Sweden´s convergence programme **2023**

Government Offices of Sweden
Ministry of Finance

Sweden's Convergence Programme 2023

Introduction

In accordance with Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, Sweden delivered its first convergence programme to the European Commission in December 1998. The programme was evaluated and approved by the Council in spring 1999. Under the Regulation an update of the Convergence Programme has to be submitted annually; as was done from 1999 to 2009.

As of 2010 reporting within the Stability and Growth Pact has been adapted to the European Semester in order to strengthen the surveillance of economic policies. The Convergence Programme and the National Reform Programme are therefore delivered each spring. This enables budgetary and structural policy to be assessed consistently and recommendations to be made to Member States while their budget proposals are still in the preparatory phase.

Sweden's Convergence Programme for 2023 is mainly based on the Spring Fiscal Policy Bill for 2023 (Govt Bill 2022/23:100). The Government presented the Bill to the Riksdag on 17 April 2023. The Riksdag's Committee on Finance was briefed on the Convergence Programme on 20 April 2023. On 27 April 2023, the Government adopted the Programme.

1 Economic policy framework and targets

1.1 Budgetary policy objectives

The budgetary policy objectives consist of a general government net lending objective (surplus target), an expenditure ceiling for central government, a local government balanced budget requirement and a debt anchor. The Government has given an account of the fiscal policy framework in the communication Fiscal policy framework (Comm. 2017/18:207, Report 2017/18:FiU32, Riksdag Comm. 2017/18:334).

General government net lending target

The general government net lending target is intended to contribute to strengthening control of the long-term development of general government finances. The target also makes clear the need to set priorities between different expenditure areas, or to raise taxes. In addition, fiscal policy has to be capable of contributing to economic stimulus in contractionary periods and of slowing the economy down in expansionary periods. Higher net lending in good times is therefore needed to provide space for lower net lending when times are worse. This is made possible by formulating the net lending objective as an average over an economic cycle (see also Section 3.4).

Following a proposal in the Spring Fiscal Policy Bill for 1997, the Riksdag (Swedish parliament) decided to introduce a surplus target for general government finances of 2% of GDP on average over an economic cycle (Govt Bill 1996/97:150, Report 1996/97:FiU20, Minutes 1996/97:118). The target was phased in over a three-year period and full application began from 2000. However, the Riksdag decided, following a proposal in the Spring Fiscal Policy Bill for 2007 , to lower the net lending target from 2% to 1% of GDP on average over an economic cycle (Govt Bill 2006/07:100, Report 2006/07:FiU20, Riksdag Comm. 2006/07:220 and 221). The reason for the proposal was that Eurostat had decided that net lending in the premium pension system would no longer be included in the general government section in the National Accounts. This reduced general government net lending by around 1% of GDP.

In the Budget Bill for 2018 the Government proposed, in accordance with the proposal of the Surplus Target Committee in the report *An overview of the surplus target* (SOU 2016:67), changing the surplus target level to an average of one third of 1% of GDP over an economic cycle and supplementing the budgetary policy framework with a debt anchor for the general government consolidated gross debt (Maastricht debt). The Riksdag adopted the Government's proposal (Govt Bill 2017/18:1 Proposal for the central government budget, budget statement, etc. Annex 5, Report 2017/18:FiU1, Riksdag Comm. 2017/18:54). The Fiscal Policy Council was also given an even clearer role in monitoring the surplus target. In its instructions, the Council was given the explicit task to assess whether there is a deviation from the surplus target. If so, the Council should also assess whether the deviation was justified and the pace at which measures to return the surplus to the target should be implemented (Govt Bill 2016/17:100 pp 84–86).

A surplus target, once adopted, remains in place, but is reviewed every eight years. In 2025, information will be compiled for the target level for the next eight years. The target level will then be adopted for entry into force from 2027. Broad political support for any changes should be the goal.

Expenditure ceiling and a strict budgetary process

The expenditure ceiling covers central government primary expenditure, i.e. excluding interest expenditure, and expenditure in the old-age pension system. The Swedish Budget Act (2011:203) requires the Government to propose an expenditure ceiling for the third budget year ahead in the budget bill. Then it is the Riksdag that sets the expenditure ceiling. The expenditure ceiling is a tool for achieving the surplus target. Together with the general government net lending target, the expenditure ceiling governs the level of the total take of taxes and contributes to preventing a situation in which the take of taxes must be gradually raised as a result of a lack of control of expenditure, or in which temporary increases in revenue are used for permanent increases in expenditure.

The expenditure ceiling is the overarching restriction for the budgetary process in terms of total expenditure. The principle is that expenditure ceiling levels decided by the Riksdag are not changed except to make technical adjustments. The Budget Act also requires the Government to take measures if there is a risk of exceeding an expenditure ceiling set. The established practice is to have a 'budgeting margin' of a certain size under the expenditure ceiling. This is primarily intended to act as a buffer if macro-economic developments lead to expenditure growth not expected when the level of the expenditure ceiling was adopted.

A well-organised, strict budgetary process is of central importance in achieving the budgetary policy objectives. The budgetary process compares different expenditures with one another, and expenditure increases are tested in light of a predetermined total fiscal space defined by the expenditure ceiling and the net lending objective. The main principle is that proposed expenditure increases in one expenditure area must be matched by proposed expenditure reductions in the same area. It is also of central importance that the central government budget is transparent and comprehensive. The Government's proposed budget has to cover all revenue and expenditure, as well as other payments that have an impact on the central government borrowing requirement (known as the principle of comprehensiveness). Central government revenue and expenditure also have to be budgeted and reported in gross figures under revenue headings and appropriations (the 'gross principle'). This means that expenditure has to be reported on the expenditure side of the budget, while revenue has to be reported on the revenue side. A further main rule is that expenditure has to be recorded in the year when it is expected to arise.

Local government balanced budget requirement

The general government net lending objective includes net lending in the local government sector, which mainly consists of municipalities and regions. However, it is net income, not net lending, that determines whether municipalities and regions comply with the balanced budget requirement of the Local Government Act (2017:725). That requirement states the main rule that every municipality and region must budget for net income in balance. A balance requirement outcome that is negative has to be corrected within three years unless there are exceptional reasons. Municipalities' and regions' annual reports must contain an assessment of whether the balanced budget requirement has been met.

The Local Government Act requires municipalities and regions to have sound financial management in their operations. One consequence is that municipalities and regions have to set their own financial targets and be accountable for their long-term sustainable finances. It has long been a fundamental principle that each generation has to meet its own costs. The balanced budget requirement sets a minimum level, but net income generally needs to be higher to comply with the sound financial management requirement of the Local Government Act.

Debt anchor

The fundamental reasons for the surplus target are sustainable public finances and scope for action in stabilisation policy. So, essentially it is linked to debt and wealth levels rather than to net lending at any particular point in time. However, the level of general government gross debt is a key factor in assessing a country's creditworthiness and its scope for active fiscal policy for stabilisation over the economic cycle. Even though the surplus target is more suitable as an operational target in the budgetary process, the size of gross debt and net financial wealth play a central role in decisions about the size of the surplus target. As a member of the European Union, Sweden is also bound by the EU debt criterion, which states that the Maastricht debt must not exceed 60% of GDP. The fiscal policy framework has therefore been supplemented with a debt anchor for the general government consolidated gross debt. The level of the debt anchor, which is a guideline for the level of the debt, has been set at 35% of GDP.

In the Spring Fiscal Policy Bill, the Government must give an account each year of the development of the general government consolidated gross debt. If this debt deviates from the debt anchor by more than 5% of GDP, the Government has to present a written communication to the Riksdag, in conjunction with the Spring Fiscal Policy Bill, giving an account of the cause of the deviation and how the Government intends to deal with it. The debt is measured as the outcome in the national accounts for the preceding year and according to the forecast in the Spring Fiscal Policy Bill for the present year.

1.2 Sweden's medium-term budgetary objective

As a member of the EU, Sweden is required to comply with the regulations concerning general government finances in the Stability and Growth Pact. They includes provisions that the general government deficit must not exceed 3% of GDP and general government debt must not exceed 60% of GDP. Each Member State also has a medium-term budgetary objective (MTO) for its structural balance, i.e. cyclically adjusted general government net lending, excluding one-off effects. The level of the MTO is decided by each Member State, but it must be compatible with a minimum level calculated by the European Commission. Sweden's MTO is −1% of potential GDP (see Section 3.4).

A special escape clause in the Stability and Growth Pact has been activated on account of the economic situation resulting from the spread of COVID-19. This clause facilitates the coordination of budgetary policies in times of severe economic downturn and permits a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. In March 2023, the Commission announced that the general escape clause would be deactivated for 2024 and published its fiscal policy guidance for Member States in the development of their stability and convergence programmes. The Commission intends to present differentiated, qualitative and quantitative country-specific recommendations during spring 2023. The Commission also intends to base the recommendations in part on its orientations for a reformed EU economic governance framework from November 2022. This is justified by the fact that, according to the Commission, 2024 may be regarded as a transitional year between the existing framework and a new reformed framework which the Council will adopt in the future.

1.3 Monetary policy in Sweden

A new Sveriges Riksbank Act (2022:1568) entered into force on 1 January 2023. In connection with the decision to adopt a new Sveriges Riksbank Act, the Riksdag decided on certain amendments to other Acts relating to the Riksbank's operations, and constitutional amendments that relate in part to the Riksbank's responsibilities and standing under the Instrument of Government (Govt Bill 2021/22:41, Report 2022/23:KU8, Riksdag Comm. 2022/23:24). The new Sveriges Riksbank Act means that the main task of the Riksbank remains ensuring that inflation is low and stable. The Act clarifies that the Riksbank must give consideration to the development of the real economy. It also specifies the circumstances under which the Riksbank may use certain monetary policy tools and the information the Riksbank must provide to the Riksdag and to the general public. On several points, the new Act accords with how the Riksbank already conducts monetary policy, and thus does not entail any material changes in the monetary policy framework. The Act grants the Riksbank a strong, clear mandate to continue to conduct monetary policy independently in the future as well.

The Government is responsible for overall exchange rate policy matters and decides on the exchange rate system, while the Riksbank is responsible for the application of the system. In September 2003, Sweden held a referendum on the introduction of the euro as its currency. The result of the referendum, which was 'No', did not lead to any changes in monetary policy or exchange rate policy. The current monetary and exchange rate policy regime stands firm. Sweden's experience of applying an inflation target and a floating exchange rate is very good. Pegging the Swedish krona to the euro is not under consideration.

Monetary policy objective

The overriding objective of monetary policy according to the Sveriges Riksbank Act (2022:1568) is to maintain permanently low and stable inflation. The Riksbank has defined this objective as a 2% annual increase in the consumer price index with a fixed interest rate (CPIF). The inflation target is to serve as a benchmark for pricing and wage formation in the economy.

Without neglecting the inflation target, the Riksbank should also contribute to balanced development in production and employment. The Riksbank thus conducts a flexible inflation target policy. In each monetary policy decision, the Executive Board assesses which monetary policy is well balanced. If inflation deviates from the inflation target, the approach normally involves finding an appropriate balance between how quickly it should be brought back in line with the target and the effects on the development of the real economy.

It is neither possible nor desirable to conduct monetary policy that always keeps inflation at exactly 2%. There are constant changes in the economy that cause inflation to fluctuate in a way that cannot be predicted with sufficient precision nor counteracted in the short term. What is important is for households and businesses to have confidence in the target. Protracted deviations from the target risk influencing expectations of what the normal level of inflation in the economy will be.

As it takes time for monetary policy to have its full effect on inflation and the real economy, monetary policy is guided by forecasts of economic development. There is no general answer as to how quickly the Riksbank aims to return inflation to 2% if it deviates from this target. A too quick return may, in some situations, have very negative effects on production and employment, while a too slow return can weaken the credibility of the inflation target. The Riksbank may weigh in risks associated with developments in the financial markets when making its monetary policy decisions provided that there is solid confidence in the inflation target and the expected and overall achievement of the objectives for inflation, production and employment improve over a longer horizon. However, to prevent an unbalanced development of asset prices and indebtedness, what is most important is that there is a sound financial framework and effective oversight.

The Riksbank's main monetary policy tool is the policy rate. If necessary, it may be supplemented with other measures, such as buying or selling government securities, for example to ensure that monetary policy has an effective impact on the interest rates that households and businesses encounter. The Riksbank may buy and sell securities other than government securities if there are exceptional reasons. Such exceptional reasons may be present, for example, if there is financial turmoil or in crisis situations. The Riksbank strives for transparent and clear communication. This makes it easier for actors in the economy to make good economic decisions. It also makes it easier to evaluate monetary policy. The Riksdag's Committee on Finance, the Swedish National Audit Office and the General Council of the Riksbank monitor and evaluate the monetary policy conducted in various ways within the framework of their respective mandates. The Executive Board normally holds five monetary policy meetings per year.

1.4 The Government's economic policy

Decided measures

In view of the economic situation and the high inflation rate, the Swedish Government proposed a slight tightening bias in the budget for 2023. Table 1.1 shows the reforms proposed by the Government in the Budget Bill for 2023 and subsequently adopted by the Riksdag (Govt Bill 2022/23:1 Proposal for the central government budget, budget statement, etc. Annex 1.1, Report 2022/23:FiU1, Riksdag Comm. 2022/23:51).

Table 1.1 Reforms in the Budget Bill for 2023
Effect on general government finances, SEK billion

	2023	2024	2025
A stronger economy with more people in work	16.6	16.6	16.8
Increased security and equity	2.4	3.4	5.5
A reliable welfare system	10.2	10.8	12.5
A stronger national defence and foreign affairs policy	-2.1	0.8	-2.0
A new effective and ambitious energy and climate policy	6.1	1.2	0.8
Life for the whole country	3.3	0.9	0.9
A sustainable migration and integration policy	0.2	-0.6	-1.1
Better control of government expenditure	0.1	0.2	0.2
Other reforms and inevitabilities	3.8	6.6	4.5
Effect on general government finances, Budget Bill for 2023	**40.4**	**39.9**	**38.0**

Source: Own calculations

Following the Budget Bill for 2023, the Government has proposed additional measures in three additional bills with proposals for amendments to the central government budget for 2023 and in the Spring Amending Budget Bill for 2023 (Govt Bill 2022/23:99). The changes to the central government budget for 2023 proposed by the Government and adopted by the Riksdag concern support for Ukraine, targeted support to businesses and households as a consequence of high energy prices (Govt Bill 2022/23:52, Report 2022/23:FiU31, Riksdag Comm. 2022/23:118-120), windfall tax on the surplus earnings of certain electricity producers (Govt Bill 2022/23:58, Report 2022/23:FiU33, Riksdag Comm. 2022/23:125) and military equipment for Ukraine

(Govt Bill 2022/23:92, Report 2022/23:FiU38, Riksdag Comm. 2022/23:150 and 151). The Spring Amending Budget Bill for 2023 includes measures within the following areas:

- support for consumers and particularly vulnerable households
- measures to strengthen Sweden's defence and emergency preparedness
- measures to strengthen the labour market and education system
- measures to combat crime effectively
- measures to prevent crime
- measures to strengthen competition
- measures to reduce the administrative burden on businesses
- voluntary protection of forests and improved conditions for fossil-free energy production.

Both the Budget Bill for 2023 and the Spring Fiscal Policy Bill for 2023 and other bills with proposals for amendments to the central government budget for 2023 are based on an agreement between the Sweden Democrats, the Moderate Party, the Christian Democrats and the Liberals.

Aggregate budgetary effects of Government policy in 2021–2026

Table 1.2 presents the budgetary effects of all proposals for and announcements of reforms and financing that the Government has submitted and presented to the Riksdag and that the Riksdag has either adopted or approved the estimates for. The budgetary effects are reported in relation to the preceding year and are part of the analysis of the change in structural balance and the orientation of fiscal policy.

Table 1.2 Aggregate budgetary effects of Government policy 2021–2026 in in relation to the previous year

Changes in expenditure and revenue in relation to preceding year of measures and financing adopted and announced as well as measures and funding now proposed and announced.[1] Budgetary effect on general government net lending.

SEK billion unless otherwise stated.

	2021	2022	2023	2024	2025	2026
Change in ceiling-restricted expenditure	35.5	2.8	-29.6	0.4	-11.0	-17.2
Adjustment for differences between the accounting principles in the central government budget and the National Accounts	1.4	0.2	-1.8	-0.8	1.0	-3.7
of which, capital contributions, to state-owned enterprises	7.9	1.4	0.0	0.0	0.0	0.0
of which, infrastructure investments funded by borrowing[3]	*0.2*	*-1.3*	*-2.7*	*-1.2*	*1.4*	*-3.7*
Total expenditure changes	**36.9**	**3.0**	**-31.4**	**-0.4**	**-10.0**	**-21.0**
Taxes, gross	-2.2	-19.4	20.6	7.2	0.3	4.6
Indirect effects of taxes	-4.4	-0.9	-1.6	-0.5	0.0	0.0
Other revenue reforms	-0.2	0.2	2.4	-2.4	0.0	0.0
Total revenue changes, net	**-6.8**	**-20.1**	**21.5**	**4.4**	**0.3**	**4.6**
Changes in expenditure and revenue, impact on general government net lending[2, 4]	**-43.7**	**-23.1**	**52.9**	**4.8**	**10.3**	**23.7**
Per cent of GDP	-0.8	-0.4	0.9	0.1	0.2	0.4

Note: The amounts are rounded off and thus do not always sum to the total.
[1] The table includes the budgetary effects of measures proposed by the Government in the Spring Amending Budget for 2023 (Govt Bill 2022/23:99) that the Riksdag will consider in June 2023.
[2] For the expenditure side, a minus sign reflects a decrease in an appropriation or the cessation or reduction in scope of temporary programmes. For the revenue side, a minus sign reflects a decrease in tax revenues. For the aggregate budgetary effect on the net lending, a minus sign indicates a weakening of general government finances compared with the preceding year.
[3] This item shows the change in net borrowing for road and rail work. Net borrowing is the difference between new borrowing and amortisation.
[4] Excluding indirect effects on the revenue side of measures on the expenditure side.
Source: Own calculations.

The Government's further reform ambitions

We are in unsettling timeswith war in our neighbouring area, the energy markets in Europe under strain, and the highest inflation in Sweden in over 30 years. High inflation is the number-one enemy of wage and salary earners, as it leads to a decrease in real wages and the value of savings. It is important that it does not become entrenched at a high level. In addition, high indebtedness and a high proportion of variable-rate mortgages make Swedish households and businesses particularly sensitive to the rapidly rising interest rates that accompany inflation. Sweden's economy is also entering a recession, with high unemployment compared to other European countries.

In this environment, the Swedish Government's priority is to protect particularly vulnerable households from the rising prices, to implement measures to combat high unemployment, and to tackle high inflation by improving the conditions for competition. The work-first principle (*Arbetslinjen*) is to be re-established and structural reforms implemented to boost growth. At the same time, the Government is making reforms to solve the societal problems that have afflicted Sweden for a long time.

A plan to address the big economic challenges

The Government intends to address the challenging economic environment with a three-part plan:

– tackle inflation and support vulnerable households
– re-establish the work-first principle
– implement structural reforms to boost growth.

Tackle inflation and support vulnerable households

Fiscal policy has an important role to play in securing prosperity in Sweden, for example by laying the foundations a for strong economic growth, a fair distribution of resources, and an efficient public sector. However, given the challenging economic environment in Sweden, tackling inflation needs to be a central priority for economic policy as a whole at present, i.e. for both fiscal policy and monetary policy.

Inflation began to rise in autumn 2021 as a result of rapidly increasing energy prices. At the same time, demand was recovering after the pandemic, which, combined with Russia's full-scale invasion of Ukraine, amplified the increases in prices. In 2022, price increases have spread to other goods and services, which is reflected in the high underlying inflation rate, and prices have continued to rise in 2023. Since inflation has now been high for a long period of time, there is a risk that long-term inflation expectations will rise and that high inflation will become entrenched. If these expectations, which fell in the early part of 2023 and approached the inflation target of 2%, should rise again, tight economic policy will be needed for a longer period to bring inflation down. This would entail significant costs for households and the community as a whole. The situation in which Sweden finds itself therefore calls for prudence.

There is a broad responsibility on many actors to prevent high inflation from having a lasting impact on pricing and wage formation. The Riksbank has the task of utilising monetary policy to maintain permanently low and stable inflation, but the whole of society needs to take responsibility for tackling inflation.

The Government is taking its responsibility by continuing to pursue fiscal restraint while providing support primarily to vulnerable households. Regulations that drive up costs are being reformed, for example, the greenhouse gas reduction mandate will be lowered from 1 January 2024. The social partners are responsible for ensuring that the wage bargaining rounds do not spur inflation. Businesses are responsible for not increasing prices without justification. Those actors who make light of the risks associated with high inflation jeopardise the prosperity of Sweden's people.

Lack of competition in some industries risks exacerbating the price increases. Well-functioning markets, often those with multiple actors, are fundamental to countering price increases. The Government therefore wants to strengthen the price monitoring in the Swedish economy, with a particular focus on markets where there is a lack of competition. In light of this, it is important that the relevant authorities, in particular the Swedish Competition Authority (SCA), have the conditions necessary to provide effective competition oversight in industries exhibiting high price increases. It is therefore proposed in the Spring Amending Budget (Govt Bill 2022/23:99) that funds be allocated for this purpose. Furthermore, the SCA needs additional tools to ensure effective competition, and the Government intends to return to this issue. The Government also intends to task the SCA and the National Institute of Economic Research (NIER) with analysing the competitive situation in the non-durables sector and other sectors exhibiting large price increases, as well as how prices have increased in relation to costs.

Food prices have risen rapidly as a result of the increased costs of inputs such as electricity and fuel, and distribution disruptions associated with linked to the war in Ukraine. Inflation means that consumers choose less expensive alternatives, which risks worsening the competitive situation for Swedish food production, which mainly competes on the basis of high quality and good animal husbandry. The Government intends to maintain a tax reduction on diesel for agriculture and forestry at the EU's minimum levels of taxation in 2024 and 2025.

In order to strengthen consumer power, the Government is proposing additional funding to the National Board for Consumer Disputes (ARN) and increased support for civil society consumer organisations. The aim is to enable consumers to have their disputes with business operators reviewed faster, and to enable interventions to support financially constrained consumers.

