

1

# Budget Statement

Economic and budget policy  
guidelines





# 1 Budget Statement

## Economic and budget policy guidelines

### 1.1 Jobs and growth first

The international economy is emerging from the downturn it has experienced in recent years. Recovery has begun.

An economic policy based on a responsible, long-term approach has made it possible to soften the impact of the international recession in Sweden.

In the light of international developments, the economic policies pursued in recent years have been successful. Sweden is one of the few countries that have made it through the recession with stable public finances. The Swedish economy is well prepared to take advantage of an international upturn.

The economic turnaround creates good conditions for strengthening growth and employment in the long term. This opportunity must be exploited to the full to put Sweden on a stronger footing to meet future fluctuations in the economy.

However, the recession has left its mark on the Swedish labour market. Unemployment is at a higher level than the Government can accept. The economic upturn will have no immediate impact on the labour market.

The fight against unemployment is one of the Government's principal tasks. The objective is full employment. Measures are therefore being put forward to keep employment levels up and drive unemployment back down. The Government will monitor developments in the

labour market closely and propose further action as appropriate.

At the same time, Sweden faces other major challenges. Our population is ageing. The demographic trend presents a challenge for the future labour supply. Large generations are due to retire in the years ahead. In response, working life must open its doors to everyone. People must be given the opportunity and indeed be encouraged to begin working earlier and to stay on at work a few years more.

The "work first" approach is a leading policy principle. Measures already taken to combat ill health have led to fewer cases of sick leave, but sick leave must be further reduced and additional action is needed. The stronger economy must be used to boost the labour supply on a lasting basis.

As a result of globalisation, companies are encountering stronger and stronger international competition. They face growing demands for constant renewal. For the sake of future success in terms of growth and employment, enterprises must have favourable operating conditions. Everyone's ideas and knowledge must be harnessed. Sweden's ambitions in the area of education must continue to rise. Conditions for enterprises in Sweden must improve and, at the same time, companies must constantly seek out the industries and niches where they are most competitive.

The conditions in which our children and grandchildren live will be influenced by the way we treat one another and our common

environment. Increased emissions of carbon dioxide and other greenhouse gases risk leading to global warming, with devastating consequences for all life on earth. Environmental, social and economic objectives must be mutually reinforcing.

There must be increased social justice and solidarity in Sweden. Social disparities must shrink. Women and men must become more equal. Inadequacies in several areas of welfare need to be remedied. More resources are needed to maintain high standards of welfare provision. Good schools, health care and community services, in turn, are a crucial requirement for growth and development in Sweden.

Substantial investments are proposed in education, infrastructure and welfare.

Healthy public finances are the foundation on which growth and employment build. Our economic policy targets remain firm. The expenditure ceilings must be met and the target of a two per cent public finances surplus over a business cycle remains in place.

### Forms of cooperation

The Spring Fiscal Policy Bill is based on an agreement between the Social Democratic Government, the Left Party and the Green Party, which jointly endorse the economic policy guidelines, the budget policy and the supplementary budget for 2004.

## 1.2 The state of the economy

### 1.2.1 International developments

In the second half of 2003, the international economy took an upward turn. The upturn has been most apparent in the United States and Asia, with a weaker recovery in Europe. The positive trend is expected to continue in 2004.

In the United States an expansionary fiscal policy, low interest rates and a favourable financial situation for enterprises are expected to support further good growth in 2004. However, the large US budget deficits and trade deficit are factors that may work against the positive trend in the longer term.

In the euro area, a cautious recovery began in the middle of last year. This recovery is expected to strengthen in 2004. Companies are in a better position financially, interest rates are expected to remain low and a clear rise in investments has been seen. The economic recovery that is now evident in other regions is expected to have a positive impact on euro area exports.

Japanese growth in 2003 was a welcome surprise in light of the weak trend over the past decade. However, fundamental structural problems remain and weaker growth is expected this year.

### 1.2.2 The outlook for Sweden

Activity in the Swedish economy increased in the second half of 2003. Growth of 2.5 per cent is forecast for the gross domestic product (GDP) both this year and next, which is nearly one percentage point higher than in 2003. Part of this year's growth, however, will be due to a "calendar effect" (more working days and fewer holidays). An international economic upturn is feeding increasingly strong demand for products produced by Swedish exporters. Household consumption is expected to rise by about 2 per cent per year in 2004 and 2005.

A gradual rise in resource use, low interest rates and a stabilisation of profit levels suggest that business investments will increase this year after three years in decline. Public sector investment is on the rise again, partly due to infrastructure investments by the State.

