year in the Spring Fiscal Policy Bill.

Policy direction

Full employment is the Government's top priority. Everyone who can work should be able to obtain a job. Work is the basis for being able to control one's own life, but it is also the basis of national prosperity. During the Government's previous term of office, it made a number of far-reaching reforms and took measures that together aimed at strengthening the work-first principle and reducing exclusion. Income taxes for low and middle income earners have been reduced in four stages via the in-work tax credit, the social security systems have been reformed to support a return to work and reduce the risk of exclusion and important initiatives have been taken to improve various parts of the education system (see Swedish Reform Programme for Growth and Jobs 2006-2008 and 2008-2010 and the progress reports for 2007 and 2009). The policy remains firm and the reforms implemented in the tax system and in the unemployment and the sickness insurance will be fine-tuned.

In the acute stages of the economic crisis, the policy focused on trying to prevent the negative labour market effects from becoming permanent with persistent high unemployment and growing exclusion by taking measures to ensure that the unemployed remained motivated and employable. As a result of the brighter economic outlook for Sweden, these measures will now gradually be adjusted to meet the new labour market situation and will focus increasingly on facilitating the economic upturn and preventing labour shortages and overheating. Labour market programme volumes will gradually return to their pre-crisis levels. If the increasing demand for labour is to lead to sustainably higher employment, it is important that those who are unemployed seek and find jobs and that long-term unemployment decreases. The Government's new measures for adapting the labour market policy to the economic situation total SEK 1.4 billion in 2011 and SEK 1 billion for the period 2012–2014.

Guideline 7 To encourage people to look for work more actively, coaching initiatives at the Public Employment Service have been expanded for 2011 compared with what was decided earlier and now total SEK 950 million, which is estimated to correspond to about 28 300 full-year equivalents. Coaching for the unemployed is individualised help aimed at supporting a high level of job search activity. This reinforcement will mainly target the short-term unemployed and people with a disability resulting in an impaired work capacity. Further, the Government has invested more resources in 6 000 new work experience positions in 2011, which together with the measures already decided will lead to 14 200 full-year equivalents.

Guideline 8 With the aim of giving the unemployed the opportunity to undertake basic vocational training as well as try to prevent a shortage of people with vocational training, a further 10 000 full-year equivalent places in vocationally oriented courses will be provided in the municipally-run adult education system at the upper secondary level (vocational adult education) during the academic year 2010/2011 for a total cost of SEK 980 million.

Guidelines 7-9 Since the beginning of 2009, the National Agency for Higher Vocational Education has had a clear remit to see that training programmes at vocational colleges satisfy the need for skilled labour in the labour market or contribute to developing or maintaining the number of qualified professionals in certain narrow occupational areas. In spring 2011, the Government decided that the authority when allocating its grant from the central government or special funding must also take into consideration whether vocational college training should include instruction in Swedish with a vocational orientation. With a view to increasing the number of students with a foreign background in vocational college training programmes, the National Agency for Higher Vocational Education has also been given a remit to conduct special information initiatives. More possibilities to participate in vocational training create opportunities for groups with high unemployment to get jobs more quickly. The National Agency for Higher Vocational Education in cooperation with the Swedish Agency for Disability Policy Coordination (Handisam) has also been instructed to map out training programmes that can be adjusted to make them accessible to people with disabilities, based on the need for both physical access and pedagogical adjustment. The authority is also to present proposals on information initiatives directed at the target group and education providers. It is to report its findings on 15 June 2011.

Guideline 7 A number of measures are being taken to prevent long-term unemployment from becoming permanent at a high level. There will be a temporary reinforcement of the special employment support mechanism for participants in the job and development guarantee in 2011 and 2012 by raising the ceiling for compensation to employers. Moreover, the Government has introduced a subsidy for mentoring to employers who hire people with special employment support. To ensure that the special employment support actually reaches people with a very weak foothold in the labour market, the qualifying time for the support has been changed to six months after entering the job and development

guarantee, which, except for certain special groups, is equivalent to an unemployment spell of two years.

There have long been groups, namely, young people, people born abroad, older people and people with disabilities, that find it particularly difficult to become established in the labour market. Further measures will therefore be taken for the foreign-born, young people and others with a weak foothold in the labour market aimed at increasing the labour supply and stimulating the demand for labour.

Guidelines 7, 9 Young people who have not completed upper secondary school run a particularly high risk of exclusion. A well-functioning education system that equips young people with the right skills is probably the most effective way of improving young people's labour market situation and thus counteracting high youth unemployment. For 2010, therefore, temporary funding to support folk high school education aimed at young people without a school-leaving certificate from compulsory or upper secondary school was decided. This initiative has been extended until the end of 2011. In addition, the higher study grant in the system of financial support for studies has been temporarily made available to unemployed young people aged 20 to 24 who lack a school-leaving certificate from compulsory or upper secondary school for studies in the municipal adult education system during 2011. To make it easier for unemployed young people to take short temporary jobs without risking disqualification from the job guarantee for young people scheme⁷, the rules have been changed to allow young people to work for one month within a four-month period and still be covered by the job guarantee. The initiative is estimated to lead to the participation of an annual average of about 1 200 more young people in the job guarantee for young people from 2011 onwards.

Guideline 7 All women and men should have the opportunity to participate in working life based on their abilities and potential. However, for various reasons, many people with disabilities are very detached from the labour market. The Government began talks in 2010 with the social partners on how the Government and the partners together can improve labour market entry opportunities for people with disabilities that impair their capacity to work. To improve these people's chances of being able to find, get and keep a job, the Government intends to review existing measures and initiatives for disabled people with an impaired work capacity. An aim of the review is to make the measures more effective, better coordinated and more flexible in relation to individual needs. To ensure the quality of Public Employment Service initiatives and provide scope for prioritising the work on increasing the opportunities for people with impaired work capacity to get jobs, there was an increase of SEK 200 million in the Public Employment Service's administration appropriation in 2011. The Government also approved a national action plan in 2010 for work integrating social enterprises.

⁷The Job Guarantee for Young People scheme was introduced at the end of 2007. Its aim is to offer young people measures at an early stage so that they can get a job or resume their studies as rapidly as possible.

Guidelines 7,10 Special initiatives may also be needed for people on long-term sick leave to enable them to return to the labour market. On 1 January 2010, a new labour market programme, the introduction to working life, was introduced for people who have received the maximum number of benefit days in the sickness insurance. The introduction to working life is an individually tailored analysis and survey of an individual's potential and need for support. The aim of the introduction is to prepare the person for another work-related initiative in the Public Employment Service, a job or education. Someone who after the introduction is unable to work because of illness can rejoin the sickness insurance system.

Guideline 7 On 1 December 2010, the Introduction Act came into effect. Its aim is to enable certain newly arrived refugees and their relatives to become established in the labour market more rapidly⁸. The reform includes the introduction of a state individual benefit that strengthens the incentives for both women and men to participate in activities and to work while part in introduction activities. The Public Employment Service has the overall responsibility to coordinate various measures to speed up newly arrived immigrants' introduction to working and community life and draw up an introduction plan. The activities in the introduction plan should contain, at minimum, Swedish for Immigrants (SFI), civic orientation and employment preparation activities. As part of efforts to combat the social exclusion of newly arrived immigrants, there has been a reinforcement of the step-in jobs scheme⁹ by raising the subsidy rate from 75 to 80 per cent and the compensation paid employers for their mentorship costs. Many people born abroad have also obtained employment with the help of new start jobs.