The Government cannot and should not compensate all price increases that are currently occurring, but specific measures should be implemented to support Swedish households. This is essential for Sweden to be able to get through the difficult situation in which we find ourselves. In 2023, approximately SEK 27 billion in electricity subsidies will be paid out to support households. An average owner of a single-family dwelling with electric heating will receive an electricity subsidy of between SEK 4 500 and SEK 19 000, depending on the electricity bidding zone. In addition, it is proposed that the housing allowance supplement be extended furtheruntil December 2023 and increased. Boosting the housing allowance means that a single person with two children on average will receive SEK 1 100 more per month in housing allowance between July and December 2023. The increase in the housing allowance is an important reform to temporarily protect financially constrained families with children from the substantial price increases.

As a result of the high inflation rate, in particular the rising food prices, civil society is seeing increased need among those seeking help. The Government is therefore launching a specific initiative during 2023 targeting civil society organisations and faith-based organisations that carry out activities aimed at people in socially vulnerable situations.

In addition to this, the national guarantee pension, various parts of sickness and activity compensation, parental benefits and certain other central government transfers as well as student finance will be uprated based on of price growth, which will strengthen households' disposable income by a further SEK 12 billion. In addition, households' economies will be strengthened by several of the measures in the 2023 Budget Bill (Govt Bill. 2022/23:1), for example, retained higher unemployment benefit, an enhanced earned income tax credit for older people, and a temporary reduction in energy tax on petrol and diesel. Businesses have also been hit by inflation, in particular by the high electricity prices. The Government will return some SEK 30 billion to businesses in 2023 to compensate them for high electricity prices. In addition, the Government has recently introduced a SEK 2.4 billion support scheme targeting those businesses hardest hit by high electricity prices.

These measures have two aims. They are about compensating for the price increases and targeting measures to those who have been hardest hit, for example by the high electricity prices during winter which have been very challenging for Swedish households and businesses. The coming autumn and winter may again mean significantly higher prices than normal. The Government is prepared to deal with such a situation promptly if necessary, by proposing, for example tax cuts, targeted support to financially vulnerable groups, and other similar support. However, the design of any future measures will always be balanced against the risk that overly expansionary measures may spur inflation further and exacerbate the structural problems in the Swedish labour market.

Re-establish the work-first principle and increase education opportunities

While tackling inflation is a central task at present, fiscal policy has a broader mission to assure prosperity in Sweden. In parallel with tackling the acute problems in the economy, the Government therefore intends to implement a series of reforms to improve the functioning of the Swedish labour market. The work-first principle (*Arbetslinjen)* needs to be re-established.

For many years, Sweden has had high unemployment compared to other EU countries. A weakening of the work-first principle and high asylum immigration have taken their toll on the economy. This has also made it harder for people to earn their own living and become part of the community. That trend needs to be reversed. It is only if all who are able to contribute do so to the best of their ability that the Swedish welfare model can function and Sweden's prosperity can grow in the long term. Three areas are particularly important for Sweden to be able to re-establish the work-first principle: that it should always be worthwhile to work, that the activity requirements are tightened, and that the skills of the unemployed increase.

For it to be more worthwhile to work, the Government will propose that the tax on labour is further reduced once the economic situation permits. Such a tax reduction increases incentives to work and leads to more hours worked in the economy. Increasing incentives to work is particularly important in a situation where most people receiving benefits and transfers are being compensated for the high inflation rate, while employees are seeing their purchasing power eroded. This means that the move from receiving benefits into employment is becoming less and less worthwhile. The need to reduce the tax on labour will therefore be particularly great in the coming years.

The Government also intends to implement a major reform of the benefits system with the aim of increasing incentives for people to start working. For example, this entails introducing a benefit ceiling and increasing the requirements to qualify for Swedish welfare for those who have migrated to Sweden.

The recession has made apparent the structural problems that have existed for a long time in the Swedish labour market. One example is the problem of matching. Despite there being vacant jobs, unemployment is high, especially among foreign-born persons and those without secondary education. There is also a great need to reduce skills shortages in certain industries and to strengthen the capacity of individuals to transition to other employment. Unemployment is also expected to rise in the short term. In order to tackle the challenging economic situation, the Government proposes a comprehensive package of measures in the labour market and education areas in its Spring Amending Budget Bill for 2023. The Government proposes additional funding to strengthen the decision-making capacity of *Arbetsförmedlingen* (the Swedish Public Employment Service). The Government also proposes that funds be made available to strengthen adult vocational education at upper secondary level and higher vocational education, so that access to vocational education and training is improved and more people can start working in less time. This means the equivalent of 7 400 more annual places in adult vocational education at upper secondary level, and 950 more annual places in higher vocational education in 2023. Being able to speak and write in Swedish is important for getting a job in Sweden. The Government therefore proposes additional funding to the municipalities so that persons with temporary protection visas, such as those in need of protection who have come to Sweden from Ukraine, can have access to municipal adult education in Swedish for immigrants (SFI). In addition to the proposals submitted in the 2023 Spring Amending Budget, the Government will also implement a summer jobs and jobs for young people initiative targeting municipalities with high unemployment.

Implement structural reforms to boost growth

Sweden needs to transition from low to high growth. The conditions for entrepreneurship are lacking and the conditions for energy production have worsened with the closure of nuclear power plants, which among other things are constraints on

Sweden's GDP growth To increase productivity and growth, the Government is taking action in several areas. These measures aim to create the best possible conditions for competitive and innovative enterprise.

Taxes should be competitive, entrepreneurship and running a business should be encouraged, and the regulatory burden should be reduced. The Government is promoting growth through investments in research and development and an increased focus on learning outcomes in schools. In the short term, the housing market is being affected very negatively by rising interest rates. In the longer term, construction is being affected structurally by access to land for development, regulation, and the measures undertaken by the municipalities. The Government therefore intends to implement reforms to promote construction and to improve the functioning of the housing market.

During spring 2023, the Government will appoint a Productivity Commission to analyse impediments and opportunities to increasing productivity growth in the Swedish economy and to submit proposals to achieve this. The Government will continue to improve the conditions for competition, innovation, research and entrepreneurship. Work has begun to systematically reduce the administrative costs for businesses. Furthermore, the Government has extended the remit of the Inquiry analysing the tax rules for entrepreneurs, referred to as the 3:12 rules, to also include submitting proposals that will further promote entrepreneurship and facilitate transfers of ownership. Additional funding is also proposed for the ongoing development of the verksamt.se website in order to facilitate contacts between businesses and the public sector, thereby reducing the administrative burden on businesses.

An inquiry will be appointed during the spring to simplify and shorten the application procedures for environmental permits under the Swedish Environmental Code by making them more flexible, efficient and predictable in order to ensure the competitiveness of the business sector and Swedish industrial production and to promote a green transition. An Implementation Council will be set up to avoid the over-implementation of EU directives, thereby countering unjustified regulatory burdens.

Article 1.1 Fiscal policy under conditions of high inflation

Long-term high inflation is damaging to society as a whole

Low and stable inflation is fundamental for favourable economic development. High inflation means reduced purchasing power, among other things. Inflation is felt throughout the economy, but most of all by those households that were already struggling financially before it rose. High inflation also means increased uncertainty, which makes it more difficult for households and businesses to plan and make financial decisions. Uncertainty means that the desire and the ability to consume and invest decrease, hampering growth. It also means that lenders take the uncertainty into account when they grant loans, resulting in higher interest rates for borrowers. High inflation also has a negative impact on savings as the value of certain assets is eroded.

Households' and businesses' expectations of inflation affect the development of actual inflation, as businesses adapt their pricing and wage setting decisions to these expectations. If inflation does not fall relatively quickly, there is a risk of these expectations becoming entrenched at a high level. The economy is then in danger of ending up in a price and wage spiral, a development where wages rise to compensate for increased prices, and prices rise to compensate for increased wages. Experience from the 1970s shows that if economic policy is expansionary and spurs inflation, it can be very difficult to hold back wage increases. If the economy ends up in a price and wage spiral, or if inflation expectations remain permanently high for other reasons, a tight economic policy including a high policy rate over a long period of time will be needed to bring inflation down, with significant costs for households and society as a whole.

Prudent fiscal policy helps bring inflation down

Inflation has risen significantly both in Sweden and abroad since 2021. Initially, inflation in Sweden was driven mainly by rising energy prices, but it spread to other goods and services during 2022. Lagging supply problems after the pandemic, combined with increased input costs such as higher electricity and fuel prices, contributed to a rapid rise in the prices of goods, food and services during 2022. Meanwhile demand has been high, in particular since recent years have been marked by expansionary fiscal and monetary policy. This in turn means that fiscal policy that drives demand up further risks increasing inflation. The distinguishing feature of the current rise in inflation is the multiple disruptions: delivery and supply problems following the pandemic and high energy and food prices in the wake of Russia's full-scale invasion of Ukraine. These disruptions, combined with strong demand, have helped keep inflation high over an extended period of time. Long-term inflation expectations were slightly above the inflation target of 2% in 2022 and have fallen slightly in early 2023. There is, however, a risk of long-term inflation expectations increasing and high inflation becoming entrenched if inflation remains at a high level.

It is important for monetary and fiscal policy to be conducted in a manner that maintains confidence in the inflation target. Other actors in society, such as trade and industry and the social partners, also have a shared responsibility to prevent the high inflation from becoming entrenched and gaining traction in pricing and wage formation, for example.

Bringing inflation down is a central task of economic policy at the moment. The main tool for achieving this is monetary policy, but monetary policy and fiscal policy need to work together. This is because fiscal policy also affects the level of activity in the economy and thus inflation. The Government is responsible for exercising fiscal restraint in this situation. If fiscal policy were to be strongly expansionary, it would risk increasing inflation. This could lead to a tighter monetary policy becoming necessary, with greater pressure on highly leveraged households and businesses. This could in turn entail risks for financial stability and worse unemployment.

The International Monetary Fund and the OECD have expressed the need for prudent or cautious fiscal policy in light of high inflation in many countries, with a view to not increasing inflationary pressure. They are of the opinion that certain support measures may be necessary to help the most vulnerable households and businesses, but that these measures should be targeted and temporary so that they do not increase inflationary pressure.

Uncertainty about the effect of different fiscal policy measures on inflation

Different fiscal policy measures affect supply and demand to various degrees and thus also inflation. However, estimates of the effects of different fiscal policy measures on inflation are not certain. Different studies have come to different conclusions (see, for example, the review of empirical studies in Jörgensen and Ravn, *The inflation response to government spending shocks: A fiscal price puzzle?*, 2022). In Sweden, the National Institute of Economic Research has assessed the effects of various fiscal policy measures in its report *Finanspolitikens effekter på inflationen* (Effects of fiscal policy on inflation) (2022). Another factor contributing to the uncertainty is the risk of the results not being transferable to times at which inflation is well above the inflation target. In this situation, it would therefore be risky to rely on estimates of the effects of individual measures to justify eventual deviation from a generally prudent fiscal policy.

Temporary measures aimed at directly reducing prices, such as reductions in VAT or other indirect taxes, also have unclear effects on inflation. Although such measures would have a direct effect on inflation by reducing the proportion of prices that is tax, it is not certain that they would affect long-term inflation expectations and the underlying inflationary pressure in the economy. For example, a temporary measure of this kind leads to inflation rising again when the measure was phased out. Furthermore, a reduction in VAT, for example, could stimulate demand. Measures of this kind could also make economic policy erratic, and this would contribute to increased economic uncertainty.

Structural reforms may increase growth in the long term

While it is currently a central task of economic policy to bring inflation down, it is also important to emphasise that fiscal policy has a broader task. Generally prudent, well-balanced fiscal policy can improve economic development and help to reduce inflation, even if the high inflation limits the possibilities for stabilising the economic cycle. Within the fiscal space afforded by the fiscal policy framework, policy should be focused on structural measures that boost long-term growth in the economy. For example, measures to improve the functioning of the labour market, to strengthen the incentives to work and educate oneself, to ensure a stable energy supply, to increase competition and to simplify regulation. Any support measures should, in this situation, be limited, temporary and targeted at economically vulnerable groups.

Article 1.2 Starting points for a policy to boost employment

The Swedish labour market is facing multiple challenges

For several years, Sweden has had a high level of unemployment compared to other European countries and, despite a high employment rate, many are unable to provide for themselves by working. In addition, many of the people registered with *Arbetsförmedlingen* (the Swedish Public Employment Service) are particularly detached from the labour market. A large proportion of these are foreign-born people and individuals with no upper secondary qualification – groups in which many people need both to broaden and develop their skills in order to get a job.

The foreign-born group is very heterogeneous, and the prospects for establishing themselves on the Swedish labour market vary greatly within the group. For example, people who have migrated to Sweden as refugees and as relatives of persons with refugee status have a significantly lower level of education than other foreign-born people in Sweden. Among refugees and their families, 28% in the age bracket 20–64 had no upper secondary qualification in 2021. This can be compared with other foreign-born people and native-born people, where 16% and 8%, respectively, lacked an upper secondary qualification (Statistics Sweden's STATIV register).

Meanwhile, the Swedish labour market is characterised by a low percentage of jobs with low requirements for formal qualifications. About 4% of the employees in the 20–64 age bracket in Sweden had this type of job in 2020, which is the lowest in the EU (Skedinger, *Borde vi ha fler enkla jobb?* [Should we have more simple jobs?], Swedish Entrepreneurship Forum 2022). The low level of education of refugees and their families, combined with relatively few jobs with low requirements for formal qualifications, is one reason why this group finds it more difficult to establish itself on the labour market.

One group that finds it particularly difficult to establish itself on the labour market is women born outside Europe. In Sweden, 55% of women and 70% of men born outside the EU in the 15–74 age bracket were employed in 2022. The corresponding figures for those born in Sweden were 68% of women and 72% of men (Statistics Sweden). How well foreign-born women are integrated correlates with how successful their children are in school and working life. If large groups of foreign-born women are outside the labour market, this may have long-term consequences for the economy and social cohesion in general (Landell, *Försörjning med fördröjning – en ESO-rapport om utrikes födda kvinnors etablering på arbetsmarknade*, [A living delayed – an ESO report on the establishment of foreign-born women on the labour market] ESO 2021).

The economic situation is judged to lead to an increase in unemployment in the short term. In such a situation, people with a weak link to the labour market are at risk of being particularly hard hit in the longer term as well. To address the challenges facing Sweden, especially those associated with structural change in the economy, it is important for individuals affected by redundancies to find new jobs and enter industries in which there is high or an increasing demand for labour.

It must always pay to work

It is fundamental to the Swedish welfare society that everyone who can work should work. Economic drivers that make working worthwhile financially for all groups in society lead to increased employment. To achieve this, the benefits systems should be designed to make it worthwhile to move from benefits to a job and earning one's own living. Low payments in the benefits systems generally create increased incentives to work, but at the same time they risk creating livelihood problems. The design of the tax system also affects incentives to seek work and how much people work. The incentives to work increase the greater the difference in income is between being unemployed and working. This can be achieved through, for example, tax reductions for those on low incomes.

Few new arrivals qualify for income-related benefits. Many in this group have low-level qualifications and difficulties entering the labour market. They often start by working part-time, which may mean having a low labour income with additional financial assistance. Furthermore, the construction of the regulatory framework means that wages are deducted from the financial assistance, and more work therefore does not necessarily increase disposable income. Therefore, an individual with both a wage and financial assistance has few incentives to increase their working hours. Another factor is that financial assistance increases as the number of people in the household increases and therefore larger households need a relatively high labour income to make it financially worthwhile to work.

Activity leads to work

Being without work for a long time may mean both a reduction in motivation to seek work and a reduction in the relevance of previous experience and skills. Clear requirements and opportunities for participation in activities that lead to work can limit such effects. This reduces the risk of more job seekers becoming detached from the labour market, and recovery in the labour market can be accelerated as the economy returns to growth.

Research also shows that the time in unemployment can be shortened by job seekers facing sanctions if they do not comply with the rules in force in the insurance system. This is because job seekers increase their job search intensity and have lower wage demands. Therefore, controls are important to maintain the efficiency of the system (Vikström and Lombardi, *Arbetsförmedlingens kontrollarbete, sanktioner och de arbetslösas sökbeteende* [The Swedish Public Employment Service's controls, sanctions and the job search behaviours of the unemployed] IFAU 2019).

Employers can see risks in employing people who have been unemployed for a long time. Reduced costs for employing the long-term unemployed may neutralise this risk and thus increase the likelihood of job seekers getting work and gaining work experience and contacts (Nordström Skans, Eriksson and Hensvik, SNS Economic Policy Council report*, Åtgärder för en inkluderande arbetsmarknad* [Measures for an inclusive labour market] SNS 2017).

Great need to strengthen the skills of the unemployed

Job seekers have different experience, skills and knowledge and therefore also need different activities and initiatives. Many job seekers can seek work on their own, while those who are further away from the labour market need more support. The efforts to get more people into work therefore need to be cost-effective, flexible and adapted to the differing conditions and needs of job seekers.

Many job seekers can benefit from education and training initiatives to enter into employment. These programmes are more effective if they are vocational and adapted to the skills in demand on the labour market rather than general skills. Short vocational education and training (VET) programmes, such as labour market training and VET in municipal adult education (adult vocational education), are important components in this context. During a recession, education and training is a particularly appropriate measure, as there are fewer jobs to apply for.

Good knowledge of Swedish has proved to be important in recruitment decisions, even in low-skilled occupations. Labour market policy initiatives and education and training for the group of job seekers with poor Swedish can be usefully combined with measures that strengthen the language skills of job seekers.

Continued work on reforms to solve Sweden's societal problems

In addition to its efforts to deal with the challenging economic environment, the Government intends to continue to take action in several areas to solve Sweden's long-term societal problems. Among other tings, the Government is therefore taking steps to achieve the following:

– increased security
– better schools, health care and social care
– stronger defence and emergency preparedness
– better energy supply and reduced emissions.

Increased security

Security has become *the* great issue of freedom of our time. This year began with ruthless violence at levels never seen before, and gang-based terrorism has also spread from the larger cities to smaller towns.

This development is not least the result of excessive immigration to Sweden for a long time, which has impeded effective integration. This in turn has contributed to widespread exclusion and criminality in parts of the society. Meanwhile the judicial system has lacked adequate resources and tools for effective law enforcement.

The Government is working hard to reverse this trend and has launched the biggest offensive yet against organised crime in Sweden's history. Among other things, this entails a comprehensive strengthening of the entire judicial system, major investments in the police, and new and revised national strategies to combat organised crime. The Government has also set up a council for combating organised crime and has proposed several legislative reforms to strengthen law enforcement agencies' capabilities and, for example, enable interventions targeting young perpetrators.

Everyone should be able to feel safe in rural, suburban and urban settings alike. A greater number of crimes will be investigated and prosectuted, more victims of crime will obtain redress, and criminals will servelonger prison sentences than those that currently apply to prevent them from committing new offences. Among several planned legislative reforms, sentences for gang-related offences will be doubled, penalties for violent crime and sex offences will be increased, the present form of reduced sentences in cases of multiple offences will be abolished, and conditional release will become the exception rather than the norm. Furthermore, it will be possible to impose a detention sentence on offenders who pose a threat to society due to a high risk of serious crime recidivism for example.

These reforms will result in a need to substantially increase the capacity of the Swedish Prison and Probation Service. In addition, the occupancy rate of detention centres and correctional institutions is already high and there is a need to employ staff. Therefore, the Government is allocating SEK 300 million to give the Prison and Probation Service better conditions for continuing the necessary expansion.

In view of the general deterioration in the security situation and given that the Swedish Security Service assesses that Sweden is in greater danger from violent Islamic extremism and that the threat of attack has increased, the Government is proposing additional funding to the Security Services' activities in 2023.

The Government is taking further measures to strengthen preventive efforts, in particular to prevent more young people from being drawn into crime. Children and young people in need of placement pursuant to the Care of Young Persons (Special Provisions) Act (SFS 1990:52) will get a placement. It is therefore proposed that support to the municipalities for placements in family-based care should be strengthened, in order to free up places for children and young people within social care for children and young people. In addition, the Government intends to task the National Board of Health and Welfare with developing clinical practise guidelines for family-based care, and supporting the municipalities' efforts to recruit families to provide family-based care. The Government also intends to appoint a national coordinator to improve cooperation within social care for children and young people.

Men's violence against women and honour-based violence and oppression are serious societal problems that cause great suffering to victims. Preventing and combatting this violence and oppression is crucial for a gender-equal society. Among other things, the protection and the freedom of movement of women and children who are victims of domestic violence and abuse need to increase. The Government has therefore appointed an inquiry chair to review the restraining order legislation. As part of its efforts to combat honour-based violence and oppression, the Government has also appointed an inquiry to investigate how protection against virginity testing and hymen reconstruction surgery can be strengthened.

A reliable welfare system

High inflation has an impact on municipalities and regions because costs increase more than revenues. In order to reduce the risk of cutbacks in welfare, which in turn lead to reduced employment, in the Budget Bill for 2023 the Government added SEK 6 billion in general government grants to the municipal sector starting from 2023. The Government is closely monitoring developments in the municipalities and regions, and in the Budget Bill for 2024 intends to include an assessment of the need to further strengthen the resources allocated to the municipal sector for 2024 and beyond.

A strengthened, knowledge-based school education

Few things are as important for Sweden's future as its schools. The Government will strengthen school education's focus on knowledge, and build on the successful work done in 2006–2014. Learning outcomes are to be improved and all pupils are to be supported in achieving their full potential. The lack of development of Sweden's schools in recent years will come to an end. In accordance with the Government's proposal in the Budget Bill for 2023, funds have therefore been injected to be able to offer catch-up school in the lower grades. In order to give particularly high-achieving pupils opportunities to develop, funds have been injected to stimulate the development and quality of accelerated learning programmes. The Government has also made efforts to increase access to special support through funding for special needs teachers and special classes. To foster a safe and supportive study environment, funds have also been allocated for an investment in social support teams in schools. In addition, funds have been allocated for an investment in textbooks, and *Läslyftet* (an in-service training programme in teaching literacy for teachers) has been strengthened. In order to deal with pupils who disrupt the classroom or threaten other pupils and teachers, following a proposal from the Government, in the Budget Bill for 2023, funds have also been allocated for an investment in behavioural intervention schools.

More fully qualified teachers are key in equipping today's young people with the right knowledge for entering the world of work. The Government is therefore giving more higher education institutions the opportunity to initiate the necessary preparations to expand the pilot project with a new, shorter Bridging Teacher Education Programme (KPU) in order to provide more opportunities for switching to the teaching profession. The Government is also investing in the Teach for Sweden foundation and their work with leadership training and coaching of students.

The school also has an important role to play in preventive efforts. Restoring a safe and supportive study environment for all pupils is crucial for the establishment of a knowledge-based school education for all. The Government therefore proposes additional funding for special needs education initiatives and smaller classes to strengthen support for pupils with neurodevelopmental disorders.