**Table 1.1 Supply balance**

*Volume change in per cent*

	2003	2004	2005
Household consumption expenditure	2.0	2.0	2.2
Public sector consumption expenditure	0.7	1.3	0.2
Central government	0.8	1.5	-1.0
Local government	0.6	1.2	0.7
Gross fixed capital formation	-2.0	1.5	3.4
Stocks <sup>1</sup>	0.2	-0.2	0.2
Exports	5.9	7.4	7.2
Imports	5.4	5.7	6.9
<b>GDP</b>	<b>1.6</b>	<b>2.5</b>	<b>2.6</b>

<sup>1</sup>Contribution to GDP growth.

Sources: Statistics Sweden, Ministry of Finance.

**Table 1.2 Key ratios**

Annual percentage change, unless otherwise indicated

	2003	2004	2005
Inflation, CPI <sup>1</sup>	2.0	0.4	1.4
Hourly pay	3.4	3.2	3.2
Open unemployment <sup>2</sup>	4.9	5.5	5.3
Labour market programmes <sup>2</sup>	2.1	2.4	2.1
Number of persons employed	-0.3	-0.6	0.5
Real disposable income	0.0	2.2	1.3
Household net saving ratio, level <sup>3</sup>	3.5	3.7	2.9
Current account balance <sup>4</sup>	6.6	6.9	7.1
German 10-year government bond rate <sup>1</sup>	4.1	4.4	4.8
Swedish 10-year government bond rate <sup>1</sup>	4.6	4.8	5.1
TCW index <sup>1</sup>	127.6	124.7	124.0

<sup>1</sup> Annual average.<sup>2</sup> Per cent of labour force.<sup>3</sup> Excluding occupational pensions.<sup>4</sup> Per cent of GDP.

Sources: Statistics Sweden, National Labour Market Board, Riksbank and Ministry of Finance.

### 1.2.2.1 Local government sector

Consumption by the local government sector was up 0.6 per cent at fixed prices in 2003. This represents a slackening after the vigorous increase in proceeding years, which in 2002 led to a deficit in the sector as a whole posted at SEK 7 billion before extraordinary items. In 2003, the deficit was reduced to SEK 1 billion.

Local government taxes have been raised by SEK 0.34 per SEK 100, which corresponds to a rise in revenues of SEK 4 billion. Local government consumption is forecast to rise this year by 1.2 per cent at fixed prices, but almost

all this increase is attributable to the calendar effect. An additional allocation of funds totalling SEK 4 billion is proposed for 2005 and a further SEK 3 billion on top of this for 2006. In addition, general employment support for local government is proposed for 2005, at a cost of some SEK 1.5 billion. A tax incentive for environmental investments in public buildings is also proposed. An increase of 0.7 per cent is forecast in the volume of activities in 2005 as local government sector finances improve.

### 1.2.2.2 The labour market

The labour market is expected to continue to be weak in 2004. The regular employment rate for people aged 20–64 is forecast to be 76.8 per cent this year and 76.6 per cent next year. Next year, however, employment is expected to pick up as demand for labour rises. The labour supply is expected to be largely unchanged in 2004 and to rise slightly in 2005. Open unemployment will rise to 5.5 per cent this year, declining to 5.3 per cent next year.

The Government is now announcing a series of measures to restrain unemployment. Open unemployment will be driven back towards the 4 per cent mark.

The Government and Riksdag have set as their target that 80 per cent of people aged between 20 and 64 should be employed on the regular labour market in 2004. This objective will not be met in 2004. This is due primarily to the cyclical weakness of the economy, but also

**Table 1.3 Employment, unemployment, wages and productivity**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number of persons employed <sup>1</sup>	3 963	3 922	3 979	4 069	4 159	4 239	4 244	4 234	4 206	4 227
of whom in private sector <sup>1</sup>	2 698	2 695	2 735	2 805	2 888	2 969	2 960	2 942	–	–
of whom in public sector <sup>1</sup>	1 263	1 223	1 240	1 260	1 264	1 262	1 278	1 288	–	–
Regular employment ratio <sup>2</sup>	74.7	73.9	74.6	75.9	77.2	78.2	78.1	77.6	76.8	76.6
Open unemployment <sup>3</sup>	8.1	8.0	6.5	5.6	4.7	4.0	4.0	4.9	5.5	5.3
Cyclical labour market programmes <sup>3</sup>	4.7	4.5	4.1	3.3	2.6	2.5	2.6	2.1	2.4	2.1
Hourly pay <sup>4</sup>	6.0	4.5	3.8	3.4	3.7	4.4	4.1	3.4	3.2	3.2
Productivity growth, private sector <sup>4</sup>	1.9	5.2	2.0	2.6	3.6	-0.1	4.5	3.6	2.8	2.5

Note: In LFS, Church of Sweden employees were not transferred from the local government sector to the private services sector until 2001. As a result, the number of people employed in the public sector is overestimated, and the number employed in the private sector is underestimated, by approximately 22 000 in 2000.