To make Swedish language training for immigrants more effective, the pilot project with performance-based incentive compensation (the SFI bonus) was made permanent on 1 September 2010. Its aim is for more students to complete their studies more rapidly. An Government inquiry chair was instructed to present proposals on how more newly arrived immigrants could learn Swedish more rapidly by changing the rules on the length of time studies in Swedish can be pursued. Its report was submitted in March 2011. Furthermore, improvements in the skills of SFI teachers are also proposed as part of the skills enhancement initiative for teachers (lärarlyftet).¹⁰ All in all, the reform is expected to speed up newcomers' introduction in the community and the labour market. The Introduction Act also improves gender equality conditions. An individual social benefit that is not affected by other household members' incomes creates stronger incentives for both spouses in a family to participate in activities which will prepare them for work

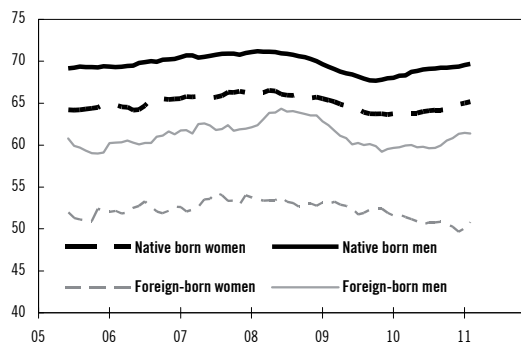
⁸ The Introduction Act covers refugees, others in need of protection who have a residency permit and their relatives aged 20–64 who have applied for a residency permit within two years. Newly arrived young people aged 18–19 are also covered if they do not have parents in Sweden.

⁹ Step-in jobs are a special employment support mechanism directed at newly arrived immigrants.

¹⁰ A package for teachers with an extension of the skills enhancement initiative for teachers is being implemented to improve standards in schools.

Figure 2 Employment rate for the foreign and native born by gender, ages 15-74

Per cent of population



Anm.: Säsongrensade data, tre månaders glidande medelvärde.
Källa: Statistiska centralbyrån.

Guideline 7 In addition to earlier reforms to encourage labour force participation by older people and to improve the opportunities for older unemployed people to stay in the labour market, the qualifying time for a new start job has been temporarily shortened from twelve to six months in 2010 for people who have turned 55. A new start job is a form of subsidised employment aimed at facilitating the employment of people who have been absent from working life for a long time.

Guideline 7 Good work conditions are important both to prevent illness and accidents and to try to prevent people from being excluded from work. The Government is carrying out a pilot project with cooperation between the Public Employment Service and the Swedish Work Environment Authority - coaches in the workplace - which involves coaches with special competence in the work conditions who function as support during the first but important time - for both employers and employees - in the workplace. This strategy covers the period 2011-2013. In autumn 2010, the Government also drew up a national action plan for a revitalised work environment policy for 2010 to 2015. The aim of the action plan is to set out a policy direction for the next five years, and the plan focuses on the risks and opportunities in working life, reduced exclusion, competition and profitability, and awareness and knowledge about the work environment.

Guideline 10 Many families with children have a vulnerable financial situation. This is particularly true of many single people with children. The main determinant of children's financial vulnerability is generally that their parents lack work or education. Measures in these areas are therefore of great importance in trying to prevent children from living in financially vulnerable circumstances. To improve the finances of families with children in the worst financial position, the Government wants to raise the special allowance for children found in the housing allowance as of 1 January 2012. An increase in the large family supplement in the child allowance came into effect on 1 July 2010.

For people in a socially exposed situation, there are often complex problems that require coordinated rehabilitation measures from the social services, the health and medical care system, the Swedish Social Insurance Administration and the Public Employment Service. A cross-party parliamentary committee has a remit

to propose how social support should be designed to do what it is supposed to do and support the work-first principle. The committee will present its proposals in May 2013.

Access to health and medical care in Sweden is good in the sense that medical care covers everyone and patient fees are responsible for a very small share of the total cost.

To promote systematic improvements in social services and health and medical care, the National Board of Health and Welfare is developing open comparisons of the results, quality, and efficiency in elderly care, substance abuse and social care for children and young people. A national e-health strategy makes effective and coordinated measures throughout the health and social service sector possible and provides users with more opportunities to participate in the design and implementation of measures.

People with mental illness and people with mental disabilities are among those who face the greatest challenges in entering the labour market and thus participating in society. The Government will therefore take measures in four areas: promoting jobs and employment, targeted measures for children and young people, skills development initiatives, and implementation of evidence-based methods in municipalities and county councils and increased cooperation and support for non-profit organisations.

Guideline 10 The work to prevent discrimination is important in both working life and education as well as in counteracting poverty and social exclusion. The Government will press ahead with its work on ensuring protection against discrimination regardless of the motive and on legislation that is as effective and comprehensive as possible. The Government will consider the need for further measures in light of the investigations undertaken by the Discrimination Ombudsman into the occurrence and experience of discrimination in society. Failure by the Swedish Welfare State to provide Roma women and men, girls and boys, the same opportunities in life as other citizens is unacceptable. The report *The Roma people's rights – a strategy for Roma in Sweden (SOU 2010:55)* presented proposals for measures aimed at rectifying these shortcomings. The proposal is currently being discussed within the Government Offices.

The Government's reform ambitions

The main aim of the policy is still to strengthen the work-first principle and the Government's reform ambitions for the rest of this term of office will focus on measures to get more people working and strengthen Sweden's long-term growth prospects.

For a high level of welfare, it is crucial that it be worthwhile to work. The Government, primarily via the in-work tax credit in four stages, has made it more worthwhile to work. It is the Government's opinion, however, that despite the reforms, the threshold effects of going from unemployment, the sickness benefit or sickness compensation to work are too high and that the supply-side

effects of further in-work tax credits would be substantial. To reduce exclusion, increase sustainable employment and make it more attractive to start and run a business, the Government wants to reinforce the in-work tax credit. It is also the Government's ambition to raise the lower threshold in the state income tax with the aim that fewer people with ordinary incomes will pay state income tax. The Government also intends to reduce the value added tax for restaurant and catering services. This is expected to have positive effects on sustainable employment.

The Swedish labour market model is a good basis for a well-functioning labour market. However, some groups such as young people and the foreign-born have difficulty getting established in the labour market, thus necessitating minor adjustments to existing rules and other measures. The Government also wants to introduce general income insurance in the event of unemployment. How such a mandatory unemployment insurance will be designed without having adverse effects on the functioning of the labour market is, however, complicated and the matter is being examined by the cross-party inquiry into reforming social insurance.

The extensive reform of sickness insurance carried out in the Government's previous term of office has had good results. The sick leave process has become more active. Fewer individuals are on sick leave and periods of illness are of shorter duration. There has been a 20 per cent decline in the number of people with sickness compensation. All in all, the decline in ill-health has led to a sharp drop in exclusion. The Government also intends to take measures making it easier for young people with activity compensation¹¹ to enter the labour market. Parallel with the reform of the sickness insurance system, major initiatives were taken to increase accessibility, quality and freedom of choice in the Swedish health and medical care system and in the social service sector during the Government's previous term of office. These initiatives will continue in this term of office.

National employment target

To aim for an increase in the employment rate to well over 80 per cent for women and men aged 20–64 by 2020. The increase should primarily be achieved in groups with a weak foothold in the labour market, such as young people and people born abroad, and by trying to prevent long periods without work. The difference in the employment rate between women and men should be reduced by increasing women's employment rate.

The target at the EU level is; aiming to raise to 75% the employment rate for women and men aged 20-64, including through the greater participation of young people, older workers and low-skilled workers and the better integration of legal migrants.

¹¹Activity compensation is a compensation for people between 19 and 29 years old with an impaired work capacity.