Good and equitable health care

Good and equitable health care is to be provided in a timely way throughout the entire country. Important steps towards achieving this are expanded primary care, more hospital beds, and shorter queues for specialist care.

Waiting times and health care queues in Sweden need to be shortened and access to care improved. Fulfilment of the statutory health care guarantee has been low since it was introduced.

However there are major challenges, including a shortage of available hospital beds. Following a proposal from the Government in the Budget Bill for 2023, substantial performance-based funding has been injected to increase accessibility and the total number of hospital beds in the whole of Sweden. In addition, a national strategy for how the shortage of hospital beds can be addressed will be developed. The Government has also started work on establishing a national health care referral centre with the aim that more patients awaiting care can be offered care faster with shorter waiting periods with another care provider, regardless of where in the country the health care provider is located. The Government also intends to appoint an inquiry with the task of analysing and highlighting the pros and cons of introducing a complete or partial central government responsibility for health care in the longer term and submitting proposals for this. The inquiry will also look at the pros and cons of regional organisations based on, for example, the current six health care regions.

Obstetrics and women's health need to be improved. In order to improve access and address regional differences in health care for girls and women, in the Budget Bill for 2023, the Government has proposed additional funding for a strengthened and extended focus on obstetrics and women's health.

A safe and secure old age

Good quality health and social care is central to a safe and secure old age. As the health of older people gradually improves and as the elderly live longer, the need for health and social care is expected to increase. Employing and retaining competent staff l working in elderly care is a major challenge for the municipalities. More people must want to and choose to work in elderly care. There need to be changes in working methods in elderly care, such as assigning specific tasks to assistant nurses and spreading good examples of municipalities that are working constructively in this area, as well as using welfare technology to improve the safety, security and freedom of the elderly.

In order to improve public health and ameliorate the consequences of involuntary social isolation, the Government initiated a three-year community initiative in the Budget Bill for 2023. This initiative includes, among other things, health talks for the elderly, where they are informed about opportunities for group social activities, and funding to municipalities and civil society organisations working to prevent and counter involuntary social isolation. Following the Government's proposal in the Budget Bill for 2023, the investment in the Care of Older People Initiative also continued.

The Government has tasked the National Board of Health and Welfare with distributing central government grants to municipalities in order to ensure good health and social care for older people, taking into account the local needs of different municipalities. Examples of areas in which the Government is supporting improvements include occupational health and safety and working conditions, skills development, better staff continuity, and enhanced information security and better welfare technology within care of the elderly. The Government has also strengthened efforts in the area of dementia, and commissioned the National Board of Health and Welfare to work more on the prevention of fall accidents.

Maximum value for money for taxpayers

Taxpayers in Sweden should get better value for their money. This is why the Government is intensifying its efforts to combat welfare fraud. Among other things, a payments authority is being set up to avert, detect and prevent incorrect payments from Sweden's welfare systems. The Government will also provide the relevant authorities with new tools to identify fraud through increased opportunities to share data. Welfare funding is intended to finance, things like more assistant nurses and teachers – not to benefit criminals. It is also proposed that funds be allocated for the Swedish Gambling Authority to combat match fixing and money laundering, reduce problem gambling among unscrupulous operators, and more effectively identify operators that do not pay their taxes.

In addition, the Government will review state administrative expenditure. In order to have resources for core tasks, central government's activities need to be efficient. The need to set priorities in state expenditure is even more pronounced now, since new expenditure risks spurring inflation. During its term of office, the Government will therefore consider changes in the organisation of government agencies and take initiatives to reconsider and streamline their tasks. The number of government agencies should be reduced.

Stronger national defence and emergency preparedness

It has been more than a year since Russia began its full-scale invasion of Ukraine. While Ukraine's resilience has proved to be strong, the war has also highlighted the importance of cooperation between countries at a very difficult time. Sweden has supported Ukraine politically and economically and with humanitarian and military aid – such as the transfer of advanced weapons systems. It is clear to the Government that this support should continue in order to help Ukraine win the war. Since the Government took office, Sweden's support to Ukraine has increased considerably through decisions on transfers of tanks, ammunition and artillery systems. There is also consensus in the Riksdag (Swedish parliament) on this issue.

Sweden also intends to be a strong partner for Ukraine in the reconstruction of the country. Already this year, Ukraine is expected to become the largest recipient of Swedish bilateral aid. Sweden stands and will continue to stand on the side of Ukraine for as long as is necessary.

Democracy must be defended, and the war has made it clear that this can only be done together with others. Therefore, Sweden's defence needs to prepare for membership in NATO. The proposed additional funding in the Spring Amending Budget for 2023 enables a swift Swedish membership of the alliance once all the NATO countries have ratified Sweden's accession protocol. Early decisions are important for the continued rearmament of Sweden's defence forces. The Government therefore proposes additional funding to strengthen communications infrastructure, in order to compensate for price increases in the defence area, and to incorporate the outcomes of the re-negotiations regarding the development and procurement of JAS 39 E Gripen. Resources will also be allocated to activities preparatory to the upcoming decision on Sweden's future fighter jet capabilities. This decision is strategically important, and there will be broad political discussions prior to this decision. The Government has also appointed a Defence Commission to enable a broad parliamentary agreement to be reached on the continued rearmament of Sweden's defence..

The deteriorating security situation in Sweden's neighbourhood underlines the need for a strong civil defence and a strengthened crisis management capability. This applies in particular to resilience in the health care system, where among other things funding has been allocated to the regions to improve the supply of priority medicinal products. The additional funding to civil defence via the Budget Bill for 2023 has accelerated the ongoing development of Sweden's civil defence and emergency preparedness in the coming years.

In order to strengthen preparedness in the management of food and drinking water, in the Spring Amending Budget the Government proposes additional funding for the purchase of strategic resources to strengthen vital functions in society, and to strengthen Sweden's capacity to manage incidents where hazardous substances have contaminated food or drinking water.

Better energy supply and reduced emissions

Another important factor for a competitive economy is a stable supply of energy. The closure of nuclear power plants has led to electricity shortages at certain times and Sweden thus having been very vulnerable to high energy prices in other European countries. This led to high energy prices for Swedish households and businesses and consequently less favourable conditions for companies that wish to invest in Sweden long term. Taxes and other domestic regulations, such as the level of the greenhouse gas reduction mandate, have also driven up transport costs in Sweden. This has an impact on growth.

The Government wants to provide favourable conditions for all fossil-free energy sources. This is fundamental to putting reliable energy production in place, for meeting the challenges of the climate transition, for creating a good investment climate, and for households to be able to afford to pay their electricity bills. The Government is therefore setting a new energy policy target of 100% fossil-free electricity generation. As part of reaching this target, the Government has begun work to pave the way for new nuclear power production in Sweden. This involves lifting the ban on the construction of nuclear reactors at locations other than those where installations already exist, as well as the current limit of no more than ten reactors in operation. The Government will continue to remove the barriers to new nuclear power production in Sweden. This autumn, the Government is also planning to present an energy policy target bill, as well as a bill that will help to simplify the application procedures for environmental permits and shorten the processing time. In order to speed up the permit procedures for offshore wind power, the Government is of the view that the Geological Survey of Sweden (SGU) needs to work to reduce the processing times. SGU must also strengthen its efforts to promote mining and assist in ensuring a more secure supply of the minerals and metals that are essential for the functioning of society, and contribute to the transition to green energy and high-tech development. In addition, the Government's ambition is that the use of fossil gas by households should be reduced in the long term.

Climate policy must be ambitious and effective. People should be able to reside and businesses operate throughout the entire country and this must be a consideration. In order to ensure cost-effectiveness, climate instruments and the central government organisation in the climate area will be reviewed. Supplementary measures are also needed to achieve Sweden's long-term climate goals. The Government has therefore created the conditions for opening an initial reverse auction (procurement auction) for bioenergy with carbon dioxide capture and storage (BECCS) in 2023. This has great potential for achieving significant negative emissions. In order for the electric car to become an alternative for everyone, the Government is also investing in the deployment of charging infrastructure. In addition, the Government will submit a climate policy action plan to the Riksdag in the autumn. This plan will describe how the Government's policy can be expected to contribute to achieving Sweden's climate goals.

Forests and the forestry industry play a major role in Sweden's prosperity. It is a Government priority that Swedish forestry should not be restricted but be able to contribute fully to achieving the climate goals, as well as to jobs and growth throughout the country. Forests are also important for protecting biodiversity. The Government proposes that additional funding be allocated in 2023 to enable faster compensation payments to forest owners who voluntarily choose to protect their forests.

It is important that environmental policy is effective and does not complicate people's everyday lives unnecessarily. The Government intends to refer for consultation a proposal to abolish or substantially reduce the tax on plastic carrier bags in preparation for the Budget Bill for 2024.

The Government taking responsibility at a difficult time

The Government is taking responsibility for the economy at a difficult time by steering Sweden onto the right course. The economic environment is particularly challenging, with concomitant high inflation and a recession. But Sweden has got through major trials before and together we will do so again. Inflation must be tackled and the recession responded to with structurally appropriate reforms. Sweden is to once again become a model country – a country with high growth, stable finances, and a well-functioning labour market where the work-first principle is clear, and where hard work and industriousness pay off. A country with world-class innovations and research, with successful companies from north to south leading the way in technological development – because they have favourable conditions and access to clean and stable electricity every day of the year. Sweden is to be a modern welfare state where funds intended for health care and schools for example go to these purposes and not to criminals. The fiscal framework must be upheld in order to ensure stability and predictability in economic policy while fiscal policy aims to achieve the surplus target.

At the same time financial stability needs to be safeguarded. The financial markets are under strain and turbulent. The turbulence in the financial markets since the beginning of March stems from a crisis of confidence in a few banks in the USA and Europe.

Thus far, the spill-over effects for Swedish banks and the Swedish financial market in general are assessed as limited. However, that Europe and Sweden will be affected by this financial volatility cannot be ruled out. The Government is closely monitoring developments in the financial markets in light of this volatility and is prepared to take the necessary steps should the need arise in order to safeguard Sweden's financial stability. The Government is engaged in ongoing dialogue with the Riksbank (Sweden's central bank), as well as with the Swedish Financial Supervisory Authority and the Swedish National Debt Office, in order to monitor developments and ensure that Sweden is well prepared.

Since the financial crisis, the regulatory framework for the financial sector has been gradually tightened and developed. Today, Sweden is better equipped to cope with disturbances and crises in the financial system. In general, Swedish banks have good liquidity buffers as well as large capital buffers and they are profitable. This means that financial stability is better protected than it was when Sweden faced the global financial crisis. If the situation were to get worse in the future, Sweden would be well prepared and have the power to act – mainly thanks to the regulations in place and Sweden's strong public finances.

The Government's view of the Council's recommendations from 2022

After only having made country-specific recommendations in the area of fiscal policy in 2021, the Council returned to making broader recommendations in 2022. On 12 July 2022, the Economic and Financial Affairs Council gave its backing to these country-specific recommendations. The formal Council decision made the following recommendations concerning Sweden.

1. In 2023, ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. Reduce risks related to high household debt and housing market imbalances by reducing the tax deductibility of mortgage interest payments or by increasing recurrent property taxes. Stimulate investment in residential construction to ease the most urgent shortages, in particular by removing structural obstacles to construction and by ensuring the supply of buildable land. Improve the efficiency of the housing market, including by introducing reforms to the rental market.

2. Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 4 May 2022. Swiftly finalise the negotiations with the Commission on the 2021–2027 cohesion policy programming documents with a view to starting their implementation.
3. Reduce the impact that pupils' socio-economic and migrant backgrounds have on their educational outcomes by providing equal access opportunities to schools and by addressing the shortages of qualified teachers. Develop skills of disadvantaged groups, including people from migrant backgrounds, by adapting resources and methods to their needs to help their integration into the labour market.
4. Reduce overall reliance on fossil fuels by accelerating the deployment of renewables and boosting complementary investment in network infrastructure, strengthening internal grids within the country to ensure sufficient network capacity, improving energy efficiency, and further streamlining permitting procedures in relation to renewable energy projects.

The Government welcomes the reviews conducted within the framework of the European Semester and supports these recommendations. The Government also welcomes the fact that the recommendations have been adjusted to some extent to the different circumstances of the Member States, although the Government would have preferred the adjustment to country-specific challenges to have been clearer. The Government also shares the Council's view on which areas should be prioritised, since these areas are also priorities for the Government.

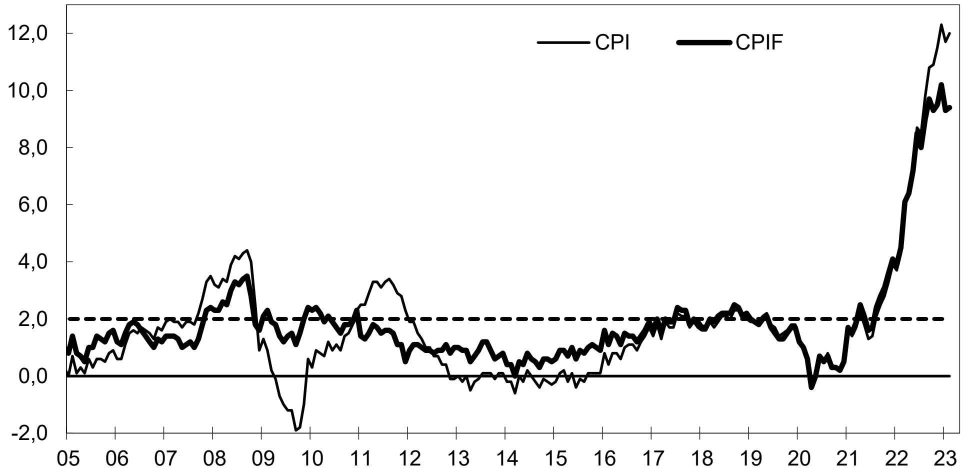
The Government broadly shares the assessment of the fiscal stance and of the areas prioritised for public investment. The Government also shares the view that household indebtedness can pose a risk to macroeconomic stability. In view of this, the Swedish Financial Supervisory Authority has implemented a number of measures including the introduction of mortgage ceilings and amortisation requirements, and increased risk weights for mortgages. Sweden's Recovery and Resilience Plan (RRP) was adopted by the Ecofin Council on 4 May 2022 and its implementation is ongoing. A REPowerEU chapter will be added to the original RRP and is currently being drafted in the Government Offices. In relation to cohesion policy, the Government shares the view expressed in the recommendations that negotiations on all programmes should be completed urgently so that their implementation can begin. The Government agrees with the orientation of the recommendation concerning education and training issues and that certain groups are particularly vulnerable. In light of this, a number of major initiatives have been implemented to help both public and private organisers within the school system to offer children and pupils an equivalent education of high quality nationwide. The areas covered by the energy recommendation correspond to the priorities that the Government is working on to achieve the national goal of net zero greenhouse gas emissions by 2045, and then to achieve negative emissions. The Council's recommendations are treated further in the Sweden's National Reform Programme 2023.

1.5 Monetary policy and financial economy

Inflation in Sweden, measured as CPIF, began to rise towards the end of 2021 and rose to high levels in 2022 (see Figure 1.1). In 2021, inflation was driven mainly by rising energy prices, but in 2022 the price increases spread to other goods and services. In February 2023, prices of about 80% of the contents of a basket of goods had increased by more than 4%. Increased input costs, such as higher electricity and fuel prices, and high demand in the economy at the beginning of the year all contributed to a rapid rise in the prices of goods, food and services in 2022. Since December 2022, energy prices have fallen. This has contributed to a slight fall in CPIF inflation. At the same time, CPIF inflation excluding energy has continued to rise, mainly as a result of increased prices for food and services. Food prices increased by 11.3% on average in 2022, which is clearly higher than the average trend of around 2% over the last ten years.

Figure 1.1 Inflation measured as CPI and CPIF

Annual percentage change



Note: The dashed line shows the Riksbank's inflation target.

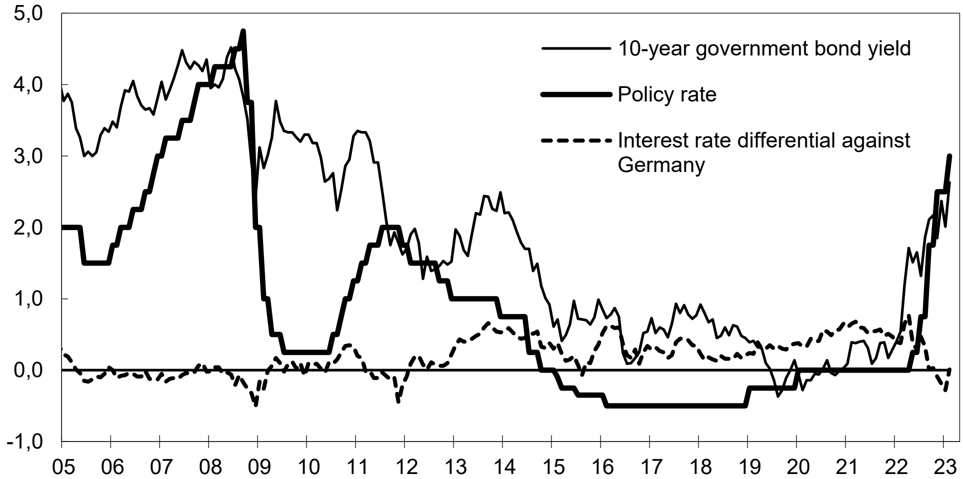
Source: Statistics Sweden.

As in many other countries, monetary policy in Sweden became tighter in 2022 and at the beginning of 2023. In order to achieve the inflation target and avoid the high inflation rate becoming entrenched, the Riksbank raised the policy rate several times in 2022 and at the beginning of 2023. At its meeting in February, the Riksbank also decided to sell government bonds starting in April 2023 so that its holdings of securities will decrease at a faster rate. In 2022, the Riksbank's purchases of securities focused on compensating for maturing securities. Further increases in the policy rate are expected in 2023.

Interest rate rises and expectations of even tighter monetary policy in the future have all contributed to rising market rates. However, market rates in Sweden did not rise as much as in many other countries in 2022 (see Figure 1.2).

Figure 1.2 Interest rates in Sweden

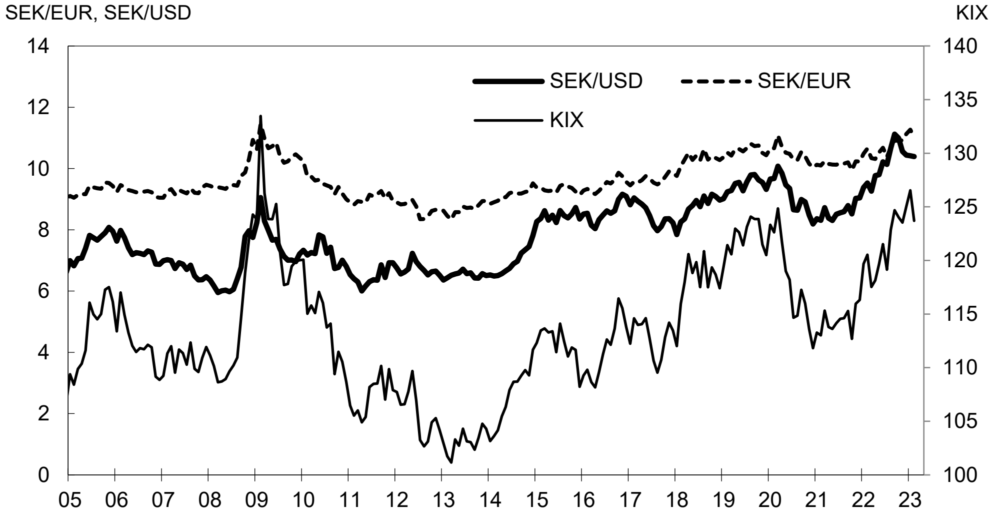
Per cent



Sources: Riksbank and Macrobond.

Since November 1992, Sweden has had a floating exchange rate. Figure 1.3 shows the development of the krona against the euro and the US dollar from 2005, with the volume-weighted exchange rate index KIX. The krona performed poorly against both the euro and the dollar in 2022. The fact that market rates have risen more abroad than in Sweden, combined with increased uncertainty in financial markets, probably contributed to the weakening of the Swedish krona in 2022 and at the beginning of 2023, although the krona has strengthened slightly in recent months.

Figure 1.3 KIX krona index and development of the Swedish krona against the euro and the US dollar



Source: Riksbank.

2 Macroeconomic developments

2.1 International economy

There is still great uncertainty about the duration of high inflation in both the euro area and the United States. When the pandemic restrictions eased, demand in these economies rose rapidly. Russia's full-scale invasion of Ukraine contributed to the rise in energy and food prices in 2022, while uncertainty as well as geopolitical tensions increased. However, the energy situation in Europe developed better than expected in autumn and winter 2022 due to unusually warm weather, energy efficiency and a good availability of liquefied gas from other countries. Lower energy prices have contributed to a fall in inflation in the euro area in recent months. Core inflation, i.e. inflation excluding energy, food, alcohol and tobacco, is still high and continued to rise in early 2023. In the USA, inflation has fallen slightly, but is still at a high level. To counter the high inflation rate, central banks worldwide have raised policy rates at a historically rapid pace. The rapid rises in policy rates have meant that risks to financial stability have increased, and vulnerabilities in the banking sector have come under the spotlight after several banks have encountered problems.

GDP growth in the euro area stagnated in the fourth quarter of 2022, but growth was nevertheless stronger than many analysts feared. However, the high inflation rate has affected households. Despite lower energy prices and support measures for households, household consumption fell significantly in the fourth quarter of 2022. On the other hand, household consumption in the USA continued to rise due to a strong labour market and households useing the savings they accumulated during the pandemic years. Investment has made a negative contribution to GDP growth in both the euro area and the USA.

However, the global situation ahead is very uncertain. GDP growth is expected to be weak in the euro area and the USA in 2023. The continued high inflation and rising interest rates have a constraining effect that is having a growing impact on households and businesses. Combined with the uncertainty about future developments, this is expected to subdue economic activity. Inflation is expected to fall in 2023 on account of subdued demand, fewer delivery and supply problems and lower energy prices. Falling inflation is expected to gradually increase purchasing power among households in the euro area and the USA, and growth is expected to increase during the course of 2024. Growth, particularly in the euro area, is also being supported by the re-opening of the Chinese economy. Clearly falling inflation is also expected to contribute to lower policy rates in 2024. However, there is great uncertainty, not only about the effectiveness of monetary policy, but also about how much further policy rates will be raised and how long they will remain at a high level.

