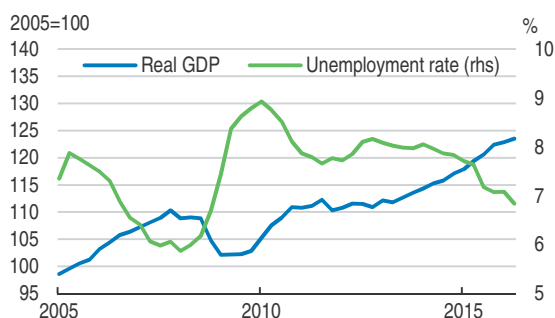


Executive summary

- *The economy is growing strongly*
- *The rise in income inequality needs to be contained*
- *Gender equality can be pushed further*

The economy is growing strongly

Economic growth has brought down unemployment

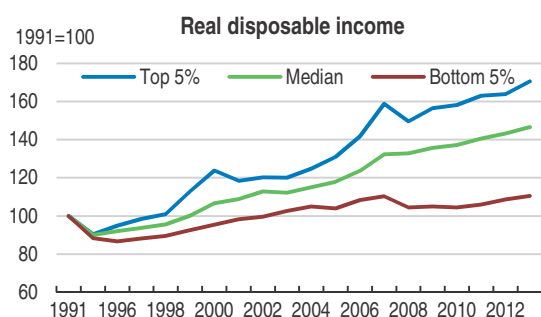


Source: OECD Economic Outlook database.

StatLink <http://dx.doi.org/10.1787/888933446224>

The rise in income inequality needs to be contained

Inequalities have widened



Source: Statistics Sweden.

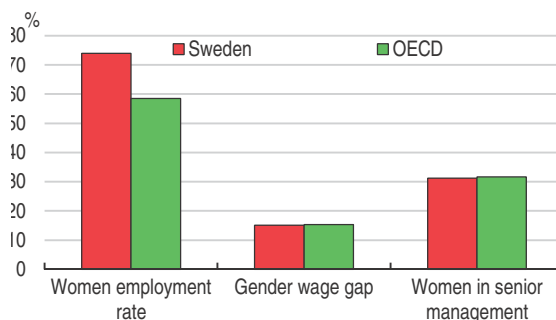
StatLink <http://dx.doi.org/10.1787/888933446236>

Output has been lifted by an expanding labour force, investment and a recent pick-up in productivity. Unemployment is receding, although it remains relatively high for vulnerable groups, notably the foreign-born. Expansionary monetary policy is supporting growth and inflation is picking up. Macro-prudential measures have been taken to cool the housing market. Even so, prices have reached high levels, boosted by rising income, low interest rates and supply shortages.

Housing market inefficiencies particularly penalise households with low income and wealth, as they are less likely to own housing, and rental regulations lower their geographical and labour market mobility. Income inequality rose more rapidly than in any other OECD country since the 1990s, albeit from a very low level. Capital gains boosted top incomes, while benefits increased more slowly than wages. High labour market entry thresholds, spatial segregation, and bottlenecks in migrant settlement reduce opportunities and social mobility. Reforms to housing, wage subsidies and migrant settlement and integration, as well as a more systematic approach to benefits uprating would raise the incomes and opportunities of the disadvantaged.

Gender equality can be pushed further

Gender wage gaps and the glass ceiling remain



Source: OECD Employment database and ILO KILM database.

StatLink <http://dx.doi.org/10.1787/888933446244>

Sweden is one of the most gender-equal countries in the world, even though foreign-born women are lagging behind. Women have a high employment rate, outperform men in education and are well represented in government and parliament. However, gender wage differences persist: women are under-represented on private company boards, in senior management positions, in many well-paid and influential professions and among entrepreneurs. Better shared parental leaves would raise gender equality further. Fostering women entrepreneurship and promoting entry of women in senior management is also crucial.

MAIN FINDINGS	KEY RECOMMENDATIONS
Macroeconomic policies	
Despite strong output growth, inflation remains below target.	Gradually withdraw monetary stimulus as inflation rises towards the 2% target.
Fiscal policy is mildly expansionary, due to migration-related costs. Important investments are needed in education and for the integration of refugees and Sweden's low public debt provides room for manoeuvre. However, strong fiscal buffers are needed to dampen external shocks in a small open economy.	Continue to pursue prudent fiscal policy, while accommodating temporary immigration-related spending to facilitate integration.
Housing and household debt	
Macro-prudential measures, including a new mortgage amortisation requirement, have been introduced. Nevertheless, growth in household debt remains strong.	Introduce a cap on household debt-to-income ratios.
Favourable tax treatment of owner-occupied housing encourages household indebtedness and is regressive.	Reform the recurrent property tax to better align tax charges with property values. Phase out the deductibility of mortgage interest rate payments.
Inefficient land-use planning and low incentives for municipalities to encourage construction contribute to housing shortages, which reduce affordability and labour mobility.	Enhance co-operation between central and local government in land-use planning and increase incentives for municipalities to facilitate the timely release of development land. Simplify land-use planning procedures, balancing economic, environmental and social considerations.
Strict rental regulations contribute to reducing mobility, notably for low-income households, and may contribute to spatial segregation.	Ease rental regulations to incentivise rental housing supply, mobility and better utilisation of the housing stock, while maintaining tenant protection against abuse.
Income inequality and equal opportunities	
Social benefits have been uprated according to the CPI or on an ad hoc basis since the 1990s, gradually increasing the gap between benefits and work income.	Review annually the distributional consequences of uprating social benefits, taking equity, fiscal costs and work incentives into consideration.
Bottlenecks in migrant settlement and integration slow down labour market entry, even though the government has decided to scale up a new, collaborative approach to the settlement process and earmarked resources to address the issue.	Continue to simplify the procedures to help migrants get residence and work permits.
Multiple wage subsidy schemes with different target groups and different rules increase the administrative burden and reduce take-up.	Rationalise by merging and harmonising various wage subsidy schemes to better target the most vulnerable workers, ease the related administrative burden and increase take-up.
Gender equality	
Women take 75% of parental leaves, which affects their career prospects.	Encourage parents to split parental leave more equally by continuing to increase the share reserved for each parent.
Foreign-born women have a very low employment rate compared to natives and many of them are neither employed, nor in training or education.	Enhance active labour market policy for foreign-born women when the Introduction programme ends, to prevent them from drifting away from the labour market.



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