The Government's top priority is to guide Sweden to full employment and thus reduce exclusion. The overall objective of the Government since it took office in 2006 has therefore been to increase employment to a level that is consistent with stable inflation and economic equilibrium in general. It is the Government's opinion that a sustainable increase in the labour supply and employment is essential in order to keep welfare on a sound basis and reduce the burden on the public finances on account of the ageing population and other factors. Exclusion is costly to society as valuable production and tax revenue are lost when the labour force is not used. For the individuals affected, there are costs in the form of illness, the lack of companionship and the stress that may be associated with not having a job. It is therefore the view of the Government that a sustainable increase in employment achieved by reducing exclusion leads to greater welfare. To identify the important problems in the labour market, clarify the Government's policy direction and follow up to see if the policy has the intended effect, the Government thinks that there needs to be a broad set of indicators providing both a comprehensive and multifaceted description of labour market developments.

The employment rate is relatively high in Sweden compared with other EU countries. In 2008, the employment rate for the age group 20–64 was 80.3 per cent, but it then fell in connection with the economic crisis. In 2009, the employment rate was 78.3 per cent, but it increased again to 78.7 per cent in 2010. But the employment rate spread between different groups is large. Women have a lower employment rate than men. Young people, older people and the foreign-born have a considerably lower employment rate than the population in general.

Since the Government took office in 2006, it has carried out a number of reforms to increase sustainable employment. The measures taken thus far, including the measures announced in the 2011 Budget Bill, are estimated to boost employment by more than 4 percentage points by 2020. Included in this estimate are the effects of the in-work tax credit, reforms in the unemployment insurance, sickness insurance and labour market policy, cuts in social security contributions, and the tax credit for household services and the RMI tax credit. In addition, several reforms have been carried out that are likely to have a positive effect on employment, but whose effects have not been quantified. The Government anticipates that the target can be met under the policy decided, including the measures announced in the 2011 Budget Bill.

National target for reduced social exclusion

Promoting social inclusion by reducing the percentage of women and men aged 20–64 who are not in the labour force (except full-time students), the long-term unemployed or those on long-term sick leave to well under 14 per cent by 2020.

The target at the EU level is; promoting social inclusion, in particular through the reduction of poverty, by aiming to lift at least 20 million people out of the

risk of poverty and exclusion. This proportion of the population is defined as the number of people at risk-of-poverty and exclusion according to three indicators:

- at-risk-of-poverty indicator: the number of people with incomes less than 60 per cent of the median income in the country, i.e. people with low economic standards,
- material deprivation: the number of people with inadequate living standards, i.e. people who cannot afford a specified standard of living,
- jobless households: the number of people living in households with an employment rate of less than 20 per cent of the potential.

In the Government's opinion, working creates the conditions for social inclusion by providing income, admittance to the social security systems and social inclusion. A policy for raising employment and reducing unemployment is therefore the best way to promote social inclusion and counteract poverty. The Government therefore believes that Sweden's national targets for social inclusion should have a strong labour market link and should be based on the Government's ambition to reduce exclusion.

The number of people in the age group 20–64 who do not work and for various reasons do not look for work, are long-term unemployed or are on long-term sick leave is estimated at about 760 000 or about 14 per cent of the age group in 2010.

The target is formulated taking into account the analyses and assessments underlying Sweden's national employment target (see above). A number of national indicators are used to measure progress. For each indicator, men and women, native and foreign-born with varying lengths of stay in Sweden and, where possible, people with and without disabilities are reported separately. The number of children concerned will also be monitored.

It is the Government's opinion that the national target can be met within the framework of the policy adopted, including the measures announced in the 2011 Budget Bill.

4.2 Increased knowledge

Policy challenges

To achieve high growth and welfare, education and research in Sweden are to be world class. A good quality education system is required to create the conditions for each individual to develop and learn in order to meet tougher international competition, society's needs and labour market requirements. Working life requires both broad and deep skills. There is an increasing need for labour mobility.

There is no shortage of challenges facing the education system. More than one student in ten who has completed compulsory school does not qualify for the national programme in upper secondary school on account of incomplete final grades. In total, 11.2 per cent of students leaving compulsory school in spring 2009 did not qualify, or 10.1 per cent of the girls and 12.4 per cent of the boys. The quality of higher education needs to be strengthened and throughput improved. To meet these challenges, the Government is revising its education policy.

Policy direction and reform ambitions

The Government initiated and carried out a number of measures in the period 2007–2010 to improve various parts of the education system - a new teacher training programme, a new Education Act, the creation of the Swedish Schools Inspectorate, the introduction of teacher certification and a reorientation of the Swedish compulsory school with well-defined knowledge requirements and earlier follow-up, and a new higher vocational education. The Government intends to continue the to reform the school system. Its ambition is to increase the potential for more knowledge by investments in Sweden's future as a knowledge nation totalling SEK 7.7 billion in the period 2010-2014.

Guideline 9 The Government has in its reform work focused on the early years as they lay the foundation for subsequent education success. In the new Education Act, students' right to support has been strengthened and follow-up of students needing more support has been improved with the requirement of a written assessments, earlier grades and more national tests. The Government has a special initiative to improve students' basic skills in reading, writing and arithmetic. The Government has also announced an initiative to raise standards in schools in disadvantaged areas beginning in 2012.

In principle, all young people in Sweden (99 per cent) start upper secondary school after compulsory school. The problem is that the knowledge targets are not being adequately met. In autumn 2011, a fundamental reform of the upper secondary school will be carried out. Its aim is for more students to leave upper secondary school with pass grades and to increase throughput, to strengthen students' skills in preparation for working life or further studies, and better adapt the education programmes to requirements in different sectors and occupational areas. Requirements for admission to a national programme will be

tightened so that students are better prepared for their studies and thus have better chances of completing their education in normal time. More time will be spent teaching subjects with a direct link to the main aim of the studies; for example, students in a vocational programme will study more vocational subjects and less time will be spent on theoretical courses. This will help get more students to finish their studies. To get more time for vocational subjects, the vocational programmes in the new upper secondary school will not automatically provide eligibility for higher education. However, all students have the right to study for basic eligibility for higher education, either while they are studying in the vocational programme or later in adult education.

The individual programme has not succeeded in its task of passing students who do not have passing final grades in the compulsory school on to the upper secondary school. It will therefore be abolished and replaced with five introductory programmes better suited to students' individual needs, wishes and potential: preparatory training, programme-oriented individual choice, introductory vocational training, individual alternative and introductory language training.

Under the new Education Act, students have the right to support in meeting the stricter education targets. This thus also helps give more students what they require to meet education targets.

For adult secondary education, the new Education Act will improve the chances for an education tailored to the individual's needs and potential. This will be accomplished by making vocational and academic counselling a right for all students, by giving more importance to the individual study plan and giving validation a more prominent role as an integral part of the education system. The Government's hope is that the adult secondary education will in future better respond to individuals' diverse needs. This may, in turn, lead to better throughput and better study results in the adult education.

Guidelines 8, 9 The Government believes it continues to be important to strengthen teachers' competence and improve the status of the teaching profession. A package for teachers with an extension of the skills enhancement initiative for teachers and a reform of teacher training is being carried out to improve standards in schools. The new teacher training provides more specialised training aimed at students in different age groups and different subjects. Furthermore, professional certification for teachers and pre-school teachers has been introduced with the aim of improving the status of the teaching profession. In addition to teacher training, graduates must have successfully completed an introductory period with good recommendations in order to become certified. The requirement that teachers be qualified in the subject they teach has been tightened. Other measures to improve standards in schools are the introduction of new curricula and syllabuses, written assessments from grade 1, grades in earlier years and in several stages beginning in 2012 and more national tests to better evaluate students' knowledge. Support for pupils needing extra support with their school work continues with the extension of the reading-writing-arithmetic initiative

and the summer schools initiative. By creating the Swedish Schools Inspectorate, the Government has also substantially strengthened the follow-up of schools' results and thus students' prospects for a high quality education increase. The Government has also announced an initiative to raise standards in schools in disadvantaged areas beginning in 2012 and the introduction of an evaluation function for education policy reforms and results.