2.2 The Swedish economy

Inflation in Sweden, measured as CPIF, began to increase towards the end of 2021 and reached high levels in 2022. Lower energy prices since December 2022 have contributed to a slight fall in CPIF inflation, while CPIF inflation excluding energy has continued to increase (see also Section 1.5). According to the Economic Tendency Survey, companies' price expectations are still high, which indicates that price increases will also continue to be higher than normal in the near future.

As in many other countries and to safeguard the inflation target, monetary policy in Sweden tightened during 2022 and at the beginning of 2023 (see also Section 1.5). The

Riksbank is expected to raise the policy rate further in 2023. Interest rate increases and expectations of even tighter monetary policy in the future have all contributed to rising market rates.

Rising inflation and increasing interest expenses affected activity in the Swedish economy in 2022. Economic activity weakened throughout 2022, and GDP decreased in the fourth quarter, partly as a result of lower investment and lower household consumption.

High inflation, rising interest expenses and the great uncertainty surrounding economic development are expected to reduce household consumption and corporate investment in 2023. Swedish households are highly leveraged and a large proportion of their mortgages have short interest-rate fixation periods. As a result, Swedish households are affected more and faster by interest rate rises than households in many other countries in Europe. Housing investments are also expected to fall sharply in 2023. All in all, economic activity is expected to decline in 2023 as a result of weak domestic demand (see Table 2.1).

Inflation is expected to fall in 2024 and, combined with reduced uncertainty, it is expected to contribute to a gradual increase in domestic demand. In addition, the improved economic situation in the rest of the world is expected to contribute positively to Swedish growth through increased demand for Swedish exports.

Table 2.1 Key indicators

Annual percentage change, unless otherwise stated. Outcome 2022, forecast 2023-2026

	2022	2023	2024	2025	2026
GDP	2.6	-1.0	1.2	2.6	3.2
GDP gap[1]	1.3	-1.3	-1.9	-1.0	0.0
Employment[2]	2.7	0.2	-0.2	0.9	1.3
Employment rate[3]	69.0	68.8	68.4	68.7	69.3
Hours worked[4]	2.4	0.4	-0.6	1.2	1.6
Productivity, business sector[4,5]	-0.1	-1.7	1.4	1.9	1.6
Unemployment rate[6]	7.5	7.9	8.3	8.2	7.5
Wages[7]	2.7	3.7	3.6	3.6	3.6
CPI[8]	8.4	8.8	3.6	1.9	1.9

[1] The difference between actual and potential GDP as a percentage of potential GDP.
[2] Persons, 15–74 years.
[3] Employment as a percentage of the population in the age bracket 15–74 years.
[4] Calendar-adjusted.
[5] Labour productivity measured as GDP to base price per hour worked.
[6] Per cent of the labour force, 15–74 years.
[7] Measured according to the short-term wage statistics.
[8] Annual average.

Sources: Statistics Sweden and own calculations.

The employment rate and labour force participation stabilised in the second half of 2022 following relatively strong growth after the pandemic years. Unemployment increased slightly during the autumn due to subdued demand in the economy, while the labour force continued to increase. Unemployment remained particularly high among the foreign-born, especially those born outside Europe. The employment rate was higher among men than among women. Long-term unemployment, which increased significantly during the pandemic, decreased in 2022. According to the Swedish Public Employment Service, the number of persons who had been out of work for one year or more remained at roughly the same level as before the pandemic in February this year, while the number of persons who had been out of work for two years or more remained at a heightened level.

The reduced activity in the economy is expected to affect the labour market with some delay. Employment is expected to develop weakly in 2023 among both women and men, while unemployment is expected to increase significantly in 2023 and 2024. However, companies are expected to retain personnel to a greater extent than before. The demand for labour has been strong over the past two years, which has been apparent in long recruitment periods and high shortage figures. The strong demand has made it difficult for companies to recruit the right skills, and therefore, companies are keen to retain competence. The rate of wage growth according to the short-term wage statistics is expected to be 2.7% in 2022. In 2023, new collective agreements will be signed between the social partners, affecting more than 2.3 million wage earners. The Swedish model of wage formation has historically contributed to real wage growth and also strengthened Swedish companies' competitiveness. The high inflation rate may result in wage earners expecting some compensation. In addition, wages in other countries are expected to increase more rapidly than in previous years. All in all, this is expected to contribute to a higher rate of wage growth in 2023 than in recent years. The development in real wages, i.e. the nominal rate of wage growth corrected for the Consumer Price Index (CPI), is expected to remain negative in 2023 and unchanged in 2024 as a result of high inflation. On 31 March 2023, i.e. after the forecast was finalised, the social partners in the industrial sector entered into a two-year agreement with wage increases of 4.1% in 2023 and 3.3% in 2024.

2.3 Potential macroeconomic imbalances

In its November 2022 Alert Mechanism Report, the European Commission noted a strong recovery in the early part of 2022, with the majority of EU Member States showing GDP figures at the same levels as before the pandemic. However, Russia's full-scale invasion of Ukraine and the ensuing uncertainty in the energy markets, both in terms of scope and duration, have led to a deterioration in the outlook for the EU. High inflation has meant that monetary policy has been tightened in the EU, which in turn has led to worsening financing conditions.

The recovery following the pandemic led to a continued decline in private and public indebtedness in most Member States, albeit from high levels. In 2021, the current account balance returned to levels close to those before the pandemic in many Member States, despite the fact that tourism remained at lower levels than before the pandemic in Member States that are highly dependent on the tourism industry. However, data available at the time of release of this report showed there was a marked deterioration in the current account balance for the EU in 2022, driven mainly by increased energy import prices. Housing prices in most Member States, including Sweden, increased during the pandemic and this trend continued in 2021. Households' debt ratios fell in most Member States in 2021. However, they were at higher levels than before the pandemic in some Member States. The debt ratios of companies also fell during the same period. However, an increase in bankruptcies and liquidations in some Member States was noted in 2022 as a result of worsened macroeconomic prospects. The public debt ratio also improved in 2021 but remained at higher levels than before the pandemic as a result of extensive support measures. The Commission noted that a sharp rise in wages in some Member States in 2021 could erode competitiveness. This trend had already been noted before the pandemic. Furthermore, the Commission noted that the banking sector proved to be well capitalised and resilient during the pandemic, but the worsened macroeconomic prospects make it impossible to rule out increased credit risks in the future.

The Macroeconomic Imbalance Procedure

The Macroeconomic Imbalance Procedure (MIP) is part of the European Semester and economic policy coordination in the EU. The procedure began when the Commission published the Alert Mechanism Report 2023 in November 2022. This report contained a preliminary economic analysis of Member States, including a scoreboard with indicators in areas that might constitute macroeconomic imbalances. The Alert Mechanism Report also selected 17 Member States, including Sweden, for an in-depth review. Ten of these 17 countries are the same as those that were assessed as having imbalances or excessive imbalances in the previous review cycle. As regards Sweden, the Alert Mechanism Report states that the MIP indicators showed rapidly rising housing prices, high private indebtedness and a rapid increase in youth unemployment. The in-depth reviews will be published in the Commission’s 2023 Spring Package, with the Commission’s assessment of the stability and convergence programmes.

As part of the European Semester, the Commission also submits proposal for measures to address these imbalances, known as country-specific recommendations. The information provided in the Member States’ national reform programmes and convergence or stability programmes as well as in their recovery and resilience plans will be taken into account. If the Commission considers that a Member State that is assessed to have excessive imbalances is not taking adequate measures, the Commission may recommend that the Council initiate the Excessive Imbalance Procedure, which is the corrective arm of the Macroeconomic Imbalance Procedure.

Housing prices

The November 2022 Alert Mechanism Report shows that housing prices in Sweden increased by 8.1% in 2021 – above the scoreboard threshold of 6%. In addition, the Commission considers that housing in Sweden was overvalued in 2021. However, the Commission notes that a correction of housing prices began in 2022 as a result of interest rate rises. To address the imbalances in the housing market in Sweden identified by the Commission, a series of measures and reforms have been implemented aimed at increasing supply and mobility in the housing market.

Household indebtedness

Households’ high indebtedness entails risks, especially a risk to macroeconomic stability since highly leveraged households may amplify a downturn in the economy if many of them choose to reduce their consumption so as to be able to pay their loans or increase their savings. A number of measures have been taken in recent years in order to strengthen the resilience of the financial system and reduce the risks associated with household indebtedness. The measures taken have been effective. According to the Swedish Financial Supervisory Authority, they have meant that the households affected by the measures buy cheaper homes, borrow less and amortise more than they would otherwise have done. Information on a number of the measures in this area is also given in Sweden’s National Reform Programme 2023. The rate of increase in household debt slowed for several years up until the pandemic. During the second half of 2022, the rate of increase in households’ debt level declined and, looking at 2022 as a whole, households’ borrowings as a share of disposable income decreased for the first time since 2012.

Youth unemployment

Youth unemployment in Sweden is higher than the EU average. However, a majority, more than 60%, of unemployed young people in Sweden are full-time students looking for work in addition to their studies. The number of young people (aged 15–24 years) not in employment, education or training (NEET) decreased gradually in 2009–2019 and showed a clear decline to historically low levels in 2021. Compared to other countries, the NEET share is at a low level and below the EU average.

Measures have been taken to push back long-term and youth unemployment. They include measures in the central government budget for 2023 to tackle unemployment, both among young people and among people who already had a weak link to the labour market before the pandemic. The single most important factor for getting a job is an upper secondary qualification. Since 2017 anyone who does not have an upper secondary qualification is entitled to study in municipal adult education, and to make municipalities better able to offer vocationally oriented upper secondary programmes for shortage occupations, additional resources are provided for regional VET programmes and for bridging programmes, in which the programme is combined with Swedish for immigrants or Swedish as a second language.

3 General government finances

3.1 Accounting policies

This section presents the forecast for general government finances given in the Spring Fiscal Policy Bill for 2023 (Govt Bill 2022/23:100). The reporting of general government revenue and expenditure is based on the European System of Accounts (ESA 2010). The Government's reporting, which is also used by the National Institute of Economic Research (NIER), differs in certain respects from ESA 2010 (see Table 3.1). The main differences are that parts of sales revenue from general government activities is recorded on the expenditure side as a deduction item among general government consumption expenditure, while these revenues are recorded on the revenue side in national statistics according to ESA 2010. But there is no difference in the calculation of net lending. A detailed report of general government finances in accordance with ESA 2010 (and EDP, i.e. the Excessive Deficit Procedure) is given in Table C.2a in Appendix C.

Table 3.1 General government finances in accordance with the accounting standards in the Spring Fiscal Policy Bill and ESA 2010

Per cent of GDP

	2022	2023	2024	2025	2026
Spring Fiscal Policy Bill					
Revenue	48.1	47.5	46.7	46.7	46.6
Expenditure	47.3	47.9	47.4	46.5	45.2
Net lending	0.7	-0.4	-0.6	0.2	1.4
ESA 2010					
Revenue	48.9	48.1	47.2	47.1	46.9
Expenditure	48.1	48.5	47.9	46.9	45.5
Net lending	0.7	-0.4	-0.6	0.2	1.4

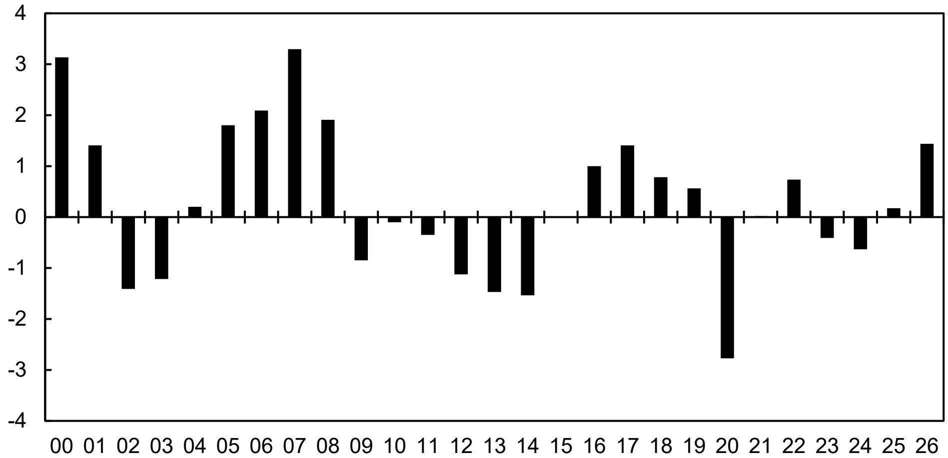
Sources: Statistics Sweden and own calculations.

3.2 Development of general government finances

After the pandemic, the economy recovered rapidly in 2021 and 2022 (see Figure 3.1), which resulted in strong growth in tax revenue. This development, combined with high dividends from income from capital in state-owned enterprises, resulted in a rapid strengthening of general government finances compared to 2020. In 2023, the economic downturn is expected to result in a slower rate of increase in tax revenue in particular, and in net lending moving from a surplus to a deficit. However, the weakening of general government finances is being limited by the end of temporary support measures introduced due to the pandemic.

Figure 3.1 General government net lending 2000–2026

Per cent of GDP



Sources: Statistics Sweden and own calculations.

The forecast economic trends will also weigh heavily on general government finances in 2024 and 2025. Furthermore, the forecast is based on the principle that only measures that have been adopted and announced are included, which in itself entails a strengthening of general government finances for the years after 2023. All in all, this means that net lending is expected to increase, mainly from 2025 (see Figure 3.1 and Table 3.2).

Table 3.2 General government finances

Per cent of GDP if not otherwise stated

	SEK, billion 2022	2022	2023	2024	2025	2026
Revenue	**2 848**	**48.1**	**47.5**	**46.7**	**46.7**	**46.6**
Taxes and charges	2 459	41.5	41.4	40.6	40.5	40.6
Household direct taxes	688	11.6	11.4	11.2	11.2	11.3
Corporate direct taxes	197	3.3	3.2	3.2	3.1	3.1
Employers' contributions	301	5.1	5.1	5.1	5.1	5.1
Indirect taxes	1 274	21.5	21.7	21.1	21.1	21.1
Income from capital	104	1.8	1.4	1.5	1.5	1.5
Other revenue	285	4.8	4.7	4.7	4.7	4.6
Expenditure	**2 804**	**47.3**	**47.9**	**47.4**	**46.5**	**45.2**
Transfer payments[1]	988	16.7	16.9	16.2	15.7	15.4
Final consumption expenditure	1 486	25.1	25.6	25.3	24.9	24.3
Gross fixed capital formation	289	4.9	4.7	5.2	5.2	4.7
Interest expenditure	39	0.7	0.7	0.7	0.7	0.7
Net lending	**44**	**0.7**	**-0.4**	**-0.6**	**0.2**	**1.4**
Primary net lending	74	1.2	0.1	-0.1	0.8	2.0
Consolidated gross debt	**1 955**	**33.0**	**31.0**	**31.0**	**29.8**	**27.7**
Net wealth	**1 512**	**25.5**	**26.5**	**26.4**	**26.8**	**28.1**

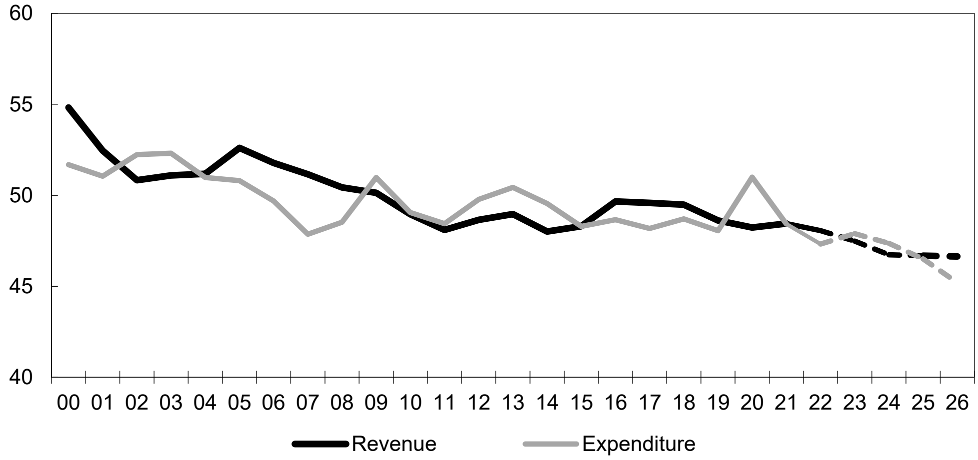
[1] Including unallocated expenditure.

Sources: Statistics Sweden and own calculations.

Both general government revenue and expenditure are expected to increase between 2021 and 2023. This is because, according to guidelines from Eurostat, the funds that are returned from Affärsverket svenska kraftnät (Svenska kraftnät – the Swedish national transmission network) to electricity consumers are to be classified as tax payments to the state from the public enterprise while also being recorded as transfers to electricity consumers at the time when the decisions on electricity subsidies were made. This means that central government revenue and expenditure increased by SEK 17.5 billion in 2022 and is expected to increase by approximately SEK 40 billion in 2023 compared to 2021. However, this reclassification is neutral for general government net lending.

Figure 3.2 General government revenue and expenditure 2000–2026

Per cent of GDP



Sources: Statistics Sweden and own calculations.

The weakening of general government net lending between 2022 and 2023 is mainly driven by local government sector finances. Net lending in central government and the old-age pension system are expected to remain almost unchanged. The expected strengthening of general government net lending from 2025 can be attributed to a weak trend in central government expenditure (see Figure 3.2 and Table 3.3).

Table 3.3 Net lending and the central government budget balance

Per cent of GDP

	2022	2023	2024	2025	2026
General government net lending	**0.7**	**-0.4**	**-0.6**	**0.2**	**1.4**
Central government	0.0	-0.2	-0.5	0.1	1.2
Old-age pensions system	0.3	0.3	0.3	0.4	0.5
Local government sector	0.4	-0.5	-0.5	-0.4	-0.3
Central government budget balance	-0.9	0.4	-0.1	0.1	0.1
Central government debt	17.4	16.4	16.2	15.3	13.6

Sources: Statistics Sweden, National Financial Management Authority and own calculations.

3.3 Net financial wealth and consolidated gross debt

The general government consolidated gross debt (Maastricht debt) is defined in EU regulations and is the debt concept used to assess Member States' general government finances within the framework of the Stability and Growth Pact. For Sweden, this definition means that the debt consists of the consolidated central government debt as well as local government sector debt and the old-age pension system's debt in the capital markets, less the government bonds held by the AP funds (the Swedish National Pension Funds).

Before Sweden's accession to the EU on 1 January 1995, the consolidated gross debt amounted to more than SEK 1 200 billion, corresponding to close to 70% of GDP. Since then its nominal value has increased by around SEK 750 billion, and was just over SEK 1 950 billion at the end of 2022. However, the debt has fallen sharply as a share of GDP since 1994 and amounted to just under 33% of GDP at the end of 2022 (debt ratio).

The gross debt is expected to continue to decline in 2023, mainly as a result of the Riksbank's ongoing repayment of currency loans. Combined with GDP growth, this means that the debt ratio is expected to continue to decline rapidly in 2023 compared to 2022. In 2024, the gross debt is expected to increase in proportion to GDP, and the debt ratio is then expected to decrease as a result of a weak increase in expenditure. The reduction in expenditure as a share of GDP follows from the assumption that the calculations are based only on measures proposed or announced to date.

General government financial wealth is increasing gradually

The net financial wealth of the general government sector consists of non-current production assets and financial assets, less liabilities.

General government net financial wealth is positive, as the assets of the old-age pension system in the AP funds exceed the negative balances reported by central government and the local government sector. The total debt includes the commitments of central government and the local government sector for defined-benefit occupational pensions earned as of 1998. Like the premium pension system, the total liabilities for the funded defined-contribution occupational pensions are not included in the general government sector, but are instead reported in the insurance sector.

The financial assets of the old-age pension system fell sharply in 2022 compared to 2021, which resulted in a decline in the net financial wealth of general government by around 5% of GDP. Instead, net wealth is expected to increase by around 1% as a percentage of GDP this year, as the assets of central government and the old-age pension system are expected to increase. Net financial wealth is expected to grow in proportion to GDP in 2024 and subsequently increase gradually up to the end of 2026 in line with net lending.

3.4 General government net lending objective

A deviation from the surplus target is considered to exist if the structural balance deviates clearly from the target level in the present year or the coming budget year. The deviation from the target may have a number of causes, and should not be equated with a failure of policy design or being incompatible with the fiscal policy framework.

An eight-year retrospective average of actual net lending is used in order to evaluate ex post whether the surplus target has been attained, and to detect systematic deviations. Accumulated deviations in net lending that lead to undesirable levels of debt can also motivate an adjustment in the target level for lending at the next review of the surplus target. However, the retrospective average is not intended to govern fiscal policy in the short term.

As of 2019, on average the surplus target is one third of 1% of GDP over an economic cycle. Formulating the objective for net lending as an average over an economic cycle, instead of as an annual target, is justified for reasons of stabilisation policy. If the target was a set value in each individual year, fiscal policy would need to be contractionary also in an economic downturn to ensure that the annual target was met. Fiscal policy would thus amplify cyclical fluctuations instead of stabilising them. However, formulating the target as an average over one economic cycle makes it more difficult to monitor whether fiscal policy is in line with the target since it is difficult to assess when an economic cycle begins and ends, as well as the specific cyclical situation that the economy finds itself in.

Structural balance

Despite considerable uncertainty about the structural balance, this measure, calculated according to established methods, is considered to be the most appropriate measure for assessing whether the present level of net lending and fiscal policy are compatible with the surplus target. The use of the structural balance as the main indicator in the forward-looking monitoring of the surplus target is also judged to be consistent with EU law. Table 3.4 presents outcomes and forecasts of general government net lending. The structural balance in the present year and the following year is used to assess the achievement of the surplus target from a forward-looking perspective.

The structural balance is estimated to be 0.0% of potential GDP in 2023. However, due to the uncertainty in the estimate of the structural balance, such a small difference in relation to the target does not entail any clear deviation. No clear deviation is expected to occur in 2024 either. The Government thus considers that the orientation of fiscal policy is in line with the surplus target.

It is important to bring inflation down to enable balanced economic development. Fiscal policy and monetary policy need to pull in the same direction so that inflation can be subdued with as few negative consequences for the economy as possible. High inflation over a long period of time increases the risk that long-term inflation expectations will rise, which can have major adverse effects on the economy and on individuals. An expansionary fiscal policy would probably result in monetary policy needing to be tight for a long time to come, leading to poorer growth in employment. In this situation, the Government has chosen to pursue a neutral fiscal policy, which means that it will neither stimulate nor subdue demand in the economy.

Table 3.4 General government net lending and indicators for reconciliation against the net lending target

Per cent of GDP if not otherwise stated

	2022	2023	2024	2025	2026
Net lending[1]	**0.7**	**-0.4**	**-0.6**	**0.2**	**1.4**
Retrospective eight-year average	0.2				
Structural balance[1,2]	0.0	0.0	0.6	1.1	1.7

[1] The forecast takes into account only changes to tax regulations that have been adopted and announced and government expenditure.
[2] Per cent of potential GDP

Sources: Statistics Sweden and own calculations.

Retrospective eight-year average

The retrospective average of net lending for 2015–2022 lies just under today's target level.

The medium-term budgetary objective (MTO) under the preventive arm of the Stability and Growth Pact

On 20 March 2020, the general escape clause in the Stability and Growth Pact was activated. This clause facilitates the coordination of budgetary policies in times of severe economic downturn and permits a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. In March 2023, the Commission announced that the general escape clause would be deactivated for 2024 and published its fiscal policy guidance for Member States in the development of their stability and convergence programmes. The Commission intends to present differentiated, qualitative and quantitative country-specific recommendations during spring 2023. The Commission also intends to base the recommendations partly on its orientations for a reform of the EU economic governance framework of November 2022. This is justified by the fact that 2024 may be regarded as a transitional year between the existing framework and a new reformed framework. The country-specific recommendations will be in line with current legislation for the Stability and Growth Pact. The recommendations will also encourage the phasing out of energy price measures and the protection of nationally funded investments and ensure the effective use of the RRF.

Sweden's medium-term budgetary objective (MTO) is that the structural balance should not fall below −1% of potential GDP. The European Commission's latest forecast, published in November 2022, estimated the structural balance in Sweden at −0.1% of potential GDP in 2022, with an increase to 1.0% expected in 2023 (see Table 3.5).

Table 3.5 Structural balance, European Commission

Per cent of potential GDP

	2022	2023	2024
Structural balance	**-0.1**	**1.0**	**1.1**
Medium term budgetary objective (MTO)	-1.0	-1.0	-1.0

Source: European Commission's forecast (November 2022).

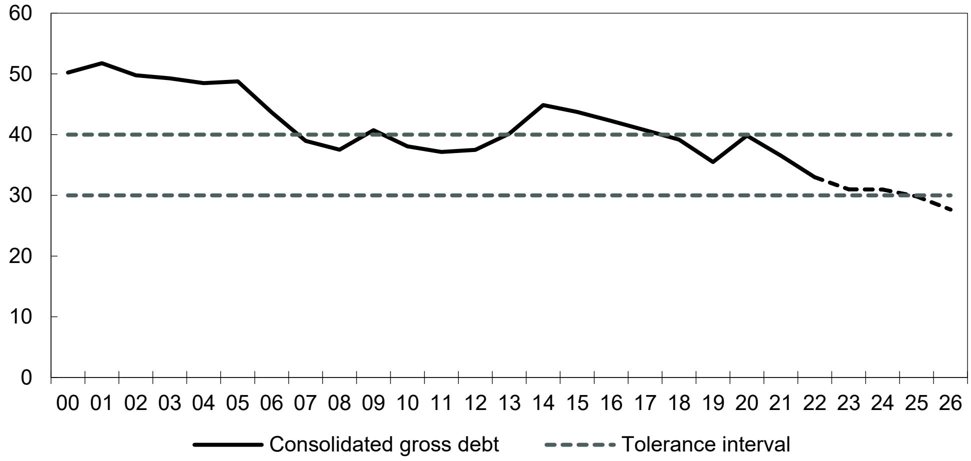
3.5 Monitoring of the debt anchor

The fiscal policy framework requires the Government to give an account each year in the Spring Fiscal Policy Bill of the development of general government consolidated gross debt. If this debt differs from the debt anchor, i.e. 35% of GDP, by more than 5% of GDP, according to the outcome of the national accounts for the previous year or according to the forecasts for the present year or the subsequent budget year in the Spring Fiscal Policy Bill, the Government must submit a written communication to the Riksdag in conjunction with the Spring Fiscal Policy Bill being presented. In that written communication, the Government must give an account of the cause of the deviation and how the Government intends to deal with it.

According to the current forecast, the gross debt as a proportion of GDP is expected to be within the debt anchor's tolerance interval for 2022, 2023 and 2024 (see Figure 3.3). However in the forecast, which is based solely on fiscal policy that has been announced or adopted, the gross debt is expected to fall further in the latter part of the forecast period to just below 28% of GDP in 2026.

Figure 3.3 Consolidated gross debt

Per cent of GDP. Outcome 2000–2022, Forecast 2023–2026



Sources: Statistics Sweden and own calculations.

3.6 Monitoring of the expenditure ceiling

The multi-year expenditure ceiling is intended to support the credibility of economic policy and is an important budgetary policy commitment for the Riksdag and the Government.

The Riksdag decided to raise the level of the expenditure ceiling for 2023 and 2024 and the estimated level for 2025 following the Government's proposal in the Budget Bill for 2023 (Govt Bill 2022/23:1). Normally, expenditure ceiling levels that have already been decided are not amended. However, there are no formal obstacles to the Riksdag deciding to amend a previously set expenditure ceiling level. For example, the level may be changed if fiscal policy needs to be adapted to significant new external circumstances, but this should only be done in very rare instances. The level may also be adjusted after an election so as not to limit the new Government's options to change fiscal policy. Without such an arrangement, the new Government's options for making changes to fiscal policy would be greatly restricted.

The Government considers that the budgeting margin is sufficient to address the uncertainty in the assessment of expenditure growth in 2023–2025 (see Table 3.6). Compared to the forecast in the Budget Bill for 2023, the budgeting margin is estimated to be SEK 1 billion greater in 2023, SEK 20 billion smaller in 2024 and SEK 26 billion smaller in 2025.

In the Spring Fiscal Policy Bill for 2023 (Govt Bill 2022/23:100), the Government makes an initial assessment of the level of the expenditure ceiling for 2026. The Swedish Budget Act (2011:203) requires the Government to propose a level for the expenditure ceiling three years' hence in the Budget Bill. In compliance with the Swedish Budget Act, the Government will present a proposal for the 2026 expenditure ceiling in the Budget Bill for 2024.

Table 3.6 Expenditure ceiling 2023–2026

SEK billion, unless otherwise stated

	2023	2024	2025	2026
Expenditure ceiling	1 665	1 745	1 825	1 860
Per cent of GDP	27.0	27.4	27.4	26.5
Ceiling-limited expenditure	1 594	1 663	1 689	1 691
Per cent of GDP	25.9	26.1	25.4	24.1
Budgeting margin	71	82	136	169
Per cent of GDP	1.2	1.3	2.0	2.4

Note: The budgeting margin is the difference between an expenditure ceiling and the ceiling-restricted expenditure.

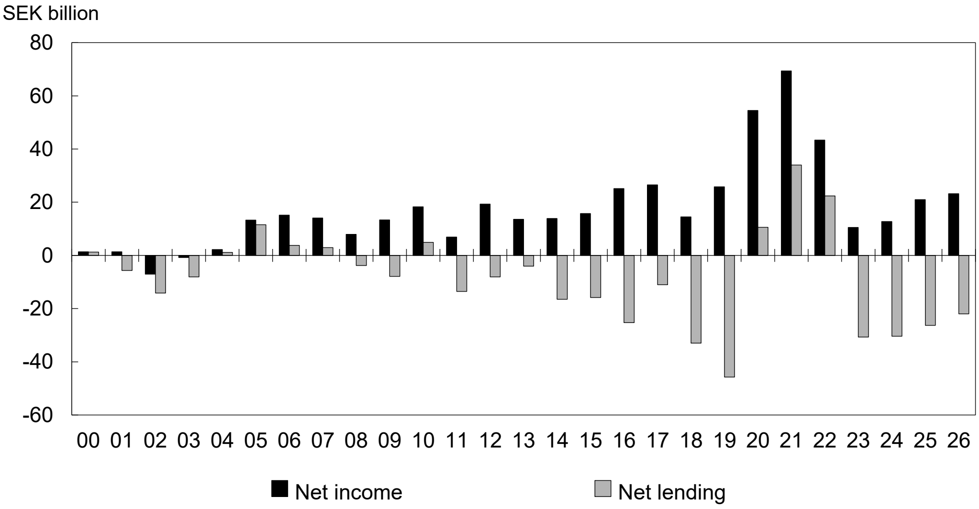
Source: Own calculations.

3.7 Monitoring the requirement of sound financial management in the local government sector and the local government balanced budget requirement

It is net income that determines whether each municipality and region meets the balanced budget requirement (see Section 1.1). The balanced budget requirement sets a minimum level, but net income generally needs to be higher to fulfil the sound financial management requirement in the Local Government Act (2017:725). Each municipality and region decides itself what sound financial management means.

There are accounting differences between the local government accounts and the National Accounts that can amount to tens of billions of kronor for a particular year (see Figure 3.4). The difference between net income and net lending is largely explained by the inclusion of investments, but not depreciation and amortisation, as expenditure in the calculation of net lending. Net income excludes investments but does include depreciation and amortisation. There may also be differences in the accrual accounting of various items of revenue and expenditure between net lending and net income.

Figure 3.4 Local government net income and net lending



Note: Local government accounting has been altered as of 2019, and this means that the metric net revenue before extraordinary items has been replaced with the metric net income after financial items. So the figure shows net revenue before extraordinary items up to and including 2018, but net income after financial items thereafter.

Sources: Statistics Sweden and own calculations.

The Local Government Act requires municipalities and regions to have sound financial management in their operations. One consequence is that municipalities and regions have to set their own financial targets and be accountable for having long-term sustainable finances. It has long been a fundamental principle that each generation has to bear its own costs. One commonly used target is that net income should correspond to a certain proportion of combined tax revenue and general central government grants. The annual reports of municipalities and regions have to contain an assessment of whether the balanced budget requirement has been met and of whether targets for sound financial management have been achieved. As of 1 January 2013, municipalities and regions are permitted to build up local regulatory reserves as part of their equity. This means that surpluses can be set aside in good times for use if deficits arise as a result of an economic downturn.

Development of net income in local government

In 2022, the local government sector reported net income after financial items of SEK 43 billion (see Figure 3.4). The high net income is mainly explained by revenue having increased significantly more than costs in 2020 and 2021. Costs grew more than revenue in 2022, but not to the extent that the net income in 2022 remained higher than the average since 2000. The Government's forecast assumes that the local government sector's net income after financial items will be SEK 11 billion in 2023 and SEK 13–23 billion in 2024–2026.

3.8 Central government guarantees

A central government guarantee commitment means that central government provides a guarantee for another party's payment commitment, which entails a financial risk for central government. The Budget Act enables the Government to decide on lending and to issue credit guarantees and make other similar commitments for that purpose, not exceeding the amount determined by the Riksdag. The Act provides that a fee corresponding to the expected cost to central government of the commitment is charged, unless otherwise decided by the Riksdag. The expected costs of loans and guarantees consist of the expected losses and administrative costs associated with the commitment. Expected loss is a statistical measure of the credit losses that estimates show may arise because of a certain probability that the guarantee holder or the borrower will not meet their commitment. These guarantee and loan activities are thus expected to be self-financing in the long term. These principles for the provision of loans and guarantees are called the central government loan and guarantee model. Examples of major guarantee commitments covered by this guarantee model are export credit guarantees and credit guarantees for infrastructure projects.

The Riksdag can decide to exempt specific guarantees from the guarantee model. There are guarantees that are regulated in special acts or have terms that differ from those specified in the Budget Act on some other ground. The fees for such guarantees are usually stipulated directly in the relevant act and can be established on grounds other than the full recovery of the anticipated costs. The deposit insurance scheme, which is central government's largest guarantee commitment, and the investor compensation scheme are examples of guarantees regulated under special arrangements. Callable capital for international financial institutions is not covered by the guarantee model either.

Composition of the guarantee portfolio

Table 3.7 presents a summary of issued guarantees and commitments. At the end of 2022 the central government guarantee portfolio amounted to SEK 2 657 billion. The largest commitments were the deposit insurance scheme (SEK 2 131 billion) followed by the credit guarantees (SEK 305 billion) and guarantees for capital injections (SEK 216 billion).

Table 3.7 Central government guarantee commitments and pledges, 31 December 2022

SEK billion

	Guarantees	Pledges
Deposit insurance scheme[1]	**2131**	
Investor compensation[2]		
Credit guarantees	**305**	**33**
of which		
– export credit guarantees[3]	*277*	*30*
– credit guarantees in foreign aid	*0*	
– independent guarantees[4]	*8*	*1*
– infrastructure	*9*	
– housing credits	*6*	*0*
– international commitments	*3*	
– green guarantees	*1*	*1*
– guarantees to Corporations	*1*	
– other		
Guarantees for capital injections	**216**	
of which		
– capital cover guarantees[5]	*7*	
– subscription guarantees	*0*	
– guarantee capital[6]	*197*	
– guarantees to the European Union thru SURE	*9*	
– guarantees to the European Investment Bank's guarantee fund in support of small- and medium-sized enterprises and mid-caps	*2*	
Pension guarantees[7]	6	
Total	**2657**	**33**

[1] The commitment for the deposit insurance scheme is as of 31 December 2022.
[2] For the investor compensation scheme there is a lack of data regarding the scope of the protected assets.
[3] The amounts relate to both export credit guarantees and investment guarantees. The amount includes the Swedish Export Credits Guarantee Board's (EKN) temporary solution of working capital credit guarantees to large companies in the amount of SEK 28 billion.
[4] The guarantee commitment for independent guarantees no longer includes the commitment concerning the EIB's lending under Lomé IV bis. and the Cotonou Agreement, which also relates to the comparative figure. This commitment of EUR 92 million is reported under international commitments.
[5] Two capital adequacy guarantees are reported by the Swedish Transport Administration. They apply to Arlandabanan Infrastructure AB and Svensk-Danska Broförbindelsen SVEDAB AB.
[6] The Swedish Transport Administration reports the callable capital for Eurofima from 2015 onwards.
[7] The commitment for pension guarantees is as of 31 December 2022.

Source: Swedish National Debt Office.

Expected losses in the central government guarantee portfolio

The responsible authorities continuously assess the expected losses for the guarantees covered by the guarantee model. The authorities make provisions for the expected losses on the liabilities side of their balance sheets.

To compile a result for the part of guarantee activities that covers guarantees for which provisions are made, an analysis is carried out of the relationship between provisions for expected losses and the assets held in guarantee activities. This comparison shows that for the part of the guarantee portfolio covered by the guarantee model, the provisions for expected losses are amply covered by the fees already paid (reported as guarantee assets in Table 3.8).

Table 3.8 Comparison between provisions for expected costs and assets in the guarantee operations as of 31 December 2022 (excluding the deposit insurance scheme, investor compensation scheme, bank guarantee programme and callable capital)

SEK billion

Authority	Guarantee commitment	Provisions for expected costs	Guarantee assets
Swedish National Debt Office[1]	19	1	1
The Swedish Export Credits Guarantee Board[2]	277	14	38
Swedish International Development Cooperation Agency[3]	10	1	3
The Swedish National Board of Housing, Building and Planning	6	0	2
Total	**311**	**16**	**44**

[1]The National Debt Office's exposure does not include the deposit insurance scheme, investor compensation scheme, callable capital or other commitments where provisions are not made for expected losses.

[2]EKN reinsures part of its exposure. Through reinsurance, EKN has reduced provisions for expected guarantee losses by SEK 2 475 million from SEK 14 197 million to SEK 11 722 million.

[3]The exposure for the Swedish International Development Cooperation Agency includes a credit guarantee concerning EIB's lending under Lomé IV bis. and the Cotonou Agreement. Commitments are not included in guarantees issued.

Source: Swedish National Debt Office.

Annual analysis of risk of large losses

The Swedish National Debt Office is tasked with performing a combined analysis each year of the risk of large losses in the central government guarantee and lending portfolio with the Swedish Export Credits Guarantee Board, the Swedish Board for Study Support, Sida (Swedish International Development Cooperation Agency), the Swedish National Board of Housing, Building and Planning and the other agencies concerned. The term large losses' is defined by the National Debt Office as losses of at least SEK 20 billion in the coming five years. The risk of large losses in the regular portfolio is judged to be moderate. This is a somewhat higher level of risk compared to previous years. The increased risk level is mainly explained by an increased proportion of exposures with a high or very high credit risk. The risks of large losses associated with the deposit insurance scheme are expected to remain at the same moderate levels as last year.

4 Alternative scenarios and comparison with Sweden's Convergence Programme 2022

4.1 Alternative scenarios

There is great uncertainty about economic development in the coming years. The uncertainty is mainly linked to the high inflation rate and how entrenched it will become. Two alternative scenarios illustrate how the Swedish economy may be affected if inflation develops in a way other that predicted in the forecast.

In the first scenario, inflation in both Sweden and abroad is assumed to be higher than in the main scenario. Part of the large increase in inflation in 2022 is explained by a sharp rise in prices for energy, such as electricity and fuel prices. Another reason is that many business have in turn raised their prices as a consequence of factors such as higher energy costs, which are known as indirect effects. This can include rising production and heating costs, which have led businesses to increase the prices of their goods and services, such as food and transport services. It is difficult to assess the size of indirect effects and how long they will last. In this scenario, the indirect effects are assumed to be greater than in the main scenario, which contributes to higher inflation. In addition, wages are assumed to rise more than in the main scenario, which also contributes to higher inflation. All in all, the price pressure in the economy is assumed to be higher than in the main scenario (see Table 4.1). The high inflation rate is also expected to continue for an extended period of time, leading to higher long-term inflation expectations. The central banks will then further tighten monetary policy and the effect of the tightening on demand is greater than in the main scenario. Compared to the main scenario, Swedish GDP falls more and the recovery takes longer. The effects on GDP become particularly apparent in 2024 as monetary policy acts with a time lag. Unemployment rises further and remains at a higher level. All in all, the recession in Sweden is expected to be both deeper, in particular in 2024, and more protracted than in the main scenario.

In this scenario, the higher inflation rate is expected to mean that general government revenue as well as expenditure will increase more than in the main scenario. Revenue from value added tax rises as private consumption and investments increase at current prices as a result of higher inflation. At the same time, expenditure on public consumption and transfers is also expected to be higher. All in all, this means that net lending will worsen by at most 0.3% of GDP in 2025.

In the second scenario, inflation in Sweden and abroad is expected to fall faster than in the main scenario (see Table 4.1). This could happen, for example, if energy prices fall more than in the main scenario or if the indirect effects are less than expected. In this scenario, weather conditions are expected to be favourable, and the transition to alternative energy sources in Europe is expected to proceed at a faster pace, leading to lower energy prices for next winter. The indirect effects are also expected to be significantly less in this scenario, which means lower prices. All in all, this is expected to lead to inflation being lower than in the main scenario. The central banks therefore do not need to tighten monetary policy to the same extent. This results in higher demand and stronger growth in Swedish GDP in 2023. In addition, the effects on the labour market are smaller and unemployment is lower. The recession is thus milder and shorter than in the main scenario.

The impact on general government finances is relatively small in this scenario as well. Compared to the main scenario, net lending is expected to strengthen, mainly in 2024 and 2025. This follows from the expected lower inflation, which in turn entails in particular lower expenditure on consumption and transfers. General government finances are thus strengthened by at most 0.3% of GDP in relation to the main scenario.

Table 4.1 Alternative scenarios

Percentage change unless otherwise stated. The forecast according to the main scenario is shown in bold for each variable on the basis of previously adopted and announced reforms and reforms now proposed and announced[1]

	2023	2024	2025	2026
GDP[2]	**-0.8**	**1.2**	**2.8**	**3.0**
Scenario 1: Deeper economic downturn	-1.2	0.7	2.9	3.6
Scenario 2: Milder economic downturn	-0.5	1.8	2.6	2.3
GDP-gap[3]	**-1.3**	**-1.9**	**1.0**	**0.0**
Scenario 1: Deeper economic downturn	-1.7	-2.9	-1.9	-0.3
Scenario 2: Milder economic downturn	-1.0	-1.0	-0.3	0.0
Unemployment[4]	**7.9**	**8.3**	**8.2**	**7.5**
Scenario 1: Deeper economic downturn	8.0	8.6	8.7	7.7
Scenario 2: Milder economic downturn	7.9	8.2	7.8	7.5
CPIF[5]	**5.9**	**2.2**	**2.0**	**2.0**
Scenario 1: Deeper economic downturn	7.2	3.8	2.2	2.0
Scenario 2: Milder economic downturn	5.1	1.9	2.0	2.0
Net lending[6]	**-0.4**	**-0.6**	**0.2**	**1.4**
Scenario 1: Deeper economic downturn	-0.5	-0.8	-0.1	1.3
Scenario 2: Milder economic downturn	-0.3	-0.4	0.5	1.6

[1] The alternative scenarios also take account of supplementary monetary policy measures.
[2] Calendar-adjusted data.
[3] Difference between actual and potential GDP in per cent of potential GDP.
[4] Annual average in per cent.
[5]CPI with fixed interest rate.
[6] Per cent of GDP.

Sources: Statistics Sweden and own calculations.

4.2 Comparison with the 2022 Convergence Programme

GDP grew less than was forecast in the 2022 Convergence Programme (see Table 4.2). The consequences of Russia's full-scale invasion of Ukraine were difficult to predict. Energy and food prices rose in 2022, while uncertainty as well as geopolitical tensions increased. Inflation increased more than expected, both in Sweden and abroad. In addition, the Riksbank and other central banks raised the policy rate faster than expected. High inflation and rising interest expenses subdued domestic demand in particular more than expected.

Table 4.2 Comparison with the 2022 Convergence Programme

Annual percentage change and per cent of GDP. Outcome 2022, forecast 2023–2026

	2022	2023	2024	2025	2026
Real GDP growth, percentage change					
Convergence Programme 2022	3.1	1.6	1.6	1.7	–
Convergence Programme 2023	2.6	-1.0	1.2	2.6	3.2
Difference, percentage points	-0.5	-2.6	-0.4	0.9	–
General government net lending, per cent of GDP					
Convergence Programme 2022	-0.5	0.7	0.8	1.4	–
Convergence Programme 2023	0.7	-0.4	-0.6	0.2	1.4
Difference, percentage points	1.3	-1.1	-1.5	-1.2	–
General government gross debt, per cent of GDP					
Convergence Programme 2022	33.5	30.7	28.9	26.4	–
Convergence Programme 2023	33.0	31.0	31.0	29.8	27.7
Difference, percentage points	-0.6	0.3	2.1	3.4	–

Note: The amounts are rounded off and therefore do not always sum to the total.