Guideline 8 To meet labour market requirements and increased competition from other countries, the Government is taking steps to strengthen teaching in mathematics, natural sciences and technology. Students' creativity and entrepreneurship will be encouraged via an initiative for entrepreneurship and creative activities in the school. With the upper secondary school reforms, students will be better prepared to meet the requirements of modern working life and developments taking place in various occupations and sectors and it will thus be easier for young people to get established in the labour market as employees or in their own business. The largest ever initiative for upper secondary apprenticeship training is being taken with the aim of broadening opportunities for students as an alternative way to vocational qualification in the vocational programme in upper secondary school, in which more than half the training time is to be spent at one or more work places. The Government is also carrying out an apprenticeship training initiative in adult education, equivalent to about 5 900 full-year equivalents from 2011 to 2014. Apprenticeship programmes for adults must also target people with learning disabilities¹².

The education system has been substantially strengthened in the last three years. This strengthening has included extra resources for vocational colleges so that more can get an education in areas that will need skilled labour when the business cycle improves. In 2010, about 43 000 people participated in some 1 100 vocational college programmes given by 236 different education establishments. See also the measures described in Section 4.1.

Guideline 8 Yrkesvux is the Government's initiative in adult vocational training at the upper secondary school level in the municipal adult education system. Its primary aim is to provide the unemployed with an opportunity to get training, but it also aims to try to prevent shortages of skilled labour by providing the individual with the opportunity to undertake basic vocational training based on their own wishes and needs. The Government's initiative in adult vocational training includes support for 54 000 full-year equivalent places in vocational upper secondary adult education between 2009 and 2011. Beginning in 2011, adult vocational training will also include students with mental disabilities, i.e. those in the Särvox target group.

Guideline 8 To facilitate and strengthen cooperation in skills provision, the Government has given actors with responsibility for regional development in each county a remit to establish skills platforms in 2010 for the coordination of skills provision and plans for training in the short and long run. In 2010 the Government also gave

¹² Särvox is adult education for people with mental disabilities.

five public authorities instructions to cooperate in increasing coordination of skills provision at the national level. The aim of the task is to strengthen the conditions enabling private and public bodies to get access to sought-after skills and thus enhance competitiveness and contribute to sustainable national and regional development. It should contribute to the creation of better bases for planning and resource utilisation with respect to skills provision initiatives. The decisions are part of the Government's ambition to strengthen the coordination of regional development policy, labour market policy and education policy.

Guideline 9 The initiatives in higher education and research will also continue. In the Government's opinion, it is important that the compensation systems in both research and undergraduate education foster quality to a greater extent than they do today. From 2013, higher education institutions will to a large extent be allocated resources on the basis of quality evaluations of education programmes' results. The quality-based resource allocation will come to SEK 295 million when it is fully implemented in 2015. To further improve the quality of higher education, there will also be an increase in the undergraduate education appropriation beginning in 2012 and from 2013 onwards, it will be SEK 400 million. The increase should go to the humanities and social sciences, where the need is greatest, via an increase in the amount paid per full-time student in these areas.

Guideline 9 To achieve the objective of a world-class higher education, the Government also thinks that the work on increasing the independence of higher education institutions should continue. The Government sees several main reasons for state higher education institutions in Sweden to have greater autonomy. For example, the quality is improved when higher education institutions have more freedom to base their activities on their own circumstances and needs. The shift towards greater autonomy for academic institutions must, however, be combined with a well-functioning system for quality evaluation and the Government's need for financial control, follow-up and financial responsibility.

The very high rate of admissions applications has continued, owing to the large cohorts of young people and the economic crisis. To cushion the effect of the economic downturn, the Government has temporarily increased the number of higher education places. In 2010 and 2011, there will be a temporary initiative with a further 10 000 higher education places at a cost totalling SEK 700 million a year.

Access and opportunities for higher education will be strengthened through improvements in students' finances by raising financial support for studies beginning in autumn 2011.

National education targets

The percentage of 18-24-year-olds who have not completed upper secondary school and who are not studying is to be less than 10 per cent by 2020 and

The percentage of 30-34-year-olds who have at least a two-year post-secondary education is to be 40-45 per cent by 2020.

The EU level target is; improving education levels, in particular by aiming to reduce school drop-out rates to less than 10 per cent and by increasing the share of 30-34-years old having completed tertiary or equivalent education to at least 40 per cent.

In the Government's opinion, a well-functioning education enhances Sweden's competitiveness and improves individuals' skills and opportunities in life. Education, particularly at an early age, reduces the risk for labour market and social exclusion later in life. There will also be greater social justice since education increases the chances of getting a job and good wage growth.

The percentage of 18-24-olds in Sweden who have not completed their upper secondary school studies and who do not study came to 11 per cent in 2009 according to Eurostat. But the statistics are now being reviewed. The percentage of 30-34-year-olds having at least a two-year post-secondary education was 44 per cent in 2009 according to Eurostat.

It is the Government's opinion that the national target can be met within the framework of the policy adopted, including the measures announced in the 2011 Budget Bill.

4.3 An innovative and dynamic business sector with new and growing companies

Policy challenges

Trade in goods and services, companies' direct investments and cross-border labour mobility – elements, which among other things are included in the concept globalisation – form the basis for economic prosperity in a small country like Sweden. Open markets with effective competition are the foundation for a robust and dynamic business sector and with it, increased employment. To benefit from the advantages of globalisation, the economy must also be able constantly to adapt to new conditions. An innovative and dynamic business sector that is well able to adapt is thus vital for growth and employment.

Sweden performs well in international comparisons of competitiveness in a global perspective. According to the OECD, Sweden is the country in the OECD area that all in all has the most potential to benefit from an increasingly

globalised world.¹³ The study compares various OECD countries for such factors as labour market flexibility, the knowledge and skills level, the capacity to innovate and the creation of new businesses.

It is important, however, for Sweden to continue to build on its strengths: its competitive industrial base, the growing service sector and its well-educated labour force. Swedish companies can best compete on the basis of knowledge and quality. Private and public infrastructure, education, research and innovation initiatives ensure that Swedish firms will be able to compete in world markets. To improve the conditions for good economic growth, measures that help increase employment, investment and productivity are crucial. Economic growth must in addition be compatible with a good environment and health; i.e. it must be sustainable.

Policy direction and reform ambitions

Research, development and innovation are core components of the growth policy. In a globalised world, Sweden's competitiveness must build primarily on a high knowledge content in our export products. The research policy objective is to strengthen Sweden's position as a research nation, thus enhancing competitiveness in a globalised world in order to contribute to higher sustainable economic growth and welfare in Sweden.

To reap the advantages of globalisation, it is important for the policy to focus on promoting competition. Unnecessary obstacles for companies who want to locate in Sweden will be removed. Competition will thereby increase, leading to lower prices and a larger and more varied selection of goods and services. More international competition helps make Swedish firms more productive by giving them access to new ideas and new production methods. Through an active and a proactive role in the EU, the Government is working for the development and improvement of the internal market for the benefit of the public, consumers and business and for safeguarding free trade in the formulation of the common trade policy.

Guideline 4 In 2008, the Government presented a research and innovation bill for the period 2009–2012. Under the proposals in the bill, state funding for R&D will gradually rise by up to SEK 5 billion up to 2012. This is the largest funding increase ever made in any research bill in Sweden. In the bill, the Government launched a new element in the system for funding research: strategic investments. These investments are made in the strategically important areas of medicine, technology and sustainable development. The Government also presented measures to promote the utilisation and commercialisation of research results through such measures as increased availability of public risk capital and more resources for the activities of institutions of higher education in the form of innovation offices.

¹³Rae, D. and M. Sollie (2007), Globalisation and the European Union: Which Countries are Best Placed to Cope, Economic Department Working Paper, no. 586.