Sources: Statistics Sweden and own calculations.

Net lending was strengthened in 2022 compared to the projections in the 2022 Convergence Programme. This deviation is mainly related to income from tax on capital and consumption that grew more strongly than expected. Instead, the forecast for net lending has been revised downwards for the coming years, which follows the expected weaker trend in economic growth. General government consolidated gross debt (Maastricht debt) has been revised in line with the accumulated change in net lending.

5 Long-term sustainability of fiscal policy

In this section, the Government presents an assessment of whether fiscal policy is sustainable in the long term. The assessment is based on a projection of the macroeconomy and of general government finances in the long term, given assumptions about population change, employment and growth, etc. The aim is to become aware in good time that fiscal policy is not sustainable so that measures to restore sustainability can be taken as early as possible.

5.1 What is meant by fiscal policy being sustainable?

The assessment of whether fiscal policy is sustainable or not is based on a projection of general government revenue and expenditure far into the future. If fiscal policy is sustainable, the rules that govern general government revenue and expenditure can remain unchanged over the long term without this resulting in growing deficits and excessive general government indebtedness. The purpose of the analysis in this section is to assess under what conditions the present regulatory framework for general government revenue and expenditure is sustainable and under what conditions it is unsustainable, i.e. must be changed.

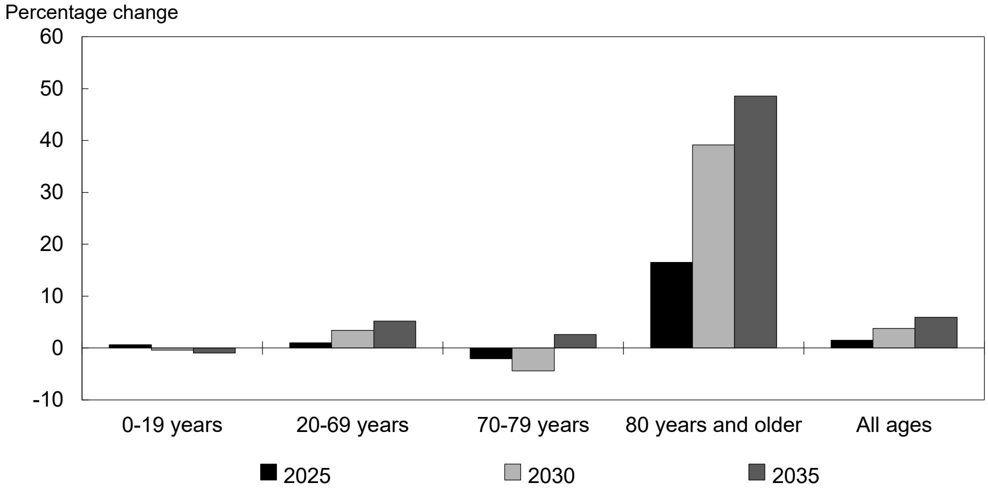
The analysis is based on fiscal policy being unchanged and disregards the fact that, in reality, it is constantly being adapted to accomodate quantitative targets and restrictions such as the surplus target and the expenditure ceiling. If fiscal policy is instead adapted so that general government net lending is in line with the surplus target, the financial position of general government is stable as a proportion of GDP. This means that, in itself, fiscal policy that is pursued in line with the surplus target ensures that the general government gross debt does not develop in an unsustainable way.

5.2 Long-term challenges for fiscal policy

At the end of 2022, Sweden's population was just over 10.5 million people. According to Statistics Sweden's population projection in April 2022, there will be over 620 000 more people in Sweden at the end of 2035, which is an increase of just under 6% (see Figure 5.1). The increase in people aged 70 and over is almost as high as that in people of working age (20–69 years). These age brackets are expected to increase by approximately 309 000 and approximately 336 000 people, respectively. The number of people aged 80 and over is expected to increase by approximately 283 000 during the same period, or by almost 50%, which is considerably more than other groups. On the other hand, the number of children and young people (0–19 years) is expected to decrease by around 24 000 by 2035.

Statistics Sweden makes a more extensive analysis of expected future population growth every third year, most recently in 2021. In the intervening years, only follow-ups and minor revisions are carried out. Compared with the projection from 2021, population growth until 2035 has been revised upwards by around 27 000. This is partly due to the fact that the population outcome in 2022 was somewhat higher than expected. It should be noted that people who have fled the war in Ukraine and have obtained a residence permit under the Temporary Protection Directive[1] are generally not entered in the population register and are therefore not included in the population projection.

Figure 5.1 Population changes compared with 2022



Source: Statistics Sweden.

5.3 A scenario for long-term development

The projection of general government revenue and expenditure presented here extends up to and including 2120 and is based on Statistics Sweden's population forecast from April 2022.

For tax-financed services, it is assumed that the standard, expressed as resource input per user, is unchanged. For example, in the future, a 90-year-old is estimated to receive the same number of hours of health and social care as well as access to areas of premises of the same size and the same other assistive devices, etc. as a 90-year-old does today. The compensation level, i.e. compensation per person entitled to compensation, in all transfer systems apart from the pension system is assumed to increase in line with average income. For the pension system, a separate calculation is done based on its rules. This calculation includes the effect of the changed age limits in the pension system and related social security systems and the tax and social security contributions system adopted by the Riksdag in May 2022 (Govt Bill 2021/22:121, Report 2021/22:SfU25, Riksdag Comm. 2021/22:331). The changes adopted mean that the respective minimum ages for the old-age pension and guarantee pension will be increased by one year in 2023 and by another year in 2026, and that several age limits in the pension system and related social security systems and the tax and social security contributions system will be linked to the benchmark age for the pension system from 2026. The benchmark age will increase in line with life expectancy. Apart from the changed age limits, it is assumed that the present tax rules are unchanged.

The projection focuses on the general government commitment as a whole, and the general government sector (central government, the old-age pension system and the local government sector) is regarded as a single entity. There is great uncertainty in the projection and it should not be seen as a forecast of the most likely development, but should instead be viewed as an impact assessment whose purpose is to describe the effect on general government finances of the assumptions made.

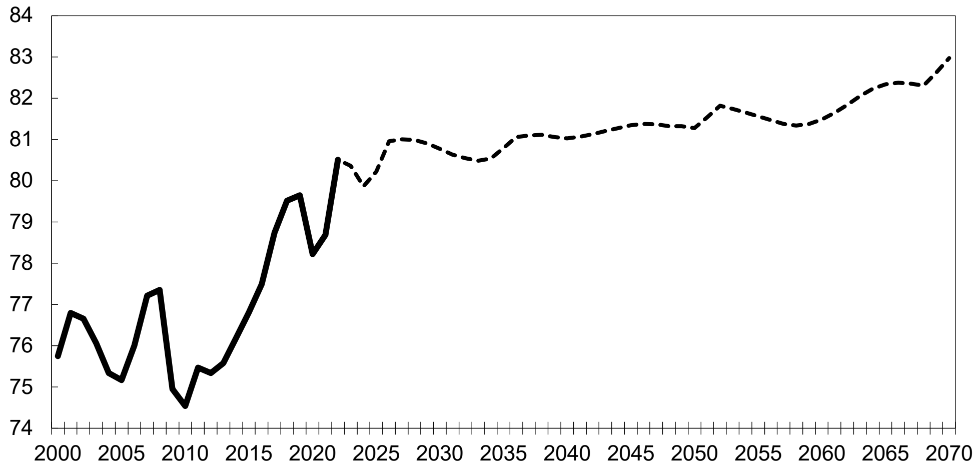
[1] Council Directive 2001/55/EC of 20 July 2001 on minimum standards for giving temporary protection in the event of a mass influx of displaced persons and on measures promoting a balance of efforts between Member States in receiving such persons and bearing the consequences thereof.

The share of the population of working age in employment continues to increase

The share of the population in employment in the age bracket 20–69 has increased steadily over the past ten years, except for 2020. The projection assumes that the labour force participation rate, the unemployment rate and average working hours are unchanged for women and men of different ages with different backgrounds, with the exception of adjustments ensuing from the pension reform mentioned above, and a declining trend in the share of sick people outside the labour force. The latter trend is projected to increase the labour force participation rate in the 55–64 age bracket. The share of the population in the 60–69 age bracket in employment is projected to increase in the long term due to the reform of the pension system. At the same time, the share of older people and the share of foreign-born people in the working-age population is increasing due to demographic factors. Since these are two groups with a lower employment rate than the average for the population, this trend is expected to contribute negatively to the employment rate. Overall, however, the share of employed persons in the working-age population is projected to rise in the long term (see Figure 5.2).

Figure 5.2 Percentage of people employed in the population, 20–69 years

Per cent



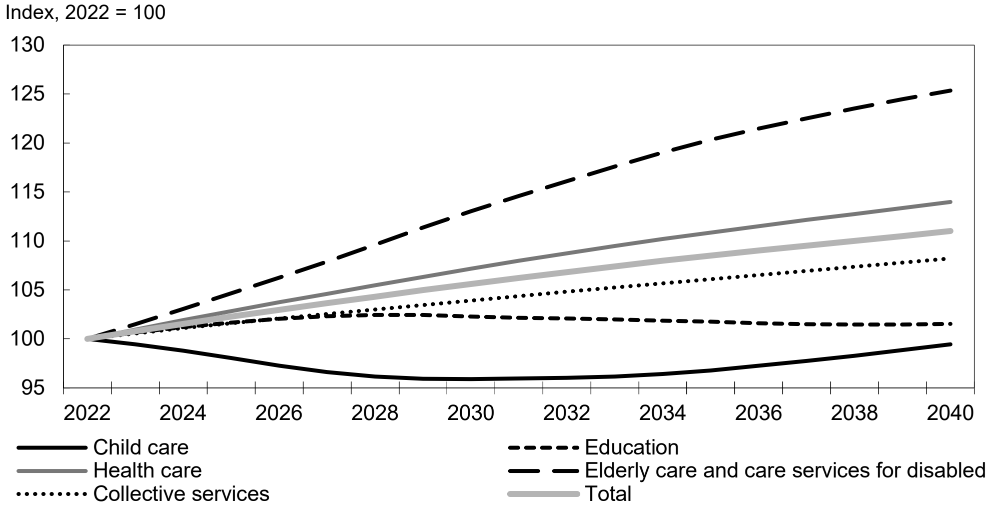
Sources: Statistics Sweden and own calculations.

The need for welfare services increases when the population is growing and ageing

The utilisation of public consumption, i.e. health care, schools and social care, etc., varies over life. Early in life, considerable resources are expended for preschool and other education. When a person is around 20, person-dependent public expenditure generally decreases, and towards the end of life, expenditure increases rapidly, primarily for health care and elderly care. An ageing population means that the need for care of the elderly and persons with disabilities is estimated to increase by around 13% between 2022 and 2030, and by a further barely 11% between 2030 and 2040 (see Figure 5.3). On the other hand, the need for childcare services will be reduced, as the number of children and young people is expected to fall between 2022 and 2040. The demand for services that are not consumed individually, such as the justice system, public administration and defence, is assumed to rise in pace with the population as a whole and to be around 8% higher in 2040 than in 2022. If the range of welfare services offered is to be maintained at its present level, the demographic evolution means that, overall, the tax-financed production of these services needs to increase by around 11% up to and including 2040, which is an increase of just over 0.6% per year on average. This can be compared with the average actual growth rate in 2000–2022, when production increased by just over 1% per year, on average. During this period, the supply of welfare services increased much faster than was motivated by the demographic trend.

When the general government sector grows, the number employed also needs to increase. If the number of employees in the general government sector is to keep pace with the number of people using tax-financed services, the need for personnel increases by around 8 000–11 000 per year up to and including 2040, which means a total increase of around 165 000 persons between 2022 and 2040. The need for personnel is greater in the local government sector than in central government especially in care of the elderly and persons with disabilities, but also in health care.

Figure 5.3 The need for tax-financed welfare services in the event of unchanged user patterns



Source: Own calculations.

Despite increasing needs, general government net lending and debt is developing in a sustainable way

Between 2026 and 2040, demographic change means that general government consumption is projected to decrease slightly as a share of GDP (see Table 5.1). Expenditure for social care of older people and persons with disabilities, and for health care grows somewhat faster than GDP, and expenditure for schools and childcare grows at a slightly slower rate than GDP. The primary balance is more or less unchanged as a percentage of GDP in these years (see Figure 5.4). After 2026 primary expenditure increases somewhat until 2040, and then continues to increase slightly as a share of GDP. General government investment expenditure rises slightly more slowly than GDP at current prices between 2026 and 2040, a trend which continues in the years thereafter. One explanation of this is that the price of general government investment goods is projected to increase more slowly than price levels generally in the economy. General government transfers fall initially from a relatively high level in 2022, and in the long term they increase slightly faster than GDP in current prices.

The most important tax bases are largely steered by the performance of the labour market. Primary income decreases somewhat as a share of GDP between 2022 and 2026, and then grows at a somewhat faster pace than GDP.

Table 5.1 Primary general government expenditure if there is no change in behaviour

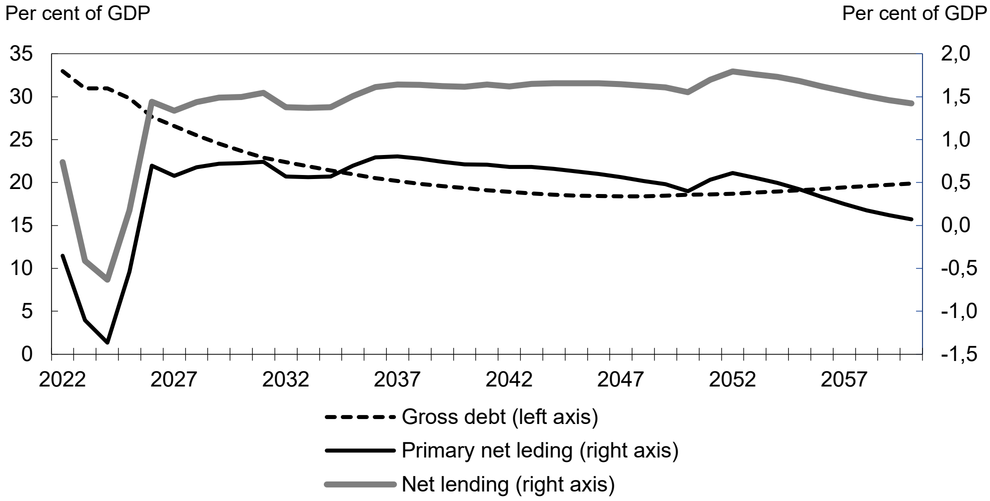
Per cent of GDP

	2022	2026	2040	2060
Primary expenditure	**46.7**	**44.4**	**45.0**	**45.5**
General government consumption	25.1	24.3	24.5	24.4
Investments	4.9	4.7	4.6	4.4
Transfer payments	16.7	15.3	15.9	16.7
of which to households	*12.9*	*12.5*	*13.0*	*13.8*
Primary revenue	**46.3**	**45.2**	**45.7**	**45.6**

Sources: Statistics Sweden and own calculations.

After an initial worsening, the primary balance improves significantly up to 2026, and then remains more or less stable as a share of GDP (see Figure 5.4). The reason why the primary balance improves significantly between 2024 and 2026, and reaches a level that is clearly above the surplus target, is that the assessment during these years is based on a forecast in which government expenditure is not adjusted to demographics. The reason for the improvement in the primary balance that occurs around 2035 is that the benchmark age for the age limits in the pension and adjacent social protection systems as well as the tax and social security contribution systems is then expected to be raised by one year. This means that more people are in employment, at the same time as expenditure for pensions decreases.

Figure 5.4 General government net lending and consolidated gross debt



Sources: Statistics Sweden and own calculations.

Since the financial position of general government is positive, i.e., financial assets are greater than liabilities, net lending is greater than the primary balance, and is slightly above the present level of the surplus target in all years as of 2022. The high level of net lending contributes to consolidated gross debt decreasing from around 33% of GDP in 2022 to just over 28% of GDP in 2026 and around 24% of GDP in 2030. After 2030, the debt ratio continues to decline as a percentage of GDP until just before 2050 and then increases slightly in the years thereafter.

Two indicators, called the S1 and S2 indicators, are used to summarise the sustainability analysis; they show the size of the permanent change in general government net lending required for the general government debt to develop in a desirable way. S1 is a measure of the magnitude of the fiscal policy change needed in the next five years to make the general government consolidated gross debt (Maastricht debt) correspond to 60% of

GDP (the maximum size of the debt ratio under the Stability and Growth Pact) in 15 years' time, i.e. 2039 in this calculation. Since the gross debt corresponded to around 33% of GDP at the end of 2022, there is a safety margin to this level of debt, and thus S1 is negative. The S2 indicator shows how much general government net lending must change permanently in 2024 for general government net debt as a proportion of GDP to stabilise in the very long term.

S1 amounts to −3.4% of GDP. The relatively large negative S1 value shows that the present volume of the public commitment can very likely be maintained in the medium term without the gross debt exceeding the limit value of the Stability and Growth Pact. If, instead, a calculation is made of the aggregate adjustment in lending required in the period 2024–2028 for the debt ratio to correspond to 35% of GDP in 2039, i.e. a debt ratio in line with the debt anchor, the indicator value is −1.3.

The value of S2 is 0.2. Strictly interpreted, this means that net lending needs to be permanently strengthened by 0.2% of GDP in 2024 for net debt to be stable over the very long term. The value of the S2 indicator differs so little from 0, i.e. the value that indicates an exact long-term sustainability, that fiscal policy is sustainable in accordance with this assessment method too.

The indicators are somewhat weaker than in the previous assessment

In the Swedish Convergence Programme for 2022, S1 was calculated as −4.4 and S2 as −1.2. One reason why the S indicators have weakened slightly, i.e. now have a higher value, is that the general government net financial position and the consolidated gross debt in the initial year are slightly lower and higher, respectively, as a share of GDP than in the previous projection.

Other assessments of the sustainability of fiscal policy

Both the National Institute of Economic Research (NIER) and the European Commission have published assessments of the long-term sustainability of Swedish fiscal policy (see Fiscal Sustainability Report 2022, NIER, February 2022; and Fiscal Sustainability Report 2021, European Economy, April 2022).

The NIER's assessment is that Sweden has strong general government finances that are sustainable in the long term, even though the pandemic has meant a considerable strain on general government finances. This assessment is based on the population getting healthier over time and continuing to work at higher ages, a development which the NIER considers to be central to long-term sustainability.

The European Commission's assessment is that the risk of an unsustainable development is low in the short, as well as the medium (up until 2038) and long term. Overall sustainability indicators are presented in Table 5.2.

Table 5.2 Sustainability indicators for Sweden

Per cent of GDP

	S1	S2
Government	-3.4	0.2
Swedish National Institute of Economic Research (February 2022)		0.8
European Commission (April 2022)	-5.7	0.8

Note: The indicator values are not directly comparable as they are calculated based on different assumptions.

Sources: Swedish National Institute of Economic Research, European Commission and own calculations.

5.4 Fiscal policy is judged to be sustainable

In an overall assessment, fiscal policy is judged to be sustainable in the long term. The financial position of general government is strong in both historical and international comparisons. In the long-term projections, general government gross debt and net financial position develop in a stable manner. The S1 and S2 indicators are −3.4% and 0.2% of GDP, respectively, indicating that the risk of unsustainable debt development is low in the medium and long term. The weakening of general government net lending in 2020 and 2021 was temporary and is not assessed as having any lasting negative effects.

6 Quality of general government finances

6.1 Expenditure

The consideration of total expenditure and income is not sufficient to assess the structure of general government finances. For this reason, revenue and expenditure are reported at a more detailed level below. Principles have been developed at the EU level for the production of uniform statistics on each Member State's distribution of general government finances (the 'COFOG classification'). Uniform statistics facilitate comparisons between different Member States' general government expenditure, as well as of developments over time. Additional, and also more granular, information is required to be able to evaluate whether a change in the composition of general government expenditure has influenced long-term growth. However, the distribution of general government expenditure between different purposes, and the change in this distribution over time, show how different types of expenditure and purposes have been prioritised, and provide an indication of the orientation of policy.

Table 6.1 General government expenditure by purpose

Per cent of GDP

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Change 2011-2021
General public services	7.7	7.7	7.8	7.4	7.0	6.7	6.8	7.0	6.9	7.0	6.6	-1.0
Interest payments	1.4	1.2	1.0	0.8	0.7	0.6	0.6	0.6	0.6	0.5	0.4	-1.0
Other	6.3	6.6	6.8	6.6	6.3	6.0	6.2	6.4	6.3	6.6	6.3	0.0
Defence	1.4	1.4	1.5	1.3	1.2	1.2	1.2	1.2	1.2	1.4	1.3	-0.1
Public order and safety	1.3	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.4	1.3	0.0
Economic affairs	4.4	4.6	4.4	4.4	4.2	4.3	4.2	4.4	4.4	5.7	4.8	0.4
Environmental protection	0.4	0.5	0.5	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.1
Housing and community amenities	0.7	0.7	0.6	0.6	0.6	0.5	0.6	0.7	0.7	0.7	0.7	0.0
Health	6.7	6.8	6.9	6.9	6.8	6.9	6.8	7.0	7.0	7.3	7.5	0.8
Recreation, culture and religion	1.1	1.1	1.3	1.3	1.3	1.3	1.2	1.3	1.3	1.4	1.4	0.3
Education	6.3	6.4	6.5	6.5	6.4	6.6	6.7	6.9	6.9	7.0	6.7	0.3
Social protection	19.6	20.4	21.0	20.5	20.1	20.6	20.0	19.6	19.0	19.6	18.6	-1.1
Total expenditure	**49.8**	**51.0**	**51.7**	**50.7**	**49.3**	**49.7**	**49.2**	**49.9**	**49.1**	**52.1**	**49.4**	**-0.4**
Excluding interest	48.4	49.8	50.6	49.9	48.6	49.1	48.6	49.2	48.6	51.6	49.0	0.7

Sources: Statistics Sweden and own calculations.

Expenditure as a share of GDP (the expenditure ratio) was relatively stable at just under 50% of GDP from 2015 up to and including 2019. However, the severe downturn in the economy, and the measures implemented by the Government in 2020, combined with the spread of COVID-19, resulted in a temporary increase in expenditure as a share of GDP. Expenditure increased for economic affairs and the business sector in particular (see Table 6.1 and Table 6.2). Expenditure for health care also increased during the pandemic. In 2021, the rapid recovery in the economy brought the expenditure ratio back to just under 50% of GDP, despite the fact that a number of measures were implemented to address the economic effects of the pandemic. In particular, expenditure for economic affairs and the business sector, as well as social protection fell as a percentage of GDP. Seen over the period 2011–2021, it has been mainly the expenditure ratio for social protection that has fallen. Similarly, expenditure for interest payments as a share of GDP has decreased; this is mainly because the general government consolidated gross debt has fallen strongly as a proportion of GDP, while the level of interest rates was relatively low during the period. Expenditure on education and health care has instead increased during the period. In all other areas expenditure has grown in proportion to GDP growth.

Table 6.2 General government expenditure by purpose

Per cent of total expenditure

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Change 2011-2021
General public services	15.5	15.2	15.1	14.7	14.2	13.4	13.7	14.1	14.0	13.5	13.4	-2.0
Interest payments	2.8	2.3	2.0	1.6	1.4	1.3	1.2	1.3	1.2	0.9	0.8	-2.0
Other	12.6	12.9	13.1	13.0	12.8	12.1	12.5	12.9	12.8	12.7	12.7	0.0
Defence	2.9	2.7	2.8	2.6	2.5	2.4	2.4	2.5	2.5	2.6	2.6	-0.2
Public order and safety	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.7	2.7	2.7	0.1
Economic affairs	8.9	9.0	8.5	8.6	8.5	8.6	8.5	8.7	9.0	10.9	9.7	0.9
Environmental protection	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.1	0.2
Housing and community amenities	1.4	1.4	1.1	1.2	1.2	1.1	1.1	1.4	1.4	1.3	1.3	-0.1
Health	13.5	13.4	13.4	13.6	13.8	13.8	13.9	14.0	14.2	14.1	15.1	1.7
Recreation, culture and religion	2.2	2.1	2.5	2.6	2.6	2.6	2.5	2.5	2.6	2.7	2.8	0.6
Education	12.7	12.6	12.5	12.8	13.0	13.3	13.6	13.8	14.1	13.4	13.5	0.8
Social protection	39.4	40.0	40.6	40.5	40.8	41.3	40.6	39.2	38.6	37.7	37.5	-1.9
Total expenditure	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	
Excluding interest	97.2	97.7	98.0	98.4	98.6	98.7	98.8	98.7	98.8	99.1	99.2	2.0

Sources: Statistics Sweden and own calculations.

6.2 Revenue

The tax ratio, i.e. total tax revenue as a percentage of GDP, is usually affected most by changes in regulations, since tax bases normally follow the development of the economic cycle. Between 2015 and 2026, the tax ratio is expected to fall by almost 2 percentage points (see Table 6.3 and Table 6.4). The tax ratio rose at the beginning of the period, peaking at 44.1% in the year 2016 and 2017. After that, the tax ratio is estimated to decrease gradually and to be lowest in 2024–2026, when it is expected to be at 40.7%. This is due both to previously adopted changes in regulations and to the measures the Government took on account of the spread of COVID-19. In 2022 and 2023, the tax ratio is temporarily higher on account of revenue from congestion rent.[2]

As a share of GDP, revenue from tax on labour is expected to decrease by 1.3 percentage points in the period 2015–2026. A large part of the variation in revenue from

[2] Congestion rent arises from price differences and constraints in the transmission capacity between bidding zones. Congestion rent is reported as tax revenue in the central government budget in 2022 and 2023. This rent revenue affects the tax ratio but not the budget balance or net lending in central government. The congestion rent revenue is used to finance the Government's electricity support to businesses and households.

tax on labour is explained by regulatory changes. In 2015 and 2016, tax deductions for labour and household services were restricted, while the reduction in social security contributions for young people was abolished, thus increasing revenue from tax on labour. Revenue from tax on labour as a share of GDP was at its peak in 2016–2017. All in all, the following years' regulatory changes have reduced the revenue from tax on labour as a share of GDP, with some variation between the years. The Government's actions in relation to the spread of COVID-19, including temporary reductions in employer contributions and employees' social contributions as well as increased tax deductions on income from labour, have had the greatest impact.

As a share of GDP, revenue from tax on capital is expected to decrease by 0.3 percentage points in the period 2015–2026. Between 2016 and 2020, the share varied relatively little between these years. In 2021, the share increased greatly and reached the highest level during the period (6.5% of GDP). This was mainly driven by record-high investment income for households following strong growth on the stock and housing markets, but also by strong growth in corporate profits. As of 2022, revenue as a percentage of GDP is expected to return to a historically more normal level and, as of 2024, remain relatively unchanged.

As a share of GDP, revenue from tax on consumption is expected to decrease by 0.3 percentage points in the period 2015–2026. Revenue from VAT is expected to rise as a share of GDP, while revenue from excise duties is expected to decrease as a share of GDP in the period. That revenue from VAT as a share of GDP has risen is partly explained by the sharp increase in housing investments. In the future, however, revenue from VAT as a share of GDP is expected to be maintained primarily because household consumption is expected to increase faster than GDP. In contrast, revenue from excise duties is steadily decreasing as a share of GDP. This is because the use of certain products subject to excise duty is decreasing over time, some excise duties are not indexed to inflation, and various types of energy are being used more and more efficiently in transport, heating and production. However, in 2022 and 2023, excise duty revenue as a share of GDP is temporarily higher than normal on account of revenue from congestion rent, which increases the tax ratio by 0.3 percentage points in 2022 and 0.7 percentage points in 2023.

Revenue from tax arrears and other taxes is expected to remain largely unchanged as a share of GDP between 2015 and 2026, but its share varies slightly more during the period. Revenue from tax arrears and other taxes is affected by factors including temporary respites granted to businesses and collection losses.

Table 6.3 Tax revenue, by tax types

Per cent of GDP

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Change 2015–2026
Tax on labour	24.6	25.8	25.8	25.7	25.1	24.8	24.3	23.4	23.6	23.2	23.3	23.3	-1.3
Direct taxes	13.1	13.8	13.7	13.6	13.1	13.3	12.7	12.1	12.1	11.7	11.7	11.8	-1.3
Indirect taxes	11.5	12.0	12.1	12.1	12.0	11.5	11.6	11.4	11.5	11.5	11.6	11.6	0.0
Tax on capital	5.7	5.6	5.7	5.4	5.6	5.4	6.5	5.9	5.4	5.6	5.5	5.5	-0.3
Households	1.6	1.7	1.7	1.4	1.4	1.3	1.9	1.5	1.1	1.1	1.1	1.2	-0.5
Corporate incomce	2.8	2.6	2.7	2.8	3.0	3.0	3.4	3.1	2.9	2.9	2.8	2.8	0.0
Tax on consumption	12.0	12.3	12.2	12.2	12.0	12.1	12.1	12.1	12.3	11.7	11.7	11.7	-0.3
VAT	8.9	9.2	9.2	9.2	9.1	9.3	9.4	9.4	9.2	9.2	9.2	9.3	0.4
Excises duties	3.0	3.1	3.0	2.9	2.8	2.8	2.7	2.7	3.1	2.5	2.4	2.4	-0.7
Arrears and other taxes	0.3	0.5	0.4	0.5	0.2	0.1	-0.1	0.2	0.2	0.2	0.2	0.2	0.0
Total tax revenue	**42.6**	**44.1**	**44.1**	**43.8**	**42.8**	**42.4**	**42.8**	**41.7**	**41.5**	**40.7**	**40.7**	**40.7**	**-1.9**

Sources: Statistics Sweden and own calculations.

Table 6.4 Tax revenue, by tax types

Per cent of total revenue

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Change 2015–2026
Tax on labour	57.8	58.4	58.6	58.8	58.5	58.5	56.8	56.3	56.8	57.1	57.2	57.3	-0.5
Direct taxes	30.7	31.2	31.2	31.1	30.5	31.3	29.7	29.0	29.0	28.7	28.7	28.9	-1.9
Indirect taxes	27.1	27.2	27.4	27.7	28.0	27.2	27.1	27.3	27.8	28.3	28.5	28.4	1.4
Tax on capital	13.5	12.6	12.9	12.4	13.0	12.7	15.2	14.1	13.1	13.7	13.6	13.5	0.0
Households	3.8	3.8	3.9	3.3	3.2	3.1	4.5	3.5	2.7	2.7	2.8	2.8	-1.0
Corporate incomce	6.6	5.9	6.2	6.3	7.1	7.0	7.9	7.4	7.0	7.1	7.0	6.9	0.3
Tax on consumption	28.1	27.9	27.6	27.8	27.9	28.5	28.2	29.2	29.6	28.7	28.7	28.6	0.5
VAT	21.0	20.9	20.9	21.1	21.3	21.9	21.9	22.7	22.2	22.6	22.7	22.9	1.9
Excises duties	7.1	7.0	6.7	6.6	6.6	6.6	6.3	6.5	7.4	6.1	6.0	5.8	-1.4
Arrears and other taxes	0.6	1.1	0.9	1.1	0.5	0.3	-0.2	0.4	0.5	0.5	0.5	0.6	-0.1
Total tax revenue	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	

Sources: Statistics Sweden and own calculations.

Appendix A – Technical assumptions

This appendix gives a more detailed account of the methods applied in the calculation of general government finances in the period 2026–2120.

Demographic assumptions

The calculation is based on Statistics Sweden's population forecast from April 2022, shown in Table A.1.

Table A.1 Demographic assumptions

Number of children born per woman, number of years and number of individuals

	2022	2030	2040	2050	2060	2070	2080
Birth rate	1.65	1.73	1.74	1.75	1.79	1.82	1.82
Average life expectancy, women	84.8	85.7	86.8	87.8	88.9	89.8	90.7
Average life expectancy, men	81.6	82.9	84.3	85.5	86.7	87.7	88.7
Net migration, thousands	41	36	35	35	33	32	31

Source: Statistics Sweden.

Labour market

The performance of the labour market depends on demographic developments. The projection of the employment rate and the number of hours worked is calculated disaggregated by age, gender and country of origin. The labour force participation rate, employment rate and average working hours are assumed to remain constant in each group in the long term. This can be interpreted as unchanged labour market behaviour as the absenteeism rate, rate of sickness and activity compensation, average hours worked, employment rate and unemployment rate are constant within each group. Two departures from this principle are made. Firstly, it is assumed that the current low inflows to sickness compensation will continue, which means that the labour supplied by persons in the 55–64 age bracket will continue to increase slightly in the next few years. Secondly, the proportion of people employed in the 60–69 age bracket is expected to increase as a result of the changes to the age limits in the pension system and related social security systems and the tax and social security contributions system adopted by the Riksdag in May 2022 (Govt 2021/22:121, Report 2021/22:SfU25, Riksdag Comm. 2021/22:331).

The number of hours worked in the general government sector is assumed to rise at the same rate as demographically dependent general government consumption. This means that the staffing ratio is assumed to be constant in the general government sector. The number of hours worked in the business sector corresponds to the difference between total hours worked and hours worked in the general government sector.

Productivity

The assumption about productivity growth in the business sector, measured as the value added per hour worked, is based on the historical trend. The relatively low rate of productivity growth that is constraining growth in the 2020s is assumed to increase gradually in the next few years so that productivity in the business sector again increases at the same rate as it did on average in 2000–2022. This means a trend in productivity growth in the business sector of about 2% per year as of 2030 (see Table A.2). Productivity growth in the general government sector is assumed to be zero as of 2026.

Components of GDP: Expenditure approach and production

GDP growth is determined by the sum of the productivity growth in the economy as a whole and the increase in the number of hours worked. The output side of GDP, i.e. how production is used, is determined so that households' current relatively high savings ratio decreases gradually in the long term. Household consumption expenditure as a share of GDP therefore increases gradually over the period as people live longer and a greater and greater proportion of the population does not work. Gross fixed capital formation totals around 25% of nominal GDP. The projection of general government consumption in volume terms is determined by demographic developments, while its price growth is determined by assumptions about hourly wage growth and the price growth for other production factors such as rents, etc. The production of general government consumption is calculated with an assumption of unchanged productivity and degree of privatisation. The remaining component of the expenditure approach of GDP is net exports, which are calculated as the difference between GDP and its domestic use. Production in the business sector is determined as the product of productivity and the number of hours worked in the business sector.

Inflation and pay

It is assumed that the Riksbank will pursue a monetary policy resulting in inflation of 2% per year. The share of wage costs and gross profits in the business sector is assumed to be constant in the long term. This means that wages are determined by price growth and productivity. Higher productivity and a higher value added price in the business sector generate scope for higher pay. Hourly wages in the general government sector are assumed to rise in line with private sector wages.

Assumptions regarding yield on capital

In the long term, it is assumed that average interest rates for income and expenditure are the same for all sectors in the economy. The assumed nominal interest rate is the nominal GDP growth rate plus 0.5 percentage points. In addition to interest-bearing assets, the general government sector also has non-interest-bearing assets. The yield on these assets consists of share dividends and changes in value. Dividends are assumed to be 3% and value increases are calculated using residuals so that the total return is the same as for interest-bearing assets. It is likely that there will also be differences in the long term between the interest rates on deposits and lending and that there will be differences between the sectors. It is also likely that the return on non- interest-bearing assets will be higher than for interest-bearing assets. However, the assumption regarding the return on financial capital is intended as a simplification and to avoid the focus of the analysis shifting from central issues to those peripheral to the dynamics of return on capital.

Table A.2 Macroeconomic assumptions

Annual percentage change and per cent

	2022	2030	2040	2050	2060	2070	2080
Percentage change							
Population, 15–74 years	0.4	0.5	0.1	0.2	0.3	0.2	0.3
Labour force, 15–74 years	1.2	0.4	0.3	0.2	0.1	0.8	0.2
Number employed, 15–74 years	2.7	0.4	0.3	0.2	0.1	0.8	0.2
Hours worked	2.3	0.4	0.3	0.2	0.1	0.8	0.2
Business sector productivity	0.0	1.6	2.0	2.0	2.0	2.0	2.0
GDP, fixed prices	2.6	1.8	2.0	1.9	1.9	2.6	2.0
GDP per capita	2.0	1.3	1.6	1.5	1.6	2.2	1.6
GDP productivity	0.3	1.4	1.7	1.7	1.7	1.8	1.8
GDP deflator	5.7	2.1	2.5	2.4	2.3	2.2	2.2
CPI, annual average	8.4	2.0	2.0	2.0	2.0	2.0	2.0
Hourly wages	4.1	4.0	4.3	4.2	4.2	4.2	4.1
Per cent							
Real interest	-6.3	-5.4	-3.8	-3.5	-3.7	-3.3	-3.6
Employment rate, 15–74 years	68.5	68.8	68.9	69.5	68.7	70.5	70.1
ILO unemployment rate, 15–74 years	7.5	7.5	7.7	7.6	7.6	7.5	7.4

Note: In May 2022, the Riksdag decided on changes in the age limits in the pension system and related social security systems and the tax and social security contributions system, which means that benchmark age for the pension system will be increased in line with the average life expectancy. In the calculations, the benchmark age for the pension system will be increased by one year in 2070, which will have temporary effects on growth, labour supply, employment and pension-related expenditure, among other things.

Sources: Statistics Sweden and own calculations.

General government revenue

The calculations of general government revenue presented in this Convergence Programme are based on an assumption of constant tax rates relative to different tax bases. Consequently, the aggregate tax ratio will vary if the tax bases develop differently from GDP. This method reflects unchanged tax regulations. Table A.3 details general government taxes, contributions and charges as a proportion of GDP and as a proportion of each respective tax base (implicit tax rate), as well as the tax base's share of GDP.

Table A.3 Taxes and charges

Per cent of GDP

	2022	2030	2040	2050	2060	2070	2080
Taxes and charges	41.5	41.1	41.3	41.3	41.7	41.6	41.9
Household direct taxes and charges							
Proportion of GDP	11.6	11.5	11.7	11.8	12.0	12.0	12.2
Implicit tax rate of direct taxes	22.8	22.3	22.4	22.4	22.4	22.4	22.4
Tax base for direct taxes as a proportion of GDP	51.0	51.5	52.2	52.7	53.6	53.6	54.4
Implicit tax rate of charges	6.6	6.7	6.7	6.7	6.7	6.7	6.7
Tax base for charges as a proportion of GDP	38.4	39.3	39.9	40.3	40.5	40.7	40.9
Corporate direct taxes							
Proportion of GDP	3.0	3.0	3.0	3.0	2.9	3.0	2.9
Implicit tax rate	9.7	9.9	9.9	9.9	9.9	9.9	9.9
Tax base as a proportion of GDP	31.2	30.0	29.8	29.8	29.6	29.8	29.6
Indirect taxes[1]							
Proportion of GDP	12.8	12.3	12.2	11.9	12.0	11.8	11.9
Implicit tax rate	28.8	26.4	25.6	24.8	24.5	24.2	23.9
Tax base as a proportion of GDP	44.4	46.6	47.4	47.9	49.1	48.6	49.6
Social security contributions from employers and the self-employed[2]							
Proportion of GDP	13.8	14.3	14.5	14.7	14.7	14.8	14.9
Implicit tax rate	35.8	36.4	36.4	36.4	36.4	36.4	36.4
Tax base as a proportion of GDP	38.4	39.3	39.9	40.3	40.5	40.7	40.9

[1] Excluding wage-dependent indirect taxes.
[2] Including wage-dependent indirect taxes.

Sources: Statistics Sweden and own calculations.

General government expenditure on consumption

The projection of general government consumption has two parts: a volume projection and a price projection. The calculation of general government consumption is based on costs for various purposes such as schools, health care and social care, disaggregated by age and gender (see Table A.4). All expenditure areas are projected in line with demographic developments. This means, for example, that an average 70-year-old woman is allocated the same amount of public services, in real terms, in 2060 as in 2026. This can be seen as an expression of unchanged standards in general government services. The price of general government consumption develops in line with a weighting of the price of the component parts of gross production, i.e. hourly pay, the price of consumables used, and the price of consumption of fixed capital (the price of gross fixed capital formation).

Table A.4 General government consumption

Per cent of GDP

	2022	2030	2040	2050	2060	2070	2080
Total consumption	**25.1**	**24.5**	**24.5**	**24.4**	**24.4**	**23.8**	**23.9**
Childcare	1.6	1.5	1.5	1.5	1.5	1.4	1.4
Education	4.9	4.8	4.5	4.4	4.3	4.1	4.1
Healthcare	6.5	6.5	6.5	6.4	6.3	6.1	6.1
Elderly care and care services for disabled	4.7	5.1	5.4	5.6	5.8	5.9	6.2
Other activities	7.4	6.6	6.7	6.5	6.5	6.2	6.2

Sources: Statistics Sweden and own calculations.

Transfer payments

The calculations assume a certain guarantee of standards in the general government transfer payment systems (see Table A.5). Some transfers have rules and regulations that automatically increase expenditure in line with income. This applies, for instance, to pensions, which are uprated in line with the income index, and also partly to transfers compensating for income loss, such as health and parental insurance. In the calculation, pensions are projected in accordance with the current rules. Other transfers to households are assumed to rise in line with earnings. This also means that there is an assumption that the caps applied in the social insurance systems rise in line with income. Such a guarantee of standards offsets the erosion of household transfers that would take place if the estimate were only based on a price projection.

Table A.5 General government transfer payments

Per cent of GDP

	2022	2030	2040	2050	2060	2070	2080
Total transfer payments	**16.7**	**15.6**	**15.9**	**16.1**	**16.7**	**16.5**	**17.0**
Transfer payments to households	12.9	12.7	13.0	13.2	13.8	13.6	14.1
Old age	7.1	7.2	7.3	7.4	7.9	7.7	8.1
Ill-health	1.9	1.9	1.9	2.0	2.0	2.1	2.1
Children/studies	1.7	1.7	1.7	1.8	1.8	1.8	1.8
Labour market	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Other	1.5	1.4	1.4	1.4	1.5	1.5	1.5
Transfer payments to businesses and the rest of the world	3.8	2.9	2.9	2.9	2.9	2.9	2.9

Note: Old age = old-age pensions, survivor's pensions, central government and local government pensions and supplementary housing benefit to pensioners. Ill-health = health insurance, occupational injury insurance sickness compensation and assistance compensation. Children/studies = child benefit, parental insurance, maintenance support and student grants. Labour market = unemployment benefit, labour market training grants and wage guarantees.

Sources: Statistics Sweden and own calculations.

Old-age pension system

Table A.6 shows the old-age pensions system's income and expenditure and its financial position. The calculation of pension expenditure is based on demographic developments, economic assumptions and the applicable regulations. The average pension age is assumed to increase over time at a rate determined by average life expectancy at the age of 65. This is called the benchmark age. In the calculation, the pension system's primary net lending is strengthened, i.e. the system's expenditure less the contribution revenue in Table A.6, and is positive in most years after 2030. In combination with a positive return on capital, this means that the system's net lending in the long term corresponds to 1–2% of GDP.

Table A.6 Old-age pensions system

Per cent of GDP

	2022	2030	2040	2050	2060	2070	2080
Revenue	**6.3**	**6.5**	**6.8**	**7.1**	**7.4**	**7.5**	**7.7**
Fees	5.6	5.7	5.8	5.9	6.0	6.0	6.0
Interest, dividends etc.	0.7	0.8	1.0	1.2	1.4	1.5	1.6
Expenditure	**6.0**	**5.7**	**5.7**	**5.7**	**6.0**	**5.8**	**6.1**
Pensions	5.8	5.6	5.5	5.5	5.9	5.6	5.9
Other	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net lending	**0.3**	**0.7**	**1.1**	**1.4**	**1.3**	**1.7**	**1.5**
Net financial assets	**31.4**	**28.1**	**28.6**	**33.6**	**39.3**	**41.5**	**46.4**

Note: In May 2022, the Riksdag decided on changes in the age limits in the pension system and related social security systems and the tax and social security contributions system, which means that benchmark age for the pension system will be increased in line with the average life expectancy. In the calculations, the benchmark age for the pension system will be increased by one year in 2070, which will have temporary effects on growth, labour supply, employment and pension-related expenditure, among other things.

Sources: Statistics Sweden and own calculations.

Table A.7 presents a number of key variables from Sweden's Convergence Programme in the format recommended by the European Commission.