The Government intends to present a new research and innovation bill during its current term of office. The preparations for this bill are underway.

- Guideline 4** For Sweden to continue to offer a world-class innovation climate and make that climate even better, the Government has begun drawing up a national innovation strategy with a view to 2020. In 2010 the Government presented a strategy for more service innovation as a first step in drawing up a national innovation strategy. The innovation strategy gives the direction of work in four priority areas:
- Appropriate and effective framework for service innovation
 - Knowledge and skills for service innovation
 - Digital infrastructure for service innovation and
 - Internationalisation of service innovation.

With the coming national innovation strategy as the starting point and a number of ongoing processes related to it in different ways, initiatives in a number of areas will focus on increasing the leverage from investment in R&D and at the same time help remove obstacles for innovative businesses to develop and grow. Regional development provides an important perspective in a national innovation strategy. Increased and effective cooperation between the different levels – EU, national and regional – and between the three parts of the knowledge triangle – education, research and innovation – are important and help reinforce the whole.

- Guideline 6** Competition stimulates innovation and efficiency, thus improving the economy's ability to adjust to new conditions. Several parts of the Swedish economy have been liberalised and thus opened for entrepreneurs, not least in the welfare area. Despite the positive developments in recent years, services in the health care and social services sector are still performed by a relatively small group of providers and the number of entrepreneurs is small compared with other sectors. It is only in recent years that a growing share of the services in health care and social services have been procured from private providers. There is thus significant potential for strong growth to continue by such means as the Government's ongoing reforms and initiatives. There must be sound ground rules between the private and public sector and state public authorities should not as a rule conduct commercial activities in the market. In principle, the state should not own companies that operate in commercial markets with viable competition – provided that the company does not have any particular social remit that is difficult to fulfil in any other way. Rules to limit state public authorities' commercial activities in the market have therefore been introduced into the Competition Act. As to state support for business, it should be limited to measures primarily intended to try to avoid market failure. An inquiry has been appointed to review Swedish implementing regulations regarding EU regulations on state subsidies. The inquiry's proposals are to be presented no later than July 2011.

- Guideline 6** Good business conditions are crucial for economic growth. To achieve a high level of private investment, Sweden must have a good business climate. An

important part of improving the business climate is the work on making it simpler for companies to start and run a business and reducing their administrative costs. Efforts to ensure a robust business sector and simplify firms' administrative work will therefore continue. A new simplification programme for 2011-2014 will be presented.

Guideline 6 The ongoing structural change in the Swedish economy should be met by better tax terms for entrepreneurial activity and investment in Sweden. It must be possible for existing firms to expand, foreign firms to get established and new firms to be founded. The Government decided in January 2011 to appoint a broad inquiry into corporate taxation, with the aim of designing this taxation in such a way as to encourage investment and employment. The inquiry will analyse the priority to be assigned to different tax changes. The Government intends to review the taxation of savings in shares and other securities with a view to simplifying the rules and making the administration more efficient. In addition, the Government is trying to put in place an effective system for state funding for companies at an early stage and intends to review the effectiveness and remit of state venture capital providers.

Guideline 6 The national strategy for regional competitiveness, entrepreneurship and employment 2007-2013, and the ministry communication Skr. 2009/10:221 Strategic development efforts for regional competitiveness, entrepreneurship and employment (Strategiskt tillväxtarbete för regional konkurrenskraft, entreprenörskap och sysselsättning), form the basis for a coordinated regional development effort in Sweden (see Section 5). The strategy constitutes an important tool for pursuing the EU's shared goals for growth and employment and overall national goals and is the foundation for the Regional Development Programmes and the Structural Fund Programmes, which are important instruments in achieving the targets in the Europe 2020 strategy. Experience from this work and the guidelines in the Europe 2020 strategy will constitute one basis for the Government's continued work on regional development.

Guidelines 4, 6 Measures aimed at good availability of services are important in creating attractive environments for both the public and the business sector across the country. In January 2011, the Government approved the distribution of SEK 80 million at the regional level for the period 2011–2014 which can be used for initiatives aimed at strengthening *inter alia* shops and petrol stations of strategic importance in sparsely populated and rural areas and for developing new innovative service solutions in these areas. These are funds in addition to the priorities that the counties themselves set annually for the approximately SEK 43 million within the framework of the appropriation Regional development. In 2009, there was an additional appropriation of about SEK 10 million from earlier government decisions on measures concerning commercial services. Conditions in rural areas will be further improved during the Government's term of office through the Rural Development Programme.

Guidelines 4,6,7 Measures being implemented to further strengthen the innovation climate include funding for ALMI's¹⁴ advising and mentoring activities, funding for innovations (through Innovationsbron¹⁵), further steps to simplify business regulations and strategic development programmes for export advice for SMEs. A special initiative will be launched to strengthen the capacity for development in the interior of northern Sweden (Inlandsinnovation). Increased entrepreneurship and an improved capacity for innovation will contribute to economic renewal. From 2011-2014, the Government will spend SEK 100 million annually on women's entrepreneurship with Women's Enterprise Ambassadors, business and innovation development, initiatives at universities and colleges, the strength of boards of directors, advice on micro financing, innovation funding, mentorship and ownership changes. The initiative to provide entrepreneurship advice and mentorship, particularly to immigrants, will be strengthened. Measures promoting innovation such as service innovation, young innovators and business incubators will be strengthened. The Government will also fund the implementation of a national action plan for culture and creative industries in order to create a good climate for entrepreneurs and potential and existing business people in cultural and creative enterprises to develop their business ideas and their entrepreneurial skills. These measures add up to some SEK 400 million per year for the period 2011–2014. In addition, SEK 2 billion was allocated in 2010 for the Inlandsinnovation programme. A strategic and coordinated effort to promote the tourist industry has begun. There are several public authorities working on this together and a national development centre for the tourist industry was inaugurated in autumn 2010.

Guideline 4 In November 2009, the Government decided on a broadband strategy for Sweden which clarified the Government's aim for the broadband policy and presented new targets. In May 2010, the Riksdag (the Swedish Parliament) approved more modern and appropriate legislation for managing radio frequencies in order to handle technological and market developments. To make use of the possibilities offered by the digitalisation of society, there is currently work underway in the Government on drawing up a digital agenda for Sweden in cooperation with the actors concerned. Furthermore, the implementation of the Telecoms package with amended EU rules for the electronic communications sector will lead to better functioning markets for all and long-term sustainable competition. A bill was submitted to the Riksdag on 17 March 2011 and the new rules are expected to come into effect on 1 July 2011. As a step in meeting the target that everyone will be able to use electronic social services via broadband, several measures are needed as shown in the Government's broadband strategy.

¹⁴ ALMI Företagspartner AB is an important actor for financing and business advice to Swedish SMEs. ALMI Företagspartner AB is owned by the state together with the regions and consists of a parent company and 19 subsidiaries which are composed of 17 regional subsidiaries and ALMI Invest AB and the International Entrepreneur Association (IFS) which concentrates on supporting entrepreneurs with a foreign background.

¹⁵ Innovationsbron AB is a state-owned company for the promotion of the commercialisation of knowledge-intensive business ideas across Sweden. The company invests seed capital in companies with significant market potential and develops, together with local and regional partners, a network of business incubators.

The Government therefore aims in 2011 to improve the level of functional Internet access in the universal service to 1 Mbit/s.

Guidelines 5, 6 Efficient transport is of great importance for the provision of long-term sustainable transport for business competitiveness and for the investment climate. The Government decided in March 2010 on an intermodal national plan containing investments of nearly SEK 500 billion over the period 2010–2021. This entailed an increase of SEK 3.9 billion in annual appropriations. Substantial additional resources will come from user financing and co-financing. Furthermore, the Government has also continued restructuring the organisation of public authorities in the transport area to a more intermodal organisation by a merger of the Swedish National Rail Administration and the Swedish Road Administration and the transfer of certain planning tasks from the Swedish Maritime Administration to the new Swedish Transport Administration established on 1 April 2010. A new infrastructure decision may be taken during the current term of office, 2010-2014.

Guideline 6 To reap full benefit from the internal market's potential, it is essential to speed up the implementation of directives and the management of infringement cases. With this in view, a number of measures have been taken. First, an overall IT support in the form of a comprehensive and easy to grasp register of EU directives and infringement cases (Eureka) has been introduced in the Government Offices. Eureka is to support planning and follow-up of EU directives and facilitate handling of infringement cases. Second, as of 16 December 2010, the Government Offices have approved an internal circular Guidelines for implementing Union legal acts (Riktlinjer för genomförande av unionsrättsakter) with relevant rules, explanations and routines for implementing directives and handling infringement cases. The aim of the circular is to support and increase the Ministry's effectiveness in implementing directives on time. Last, it should be pointed out that the Government Offices regularly check that the internal management of the implementation of directives and infringement cases functions effectively and is updated on an as needed basis, most recently in connection with the Commission's new powers to call for sanctions in the same infringement proceedings in the event of delays in implementing directives.

National R&D targets

Public and private investments in research and development are to come to approximately 4 per cent of GDP by 2020.

The EU target is; improving the conditions for research and development by 2020, in particular with the aim of raising combined public and private investment levels in this sector to 3 per cent of GDP. The Commission will elaborate an indicator reflecting R&D and innovation intensity.

In the Government's opinion, research and innovation are crucial for meeting the increasing competition that globalisation entails. Research and development

also contribute to tackling major challenges facing society in such areas as demography, the environment, climate, health and transport. Sweden's investments in research and development were estimated at about 3.8 per cent of GDP in 2010 according to Statistics Sweden.

The state commitment does not include guaranteeing other actors' initiatives in meeting the target. It is the Government's opinion that the national target can be met within the framework of the policy adopted, including the measures announced in the 2011 Budget Bill.

4.4 Improving the environment and climate for sustainable growth

Policy challenges

Climate change is the greatest challenge of our time and requires global solutions. Further initiatives are needed to reduce greenhouse gas emissions in a cost-effective way. Environmental, climate and energy challenges provide an impetus for the development of technology, goods and services in all sectors. The business sector has to be provided with a basis for making the adjustments that will enable it to meet environmental and climate requirements. At the same time, the conditions needed to enable the business sector to take better advantage of the growth potential of a growing global demand for green and resource-efficient solutions should be improved.

Policy direction and reform ambitions

As part of developing the climate and energy policy and meeting EU energy and climate policy targets, the Government presented a cohesive climate and energy policy in March 2009 (Govt. Bill 2008/09:162 and 2008/09:163) which was adopted by the Riksdag in summer 2009. Under this policy, greenhouse gas emissions in Sweden in 2020 should be 40 per cent lower than in 1990. The national target refers to those activities not covered by the emissions trading scheme. The national target is more ambitious than Sweden's commitments under EU burden sharing.

To meet the target, policy instruments already decided have been supplemented with tax policy instruments. The Government also intends to carry out reductions at an early date in full compliance with the measures decided in the EU. In addition, Sweden will, in conformity with the national target, implement measures for emission reductions in other countries, such as green investments in developing countries or initiatives in other EU countries. The Government's assessment is that the climate target will largely be met by means of measures that have already been decided or announced. However, this assumes that climate investments continue to be implemented in other countries.

Guideline 5 Sweden's commitments for its share of renewable energy under the EU directive on renewable energy is to increase to 49 per cent by 2020. The national target has been set at at least 50 per cent of total energy use by 2020. Under Sweden's action plan for renewable energy presented to the European Commission at the

end of June 2010, it is expected that Sweden, with the policy instruments now in place, will meet the national target for renewable energy. General economic policy instruments such as carbon dioxide taxes, international emissions trading and certificates for renewable electricity are a key part of the long-term energy policy. The electricity certificate system is the main policy instrument for increasing renewable electricity production and thus an important policy instrument for meeting the 50 per cent renewable energy target by 2020. The Riksdag, acting on a Government proposal in spring 2010, approved raising the target in the electricity certificate system. The increase means that 25 TWh new renewable electricity production will be realised by 2020 compared with the 2002 level. The expansion of wind power is one of the most important components in meeting the target for a higher proportion of renewable energy. The Swedish rural development plan encourages an increase in the production of renewable energy in agriculture and forestry.

Guideline 5 To contribute to meeting the Swedish target of at least 10 per cent renewable energy in the transport sector by 2020 and to the vision of a fossil-free vehicle fleet by 2030, it will be permissible from May 2011 for petrol to include 10 per cent ethanol and diesel 7 per cent rapeseed methyl ester (RME). However, since 1 January 2011, there has been a limitation rule for the tax exemption for low-level blends of ethanol. In addition, a demonstration programme for electric cars and plug-in hybrids is being established, as well as a cutting-edge subsidy for cars with low emissions. The temporary reduction in the taxable benefit for some green cars is important in advancing the newest and best technology for environmentally sound vehicles. A reform ambition of the Government is hence to extend the temporary reduction for cars equipped with the latest and best technology for operating with electricity or a gas other than liquefied petroleum gas (LPG). The Government intends to come back with a detailed proposal in 2011 on what cars will be eligible for the reduction.

Guidelines 5, 6 In addition, the Riksdag has decided on a target for energy efficiency, which is expressed as an economy wide target to reduce energy intensity by 20 per cent between 2008 and 2020. The target concerns primary energy relative to GDP.¹⁶ To meet the target, mostly general economic policy instruments (for example, energy taxes, carbon dioxide taxes and emissions trading) and measures are employed. These are supplemented by other measures aiming to close significant information and knowledge gaps. In the Budget Bill for 2010, the Government allocated SEK 575 million for the period 2010–2012 for further energy efficiency initiatives at the local and regional levels and for initiatives for sustainable energy use. The main measures are support for municipal energy and climate advisory services for households and small business and work to encourage the market introduction of systems solutions for making the housing and service sectors more energy efficient. Moreover, the Government allocated SEK 300 million annually to finance a five-year programme for energy efficiency for the period 2010–2014. The programme includes an expansion of regional and local energy

¹⁶ Assuming an annual GDP growth of 1–3 per cent and no further decoupling between energy supply and GDP growth in the period 2008–2020, Sweden in meeting its targets is expected contribute to a reduction in the energy supply needed equivalent to 135–171 TWh (11,6–14,7 Mtoe).

and climate work, initiatives for information, consultation, support for technology procurement, and market introduction of energy efficient technology, with particular focus on SMEs.

Guidelines 4, 5 The Government allocated more funds for environmental technology, renewable energy and energy research in the 2011 Budget Bill. Measures for research, development and the demonstration of new technology are an important tool for meeting the climate and energy targets set by the Government. The Government has carried out a special initiative for commercialising new energy technology. The initiative, which primarily concerned second generation bio fuel, came to SEK 875 million for the period 2009-2011. To strengthen the regional work on reducing the climate impact and on the transition to alternative energy sources, the Government designated three counties as pilots for green development. The intention is to develop the regional climate and energy work in order to promote a green economy through new jobs, growth and increased competition. In July 2010, the Government decided the agenda IT for a greener administration with the objective of using an environmentally sound IT to reduce the state's environmental burden. There will be a checkpoint in 2015 when actual progress will be evaluated with reference to the energy and climate policy targets for 2020, and policy instruments may be adjusted as a result. The Government does not believe that the carbon dioxide tax will need to be raised during its current term of office any more than is required by decisions already taken and normal adjustment for inflation.