Table A.7 Long-term sustainability of general government finances

Per cent of GDP, unless otherwise stated

	2022	2030	2040	2050	2060	2070	2080
Total expenditure	**47.3**	**45.8**	**46.2**	**46.3**	**46.7**	**46.0**	**46.5**
Age-related[1]	32.9	33.3	33.2	33.1	33.6	32.7	33.3
Pensions[2]	7.1	7.1	7.2	7.2	7.7	7.5	7.9
Guarantee pensions	0.3	0.5	0.6	0.7	0.7	0.7	0.7
Old-age pensions	5.8	5.6	5.5	5.5	5.9	5.6	5.9
Other pensions (disability and survivors')	0.4	0.3	0.3	0.2	0.3	0.3	0.4
General government occupational pensions	0.5	0.7	0.8	0.8	0.8	0.8	0.9
Healthcare	6.5	6.5	6.5	6.4	6.3	6.1	6.1
Elderly care and care services for disabled	4.7	5.1	5.4	5.6	5.8	5.9	6.2
Childcare	1.6	1.5	1.5	1.5	1.5	1.4	1.4
Education	4.9	4.8	4.5	4.4	4.3	4.1	4.1
Unemployment benefit	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Other age-related expenditure	7.7	7.7	7.6	7.4	7.4	7.1	7.0
Interest expenditure	0.5	0.6	0.9	0.9	0.9	1.0	1.0
Total revenue	**48.1**	**47.3**	**47.8**	**47.8**	**48.2**	**47.9**	**48.2**
of which income from capital	1.8	1.6	2.1	2.4	2.6	2.7	2.9
of which is from the pensions system	0.7	0.8	1.0	1.2	1.4	1.5	1.6
Assumptions							
Labour productivity growth, GDP level	0.3	1.4	1.7	1.7	1.7	1.8	1.8
GDP growth	2.6	1.8	2.0	1.9	1.9	2.6	2.0
Unemployment rate	7.5	7.5	7.7	7.6	7.6	7.5	7.4
Population aged 65 + as a proportion of the total population	20.4	21.8	23.3	23.7	25.5	25.7	26.6

Note: In May 2022, the Riksdag decided on changes in the age limits in the pension system and related social security systems and the tax and social security contributions system, which means that benchmark age for the pension system will be increased in line with the average life expectancy. In the calculations, the benchmark age for the pension system will be increased by one year in 2070, which will have temporary effects on growth, labour supply, employment and pension-related expenditure, among other things.

[1] Age-related expenditure includes childcare. This expenditure is not included in the age-dependent expenditure presented in Appendix B as calculated by an EU working group.

[2] In addition to old-age pensions, pensions also include sickness and activity compensation.

Sources: Statistics Sweden and own calculations.

Appendix B – Comparison with the European Commission's calculations of demographically dependent expenditure

Together with the European Commission, a working group (the Working Group on Ageing Populations and Sustainability) under the Economic Policy Committee (EPC) has calculated the development of demographically dependent expenditure in all Member States up to and including 2070. These calculations were reported most recently in spring 2021. However, the calculations in this Convergence Programme are based on the data presented to the Riksdag in the Spring Fiscal Policy Bill for 2023. 2022/23:100). This section compares the key demographic and macroeconomic indicators and also the demographically dependent expenditure from these two sources (see Tables B.1 and B.2). The comparison is from 2019 since this was the starting year in the EPC's calculations.

Table B.1 Macroeconomic assumptions in the EPC estimates and in the Swedish Convergence Programme

Index, 2019 = 100, unless otherwise stated

	2019	2022	2030	2040	2050	2060	2070
Population, 20–74 years							
EPC	100.0	101.9	106.5	111.6	115.0	115.5	118.1
Convergence Programme	100.0	100.6	103.8	108.0	110.1	113.5	115.0
Employed, 15–74 years							
EPC	100.0	103.3	112.5	119.1	122.6	124.2	126.4
Convergence Programme	100.0	102.3	106.3	110.0	113.2	115.6	120.3
Hours							
EPC	100.0	102.7	111.6	118.3	121.8	123.4	125.5
Convergence Programme	100.0	101.6	106.5	110.5	113.7	116.0	121.2
Unemployment rate[1], 15–74 years							
EPC	5.8	5.6	4.6	4.6	4.6	4.6	4.6
Convergence Programme	7.0	7.5	7.5	7.7	7.6	7.6	7.5
Labour productivity							
EPC	100.0	102.9	110.9	127.3	148.3	172.8	201.2
Convergence Programme	100.0	104.1	113.5	133.8	158.0	187.5	223.5
Potential GDP							
EPC	100.0	105.7	123.8	150.5	180.4	212.9	252.1
Convergence Programme	100.0	105.8	120.8	147.8	179.6	217.6	271.0
Potential GDP per capita							
EPC	100.0	102.9	114.1	131.7	150.7	171.6	197.7
Convergence Programme	100.0	103.8	114.0	134.0	156.3	182.6	219.8

[1] Per cent of labour force.

Sources: European Commission and own calculations.

The population projection for Sweden used by the EPC was prepared by Eurostat in 2020. The calculations in this Convergence Programme are based on a population projection performed by Statistics Sweden in April 2022. That projection takes account of actual developments in recent years, which means that the population is expected to increase somewhat more slowly than in the EPC projection in the next few years. This is because population growth has been revised downwards from previous projections. The EPC thus assumes a stronger increase both in the number of persons employed and in the number of hours worked. Productivity growth is somewhat faster in the Convergence Programme than in EPC's calculation. This means that both GDP and per capita GDP are higher in the long term in this Convergence Programme than in the EPC projections.

Table B.2 Change in age-dependent general government expenditure in the EPC projections and in the Swedish Convergence Programme

Proportion of GDP

	Change 2019–2035			Change 2019–2070		
	CP	**EPC**	**CP-EPC**	**CP**	**EPC**	**CP-EPC**
Pensions	-0.2	-0.5	0.3	0.1	-0.1	0.2
Healthcare	0.2	0.3	-0.2	-0.2	0.8	-1.0
Elderly care and care services for disabled	0.5	0.8	-0.3	1.0	2.2	-1.2
Education/Unemployment benefit	-0.5	-0.5	0.0	-1.0	-0.5	-0.5
Total	**-0.1**	**0.2**	**-0.3**	**-0.2**	**2.3**	**-2.5**

Note: CP is the abbreviation of convergence programme. Childcare is not included in this synthesis.

Sources: European Commission and own calculations.

Appendix C – Tables

Table C.1a Macroeconomic prospects

Annual percentage change if not otherwise stated

	SEK, billion 2022	2022	2023	2024	2025	2026
Real GDP	5 606	2.6	-1.0	1.2	2.6	3.2
Nominal GDP	5 926	8.5	4.0	3.2	4.5	5.4
Components of real GDP						
Private consumption expenditure	2 453	2.1	-1.4	1.7	3.0	4.2
Government consumption expenditure	1 409	0.0	0.3	-0.4	0.2	-0.5
Gross fixed capital formation	1 461	5.2	-4.2	-0.1	4.4	5.8
Exports of goods and services	2 695	6.6	2.3	2.6	2.2	3.4
Imports of goods and services	2 484	8.7	-0.7	1.5	2.3	3.8
Contributions to real GDP growth						
Final domestic demand		2.2	-1.6	0.6	2.5	3.2
Changes in inventories and net acquisition of valuables		1.0	-0.8	0.0	0.0	0.0
External balance of goods and services		-0.6	1.4	0.6	0.1	0.0

Sources: Statistics Sweden and own calculations.

Table C.1b Price developments

Annual percentage change if not otherwise stated

	Level 2022	2022	2023	2024	2025	2026
GDP deflator	106	5.7	5.1	2.0	1.9	2.1
Private consumption deflator	107	7.2	5.9	2.2	2.0	2.0
HICP[1]	119	8.1	5.9	2.1	1.9	1.9
Public consumption deflator	106	5.5	5.7	2.5	2.7	3.6
Investment deflator	109	8.8	3.0	1.5	1.5	1.5
Export price deflator (goods and services)	116	15.7	2.8	0.8	1.0	1.0
Import price deflator (goods and services)	120	19.7	2.7	1.0	1.2	1.2

Note: All deflators are indices, 2021 = 100.

[1] Index, 2015 = 100.

Sources: Statistics Sweden and own calculations.

Table C.1c Labour market developments

Annual percentage change if not otherwise stated

	Level 2022	2022	2023	2024	2025	2026
Employment, persons[1]	5 195	2.7	0.2	-0.2	0.8	1.4
Employment, hours worked[2]	828 832	2.3	-0.2	-0.6	0.6	2.2
Unemployment rate[3]	420	7.5	7.9	8.3	8.2	7.5
Labour productivity, persons[4]	958	-0.1	-1.4	1.4	1.8	1.9
Labour productivity, hours worked[5]	602	0.3	-1.3	1.7	1.5	1.4
Compensation of employees[6]	2 713	5.7	5.2	3.1	4.4	5.3
Compensation per employee[7]	522 100	2.9	5.0	3.3	3.6	3.9

1 Occupied population, national accounts definition. Level in thousands.
[2] National accounts definition. Level in ten thousands.
[3] Level in thousands. Per cent of labour force.
[4] Real GDP per person employed, SEK.
[5] Real GDP per hour worked, SEK.
[6] SEK billion.
[7] SEK.

Sources: Statistics Sweden and own calculations.

Table C.1d Sectoral balances

Per cent of GDP

	2022	2023	2024	2025	2026
Net lending/borrowing vis-a-vis the rest of the world	4.6	6.2	6.2	5.2	5.0
of which					
– balance on goods and services	*2.4*	*4.0*	*4.4*	*4.2*	*3.9*
– balance of primary incomes and transfers	*2.0*	*2.1*	*1.6*	*0.8*	*0.9*
– capital account	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*
Net lending/borrowing of the private sector	3.8	6.6	6.9	5.0	3.6
Net lending/borrowing of the general government	0.7	-0.4	-0.6	0.2	1.4

Sources: Statistics Sweden and own calculations.

Table C.2a General government budgetary prospects

Per cent of GDP if not otherwise stated

	SEK bn 2022	2022	2023	2024	2025	2026
Net lending by sub-sector						
General government	44	0.7	-0.4	-0.6	0.2	1.4
Central government	2	0.0	-0.2	-0.5	0.1	1.2
Local government	22	0.4	-0.5	-0.5	-0.4	-0.3
Social security funds	19	0.3	0.3	0.3	0.4	0.5
General government						
Total revenue	2896	48.9	48.1	47.2	47.1	46.9
Total expenditure	2853	48.1	48.5	47.9	46.9	45.5
Net lending/borrowing	44	0.7	-0.4	-0.6	0.2	1.4
Interest expenditure	30	0.5	0.5	0.6	0.6	0.6
Primary balance	74	1.2	0.1	-0.1	0.8	2.0
One-off and other temporary measures	0	0.0	0.0	0.0	0.0	0.0
Selected components of revenue						
Total taxes	2304	38.9	38.7	37.9	37.9	37.9
Taxes on production and imports	1274	21.5	21.7	21.1	21.1	21.1
Current taxes on income. wealth. etc.	1030	17.4	17.1	16.8	16.8	16.8
Capital taxes	0	0.0	0.0	0.0	0.0	0.0
Social contributions	195	3.3	3.3	3.3	3.3	3.3
Property income	114	1.9	1.5	1.6	1.6	1.6
Other	283	4.8	4.6	4.4	4.3	4.1
Total revenue	2896	48.9	48.1	47.2	47.1	46.9
Tax burden	2468	41.6	41.5	40.7	40.7	40.7
Selected components of expenditure						
Compensation of employees + intermediate consumption	1186	20.0	20.1	19.9	19.5	19.0
Compensation of employees	701	11.8	12.1	11.9	11.7	11.4
Intermediate consumption	468	7.9	8.0	7.9	7.8	7.5
Social payments	878	14.8	15.0	15.2	14.9	14.4
of which unemployment benefits	*34*	*0.6*	*0.6*	*0.7*	*0.6*	*0.5*
Social transfers in kind supplied via market producers	201	3.4	3.4	3.4	3.3	3.2
Social transfers other than in kind	677	11.4	11.6	11.8	11.6	11.2
Interest expenditure	30	0.5	0.5	0.6	0.6	0.6
Subsidies	95	1.6	1.6	1.5	1.4	1.4
Gross fixed capital formation	289	4.9	4.7	5.2	5.2	4.7
Capital transfers	29	0.5	0.4	0.6	0.5	0.7
Other	346	5.8	6.1	5.0	4.9	4.8
Total expenditure	2853	48.1	48.5	47.9	46.9	45.5
Government consumption (nominal)	1486	25.1	25.6	25.3	24.9	24.3

Sources: Statistics Sweden and own calculations.

Table C.2b Revenue and expenditure forecasts

Per cent of GDP if not otherwise stated

	SEK bn 2022	2022	2023	2024	2025	2026
Total revenue	2 896	48.9	48.1	47.2	47.1	46.9
Total expenditure	2 853	48.1	48.5	47.9	46.9	45.5

Sources: Statistics Sweden and own calculations.

Table C.2c Expenditure to be excluded from the calculation of the expenditure benchmark

Per cent of BNP if not otherwise stated

	SEK bn 2022	2022	2023	2024	2025	2026
Expenditure on EU programmes fully matched by EU funds revenue	13	0.2	0.2	0.1	0.1	0.1
of which investment fully matched by EU funds revenue	*3*	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*
Cyclical unemployment benefit expenditure[1]	2	0.0	0.0	0.0	0.0	0.1
Effect of discretionary revenue measures	-20	-0.3	0.3	0.0	0.0	0.0
Revenue increases mandated by law	-	-	-	-	-	-

[1] Annual change.

Sources: Statistics Sweden and own calculations.

Table C.3 General government expenditure by function

Per cent of GDP

	COFOG code	2021
General public services	1	6.6
Defence	2	1.3
Public order and safety	3	1.3
Economic affairs	4	4.8
Environmental protection	5	0.6
Housing and community amenities	6	0.7
Health	7	7.5
Recreation, culture and religion	8	1.4
Education	9	6.7
Social protection	10	18.6
Total expenditure		**49.4**

Sources: Statistics Sweden and own calculations.

Table C.4 General government debt developments

Per cent of GDP

	2022	2023	2024	2025	2026
Gross debt	33.0	31.0	31.0	29.8	27.7
Change in gross debt ratio	-3.5	-2.0	0.0	-1.1	-2.2
Contribution to changes in gross debt					
Primary balance	-1.2	-0.1	0.1	-0.8	-2.0
Interest expenditure	0.5	0.5	0.6	0.6	0.6
Stock-flow adjustment	0.0	-1.1	0.3	0.4	0.8
of which					
– differences between cash and accruals	*-0.6*	*0.3*	*0.1*	*0.2*	*0.7*
– privatisation proceeds	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*
– valuation effects and others	*0.6*	*-1.4*	*0.3*	*0.3*	*0.2*
Nominal GDP change	-2.9	-1.3	-1.0	-1.3	-1.5
Implicit interest rate on debt	1.5	1.7	1.9	2.0	2.1

Sources: Statistics Sweden and own calculations.

Table C.5 Cyclical developments

Per cent of GDP if not otherwise stated

	2022	2023	2024	2025	2026
Real GDP growth (%)	2.6	-1.0	1.2	2.6	3.2
Net lending of general government	0.7	-0.4	-0.6	0.2	1.4
Interest expenditure	0.7	0.7	0.7	0.7	0.7
One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0
Potential GDP growth (%)	1.7	1.8	1.9	1.9	1.9
Output gap	1.3	-1.3	-1.9	-1.0	0.0
Cyclical budgetary component	0.7	-0.4	-1.2	-0.9	-0.3
Cyclically-adjusted balance	0.0	0.0	0.6	1.1	1.7
Cyclically-adjusted primary balance	0.7	0.7	1.3	1.8	2.4
Structural balance	0.0	0.0	0.6	1.1	1.7

Sources: Statistics Sweden and own calculations.

Table C.6 Divergence from previous update

Annual percentage change and per cent of GDP. Outcome 2022, forecast 2023-2026

	2022	2023	2024	2025	2026
Real GDP growth, percentage change					
Previous update	3.1	1.6	1.6	1.7	-
Current update	2.6	-1.0	1.2	2.6	3.2
Difference	-0.5	-2.6	-0.4	0.9	-
General government net lending, per cent of GDP					
Previous update	-0.5	0.7	0.8	1.4	–
Current update	0.7	-0.4	-0.6	0.2	1.4
Difference	1.3	-1.1	-1.5	-1.2	–
General government gross debt, per cent of GDP					
Previous update	33.5	30.7	28.9	26.4	–
Current update	33.0	31.0	31.0	29.8	27.7
Difference	-0.6	0.3	2.1	3.4	–

Note: The amounts are rounded off and therefore do not always sum to the total.

Sources: Statistics Sweden and own calculations.

Table C.7 Long-term sustainability of public finances

Per cent of GDP

	2022	2030	2040	2050	2060	2070	2080
Total expenditure	**47.3**	**45.8**	**46.2**	**46.3**	**46.7**	**46.0**	**46.5**
of which							
Age-related expenditure	32.9	33.3	33.2	33.1	33.6	32.7	33.3
of which							
Pension expenditure	7.1	7.1	7.2	7.2	7.7	7.5	7.9
of which							
Social security pension	0.3	0.5	0.6	0.7	0.7	0.7	0.7
Old-age and early pensions	5.8	5.6	5.5	5.5	5.9	5.6	5.9
Other pensions (disability- and survivors-)	0.4	0.3	0.3	0.2	0.3	0.3	0.4
Occupational pensions (if in general government)	0.5	0.7	0.8	0.8	0.8	0.8	0.9
Health care	6.5	6.5	6.5	6.4	6.3	6.1	6.1
Long-term care	4.7	5.1	5.4	5.6	5.8	5.9	6.2
Educational expenditure	4.9	4.8	4.5	4.4	4.3	4.1	4.1
Other age-related expenditures	7.7	7.7	7.6	7.4	7.4	7.1	7.0
Interest expenditure	0.5	0.6	0.9	0.9	0.9	1.0	1.0
Total revenue	**48.1**	**47.3**	**47.8**	**47.8**	**48.2**	**47.9**	**48.2**
of which							
Property income	1.8	1.6	2.1	2.4	2.6	2.7	2.9
of which							
From pensions contributions (or social contributions if appropriate)	0.7	0.8	1.0	1.2	1.4	1.5	1.6
Pension reserve fund assets	31.4	28.1	28.6	33.6	39.3	41.5	46.4
of which							
Consolidated public pension fund assets (assets other than government liabilities)	33.2	28.1	28.0	32.8	38.5	40.6	45.5
Assumptions							
Labour productivity	6.6	7.2	8.8	10.7	13.0	15.8	19.2
Real GDP growth	2.6	1.8	2.0	1.9	1.9	2.6	2.0
Unemployment rate	7.5	7.5	7.7	7.6	7.6	7.5	7.4
Population aged 65+ over total population	20.4	21.8	23.3	23.7	25.5	25.7	26.6

Note: In May 2022, the Riksdag decided on changes in the age limits in the pension system and related social security systems and the tax and social security contributions system, which means that benchmark age for the pension system will be increased in line with the average life expectancy. In the calculations, the benchmark age for the pension system will be increased by one year in 2070, which will have temporary effects on growth, labour supply, employment and pension-related expenditure, among other things.

Sources: Statistics Sweden and own calculations.

Table C.7a Contingent liabilities

Per cent of GDP

	2022
Public guarantees	44.8

Sources: Statistics Sweden and own calculations.

Table C.8 Basic assumptions

Annual average if not otherwise stated

	2022	2023	2024	2025	2026
Short-term interest rate (annual average)[1]	0.9	3.2	3.1	2.5	2.2
Long-term interest rate (annual average)[2]	1.5	2.6	2.4	2.4	2.4
€/USD exchange rate (annual average)	1.1	1.1	1.1	1.1	1.1
Nominal effective exchange rate vis-á-vis the €[3]	10.6	10.9	10.7	10.5	10.4
World GDP growth[4]	3.2	2.6	3.0	3.0	3.1
EU GDP growth[4]	3.6	0.6	1.1	1.3	1.6
Growth of relevant foreign markets[4]	7.2	2.2	2.9	3.0	3.2
World import volumes, excluding EU	-	-	-	-	-
Oil prices (Brent USD/barrel. annual average)	101	81	77	74	71

[1] 6-months interest rate.
[2] 10-year government bond yield.
[3] €/SEK. Annual average.
[4] Annual percentage change.

Sources: Statistics Sweden and own calculations.

Table C.9 RRF grants

Per cent of GDP

	2020	2021	2022	2023	2024	2025	2026
Revenue from RRF grants							
RRF grants as included in the revenue projections	0.01	0.14	0.18	0.14	0.05	0.03	–
Cash disbursements of RRF grants from EU	–	–	–	0.31	0.16	0.05	0.04
Expenditure financed by RRF grants							
Total current expenditure	0.01	0.08	0.05	0.07	0.02	0.01	–
of which							
– compensation of employees D.1	*0.01*	*0.01*	*0.01*	*0.00*	*0.00*	*0.00*	–
– intermediate consumption P.2	*0.00*	*0.03*	*0.01*	*0.04*	*0.02*	*0.01*	–
– social payments D.62+D.632	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	–
– interest expenditure D.41	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	–
– subsidies, payable D.3	*0.00*	*0.01*	*0.01*	*0.01*	*0.00*	*0.00*	–
– current transfers D.7	*0.00*	*0.03*	*0.02*	*0.02*	*0.00*	*0.00*	–
Total capital expenditure	0.00	0.06	0.09	0.10	0.04	0.02	–
of which							
– gross fixed capital formation P.51g	*0.00*	*0.00*	*0.01*	*0.01*	*0.01*	*0.00*	–
– capital transfers D.9	*0.00*	*0.06*	*0.07*	*0.09*	*0.03*	*0.02*	–
Other costs financed by RRF grants							
Reduction in tax revenue	–	–	–	–	–	–	–
Other costs with impact on revenue	–	–	–	–	–	–	–
Financial transactions	–	–	–	–	–	–	–

Note: RRF grants included in revenue forecasts are accrual according to ESA-definitions and based on the exchange rate of SEK 10.125/euro in all years. Cash payment of RRF grants from the EU is based on current exchange rate forecasts. The amounts are rounded off and therefore do not always sum to the total.

Sources: Statistics Sweden and own calculations.

Table C.10 Government guarantees - Measures adopted in 2022

Per cent of GDP

Measure	Date of Riksdag decision	Guarantee limit	Outstanding commitments
Guarantee to the International Bank for Reconstruction and Development	March	0.0	0.0
A credit guarantee to secure the supply of raw materials	July	0.1	0.0
Credit guarantees, electricity producers	September	4.2	0.0
Guarantee to the European Union for macro-financial support to Ukraine	December	0.0	0.0
Sum total		4.3	0.0

Source: Swedish National Debt Office.

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