Guidelines 4, 5 The global shortage of raw materials implies that there is a greater need for recycling and that the amount of waste and the dangerous substances it contains should be minimised. The waste management hierarchy will be included in the Environmental Code. The requirements for innovation and new technology will be strengthened. The environmental technology sector's share of total Swedish goods exports increased in 2009 from 2.8 to 3.2 per cent. A broad national environmental technology strategy is being developed.

Guideline 5 The aim of Sweden's maritime policy is to use the resources of the sea and coastal areas in a sustainable way to ensure that the ecosystems are maintained and restored while allowing industries that are linked to the sea to develop, grow and contribute to strengthening Sweden's competitiveness. In addition, the marine environment initiative launched in the Government's previous term of office will be expanded. Initiatives in the Rural Development Programme create the conditions for a good environment in the sea and coastal areas.

Guideline 5 Dangerous chemicals and poisons need to be banished from our everyday lives and environment. An action plan to identify, limit and phase out hazardous chemicals will be drawn up. There will be an SEK 100 million reinforcement of this work during this term of office. The measures to improve the environment and climate amount to SEK 0.7 billion in 2011 and SEK 2.5 billion for the period 2012-2014.

National climate and energy targets

Sweden has established national climate and energy targets (Govt. Bill 2008/09:162, bet. 2008/09: MJU28, rskr. 2008/09:300, and Govt. Bill 2008/09:163, bet. 2008/09: NU25, rskr. 2008/09:301). Sweden has agreed to reduce its greenhouse gas emissions by 17 per cent compared with 2005. Sweden's national climate target is that emissions in Sweden should be 40 per cent lower in 2020 than in 1990. The target refers to those activities not covered by the emissions trading scheme in the EU (EU ETS).

Sweden has also undertaken to increase the share of renewable energy to 49 per cent by 2020. The national target has been set at at least 50 per cent of total energy use in 2020.

In addition, the Riksdag has decided on a target for energy efficiency, which is expressed as a 20 per cent reduction in energy intensity by 2020 compared with 2008.

The EU target is; reducing greenhouse gas emissions by 20 per cent by 2020 compared with 1990 levels; increasing the share of renewables in final energy consumption to 20 per cent and; moving towards a energy efficiency by 20 per cent. The EU is committed to taking a decision to move to a 30 per cent reduction of greenhouse gases by 2020 compared to 1990 levels as its conditional offer with a view to a global and comprehensive agreement for the period beyond 2012, provided that other developed countries commit themselves to comparable emission reductions and that developing countries contribute adequately according to their responsibilities and respective capabilities.

The Government is of the opinion that climate change and global warming are one of the greatest challenges of our time. Given its global dimensions, international cooperation is essential. Swedish energy policy aims to reconcile ecological sustainability, competitiveness and the security of energy supplies. In the Government's opinion, meeting high climate and energy policy ambitions requires increased use of effective economic instruments and a restructuring to a more climate friendly production and consumption, where the presumption is that the polluter pays.

It is the Government's assessment that the national climate target can largely be met within the framework of the policy adopted and the measures announced. However, this assumes that climate investments are implemented in other countries. It is also the Government's assessment that the national targets for the percentage of renewable energy can be met within the framework for the policy adopted and the measures announced. As far as energy efficiency is concerned, it is the Government's view in the Spring Fiscal Policy Bill for 2011 that the target can be met within the framework for the policy adopted and the measures announced.

5. Implementation of the strategy in Sweden

5.1 Consultations with the social partners

The social partners play a key role in creating the conditions for sustainable growth and full employment. The Swedish labour market has a high degree of organisation, broad collective agreement coverage and a well-developed social dialogue. The social partners in Sweden traditionally resolve many issues by means of collective agreements without central government intervention in the form of legislation or the involvement of public authorities. The social partners also have a central role in implementing EC directives and guidelines through arrangements in collective agreements.

Regular consultations take place between the Government and the social partners on matters associated with the Europe 2020 strategy (previously the Lisbon strategy) as well as other EU matters that concern the social partners. These consultations, which take place both at the political level and with senior civil servants, provide opportunities to discuss important EU issues in relation to the Government's actions and national policies.

To bring the dialogue with the social partners more in line with the Europe 2020-strategy's new annual cycle (the European semester) and the national decision-making process, the Government intends to establish a reference group with representatives from the ministries concerned in the Government Offices and the social partners (the Confederation of Swedish Enterprise, the Swedish Trade Union Confederation, Swedish Confederation for Professional Employees, Swedish Confederation of Professional Associations, Swedish Association of Local Authorities and Regions (SALAR) and the Swedish Agency for Government Employers). The reference group will meet regularly during the year at strategic points in the implementation of the strategy in Sweden. The initiative has been taken after consultation with the social partners.

5.2 Consultation with interest organisations and Swedish civil society

During the period when the Lisbon strategy was being implemented, there were periodic consultations with interest organisations, interbranch organisations and public authorities on the implementation of the strategy in Sweden and on the organisations' work with growth and employment-related issues. In spring 2011, representatives of interest organisations and public authorities were invited for consultations on two occasions at the Ministry of Education and Research and the Ministry of Health and Social Affairs to discuss the Europe 2020 strategy's targets and its implementation in Sweden. Much of the discussion centred around how to improve the dialogue with organisations in the civil society on the strategy's implementation. The Government intends to review the forms for consultation with the civil society for a better alignment with the Europe 2020 strategy's annual cycle and the national decision-making process.

5.3 Local and regional ownership

Local and regional support for the Europe 2020 strategy's targets and intentions, and thus for regional and local development in Sweden, are crucial for the successful implementation of the strategy. The national strategy for regional competitiveness, entrepreneurship and employment 2007–2013 sets out the Government's priorities for regional growth and constitutes an important instrument for converting the EU's common targets for growth and employment into regional and local priorities. It forms the basis of the regional development and structural funds programme. The national strategy together with the regional development programmes thus contributes to increased cooperation between the national and the regional levels. The regional actors thus play a role in implementing the national reform programme based on their particular conditions and opportunities primarily within the framework of the regional development programmes. In the light of local self-government in Sweden, the local level has a leading role in implementing some of the targets set by the Swedish Government.

In 2007 the Government established a national forum for regional competitiveness, entrepreneurship and employment to further develop the dialogue between national, regional and local levels on regional development issues. It is based on a shared responsibility between the regional and national levels for regional growth, which requires a political dialogue and a shared view and understanding of important development issues. It is also one way of increasing local and regional influence and responsibility. Political representatives from every county participate in the forum together with representatives for the Government.

At a national forum meeting in March 2011, the implementation of the Europe 2020 strategy at the regional and local levels and the link to regional development work and cohesion policy were considered. In many places in Sweden, local and regional initiatives are underway to develop processes that more clearly integrate the Europe 2020 targets into regional and local development efforts. There is a great need for learning between the national, regional and local levels about regional development experiences. The implementation of the structural funds has contributed to this work.

5.4 The regional competitiveness and employment target

In 2009, there was a strategic follow-up of the national strategy for regional competitiveness, entrepreneurship and employment 2007-2013 (Ds 2009:69). The follow-up points out both the importance of a national strategy and the importance of keeping the focus of the current strategy in order for there to be continuity and the possibility of improving regional development. At the same time, a number of development areas for further work were identified. Within the framework of the Structural Funds programme, common development needs for the regional programmes and the national programme have been identified. The follow-up of those projects expected to be most affected by the economic crisis needs to be strengthened and the strategic content in the programmes

needs to be reviewed against the background of the new circumstances facing many different types of projects on account of the crisis. At the same time, a number of development areas for further work were identified. These include strengthening innovation and renewal, exploiting the growth potential in climate and energy work, strengthening the synergy between the regional development policy, the labour market policy and education policy in order to improve the skills and supply of labour. Furthermore, the importance of national, regional and local preparations in advance of the demographic challenges, more of an international perspective, a strengthened regional leadership, ongoing dialogue between different levels and actors, and the development of inter-agency cooperation were emphasised.

The Structural Funds have played an important role in the work to counteract the economic downturn that affected Sweden. The economic downturn that the programmes have had to deal with was radically different from the economic situation which existed when they were created.

The EC Structural Funds programme in Sweden for the programme period 2007–2013

For the programme period 2007–2013, Sweden has received funding from the European Regional Development Fund (ERDF) and the European Social Fund (ESF). The funds are allocated to a number of programmes within the two objectives: Regional Competitiveness and Employment and European Territorial Cooperation. The Structural Funds programme within these two objectives geographically cover all of Sweden. Sweden has a total of about SEK 31 billion (EU funds and national public co-financing) for initiatives to achieve the Regional Competitiveness and Employment Objective and the European Territorial Cooperation Objective.

The European Structural Funds programme for regional competitiveness and employment, 2007-2013 (the European Regional Development Fund)

The total amount of the eight regional Structural Funds programmes is SEK 22.6 billion (EU funds, Swedish public co-financing and private co-financing) for the entire programme period. Of the programmes' total assets, the EU share of the funding amounts to about SEK 8.4 billion. In addition, there is national public co-financing amounting to about SEK 9.8 billion and business sector financing is indicatively estimated at around SEK 4.3 billion.

Until the turn of the year 2010/2011, the decision on EU funds from ERDF in the eight regional Structural Funds programmes came to about SEK 6.5 billion. There is in addition about SEK 7.6 billion in national public co-financing. The private co-financing decided amounts to about SEK 2.2 billion. Against this background, implementation of the programme is proceeding at a fast pace and about 80 per cent of EU funds are decided as of 31 December 2010.

Table 4 Allocation of funding from the Structural Funds among the five main priority areas*allocation based on decisions taken up to and including 2010*

	Decisions EU funds	Decisions National public funds	Total
Innovation and renewal, of which	4 881	5 737	10 618
Research and development, innovation and entrepreneurship	4 256	5 006	9 262
Renewable energy and energy efficiency	149	183	332
Tourism, culture and metropolitan areas	476	548	1 024
Accessibility, of which	1 337	1 617	2 954
Information Society	427	473	900
Transport	910	1 144	2 054
Total	6 218	7 354	13 572

According to the programme documentation, the measures under the eight regional Structural Funds programmes are expected to contribute to 33 300 new job opportunities and 12 800 new businesses. There are 28 115 companies expected to participate in the programme. The goal for new job opportunities is that when the programme period is summed up, new business start-ups and participation by companies has to be evenly distributed between women and men. As of December 2010, about 13 900 jobs and about 6 500 new companies had been created. In addition, about 18 000 companies have participated in the programmes. About 1 100 projects have received financing.

In the eight regional Structural Funds programmes, funding has been decided for projects aimed at increasing the regional supply of equity for new and growing SMEs. The opportunity to decide on funding for projects to improve enterprises' access to capital is part of the ambition of offering financing in forms other than subsidies, such as loans, guarantees and risk capital. Twelve fund projects have been awarded funding. Projects, together with public co-financing and private investors will be a total SEK 2.1 billion. Through December 2010, the projects had received 1 051 requests and invested a total of about SEK 480 million in 81 portfolio companies.

In the evaluators' opinion, the targets established for the project will most likely be met, despite the economic downturn, and the programmes are able to focus on structural change leading to new industries.

The evaluations show that the programmes and resources benefit the business sector by contributing to the development of companies' products and services. The initiatives also help in the development of companies' organisation and staff skills. A general recipe for success repeated in several evaluations is the importance of project organisation and having the right people on board. Participating companies have stated that participation in the projects has provided access to networks and new interfaces for developing products and services. All in all, it is thought that the programmes offer good possibilities for improving growth prospects. The evaluators point out, however, that it is

difficult to judge the extent to which the programmes have met their targets as only a small percentage of the projects have been completed thus far.

The national Structural Funds programme for regional competitiveness and employment, 2007–2013 (the European Social Fund)

The overall goal of the national Structural Funds programme for regional competitiveness and employment 2007–2013 is higher growth through an increased labour supply and good skills provision. There are projects in the programme aimed at counteracting exclusion in the labour market and promoting skills development for the employed. The grant from the European Social Fund (ESF) amounts to about SEK 6.2 billion for the period. In addition, national public co-financing will at least match that amount.

Through 2010, more than 600 projects primarily aimed at those most detached from the labour market had been awarded funding. The planned number of participants in these projects is 82 000, with a gender balance. In the same period, over 1 000 projects aimed at skills development for the employed have been awarded funding. The planned number of participants is 225 000, of which 49 per cent are women and 51 per cent are men. The committed ESF funds in the national Structural Funds programme through 2010 total SEK 3.6 billion or 58 per cent of the decision-making scope. The national public co-financing decided is SEK 4.9 billion.

The independent evaluation of the national Structural Funds Programme has thus far focused primarily on the implementing organisation. At an early stage, some deficiencies in the processing of project proposals, etc. were pointed out. The responsible public authority, the Swedish ESF Council, has taken measures to remedy these deficiencies. Since then, it has been the evaluators' opinion that the implementation functions relatively well and that fundamental changes in the processes involved should not be made during the current programme period. In the next few years, the evaluation of the national Structural Funds programme will focus on the results and the value added of the programme. Evaluation results at the project level have also begun to come in.

Territorial cooperation

In European territorial cooperation, Sweden participates in a total of thirteen programmes. Six programmes for border regions include one or more counties: the North, the Botnia-Atlantica, Sweden-Norway and Öresund-Kattegatt-Skagerrak, the Central Baltic and South Baltic. The European regional development programmes are contributing SEK 3.3 billion for these six programmes from 2007–2013. Sweden also participates in three transnational programmes: the North Periphery, the Baltic Sea Region and the North Sea programmes. The European Regional Development Fund is contributing SEK 3.4 billion to these programmes from 2007–2013. By 31 December 2010, funding of about SEK 4.7 billion from ERDF in all nine border region and transnational programmes had been approved.

In addition to the border region and transnational programmes, Sweden also participates in four programmes which aim at interregional cooperation and the exchange of experiences through networks and analysis. These are Interreg IVC, Urbact II, Espon and Interact II. These programmes concern all 27 Member States.

In addition to these thirteen programmes for territorial cooperation in the EU, Sweden also participates in cross-border cooperation programmes with non-EU countries through the Community instrument, the European Neighbourhood and Partnership Instrument (ENPI). Sweden participates in the European Neighbourhood and Partnership Instrument (ENPI) Cross-Border Cooperation (CBC) Kolarctic Programme for regional cooperation with Russia. In addition, there is ENPI funding in the Baltic Sea Programme to make Belarus participation possible.

Under the Swedish Presidency in autumn 2009, the European Council adopted the EU's Baltic Sea Strategy. The Strategy is the first of its kind for a macro region in the EU and involves a new strategic working method in the cooperation by a number of neighbouring countries to meet region-specific challenges. The Strategy constitutes a guide to the territorial cross-border cooperation in the Baltic Sea region and thus helps focus on the large number of initiatives underway in the region.

The Government plays an active role in the process and works towards ensuring that the implementation will contribute to closer territorial and intersectoral cooperation in the region. The Government has assumed special responsibility for the cooperation in research and innovation, transport issues, chemicals in the sea and fishery issues, but also underlines the importance of all the priorities in the Strategy. To contribute to its concrete implementation, the Government has also instructed 21 public authorities to take part in the work on the Strategy. Several of the authorities lead large projects with partners from other Baltic Sea countries, for example, to support cluster cooperation, SME networks and cooperation in radio spectrum matters, areas where value added is created by cooperation.