<sup>1</sup> In thousands.<sup>2</sup> Population aged 20–64 in regular employment as a percentage of total population in the age group.<sup>3</sup> In per cent of the labour force.<sup>4</sup> Annual percentage change.

Sources: Statistics Sweden, National Labour Market Board, National Mediation Office and Ministry of Finance.

**Table 1.4 Employment and unemployment disaggregated by sex**

	1999		2000		2001		2002		2003	
	Women	Men								
Number of persons employed <sup>1</sup>	1 947	2 121	1 992	2 167	2 036	2 203	2 047	2 197	2 043	2 191
of whom in private sector <sup>1</sup>	997	1 808	1 037	1 852	1 080	1 891	1 080	1 879	1 077	1 866
of whom in public sector <sup>1</sup>	949	311	953	312	954	307	965	314	965	322
Open unemployment <sup>2</sup>	5.2	5.9	4.3	5.0	3.6	4.3	3.6	4.4	4.4	5.3

Note: In LFS, Church of Sweden employees were not transferred from the local government sector to the private services sector until 2001. As a result, the number of people employed in the public sector is overestimated, and the number employed in the private sector is underestimated, by approximately 22 000 in 2000.

<sup>1</sup> In thousands.

<sup>2</sup> In per cent of the labour force.

Source: Statistics Sweden.

to educational initiatives that have reduced the proportion of people aged 20–24 in employment.

The employment objective remains firm. The Government is continuing to monitor developments on an ongoing basis and will propose steps to reach the goal.

### 1.2.2.3 Medium-range outlook

In a medium-term perspective economic fluctuations are hard to predict. Consequently, the estimates for the years after 2005 are based on an assumption that at the end of 2005, there will be unused resources in the economy that will be available for use without giving rise to inflationary wage increases. As a result, for a number of years GDP may be able to grow more rapidly than the sustainable long-term growth rate. However, there is considerable uncertainty both about assessments of the resource situation and the long-term economic growth rate. To illustrate the uncertainty of the estimates made in the base scenario, two alternatives are presented.

In the low-growth alternative, global growth is assumed to be considerably weaker than in the base scenario, due to a substantial decline in the US business cycle. This leads to considerably lower GDP growth and employment levels than in the base scenario in Sweden as well.

In the high-growth alternative, the labour market and wage formation are assumed to work better than in the base scenario. At the start of the period there are more unused resources in the economy and the potential growth rate is also assumed to be higher. Given the same

assumptions about the key interest rate and the pace of wage increases, this will allow a more rapid rise in GDP and employment without inflation accelerating. In this scenario, the Government's target of a regular employment rate of 80 per cent for people aged 20 to 64 is reached in 2007.

**Table 1.5 The three scenarios**

	2004	2005	2006	2007
<i>GDP, percentage change</i>				
Base	2.5	2.6	2.5	2.4
Low growth	1.8	0.7	1.5	2.9
High growth	2.9	3.6	3.7	3.4
<i>Regular employment rate</i>				
Base	76.8	76.6	76.8	76.9
Low growth	76.2	74.6	74.0	74.5
High growth	77.1	77.8	79.1	80.0

Source: Ministry of Finance.

## 1.3 Sound public finances

Strong growth and a positive trend for employment and welfare require public finances to be strong and sound. Without sound public finances, there is a risk that every economic downturn will force major cutbacks. People must be able to rely on welfare provision even when the economy is weak, which indeed is when many people need welfare most. The Government's budget policy is therefore guided by two general objectives: the public finances surplus target and the central government expenditure ceilings.

**Table 1.6 Public finances***Per cent of GDP*

	2000	2001	2002	2003	2004	2005	2006
Expenditure ratio	54.7	54.3	55.7	55.6	55.6	55.0	54.3
Revenue ratio	59.8	57.2	55.4	56.1	55.9	55.5	55.4
Tax ratio, incl. EU	53.9	52.2	50.2	50.9	50.6	50.2	50.0
Financial saving	5.1	2.9	-0.3	0.5	0.3	0.6	1.1
Net debt	1.3	-2.9	4.8	0.1	-0.3	-0.6	-1.6
Consolidated gross debt	52.8	54.4	52.6	51.9	52.1	51.5	50.6

Sources: Statistics Sweden and Ministry of Finance.

### 1.3.1 Public finances surplus

The prime task of fiscal policy is to lay the foundation for high growth and full employment by maintaining sound public finances.

A public finances surplus target of 2 per cent of GDP over the business cycle has been in effect since 2000. This is a considerably more ambitious goal than that set by the EU countries within the framework of the Stability and Growth Pact. The Swedish surplus target allows central government debt to diminish as a proportion of GDP, while assets concurrently build up in the public pension system. This is a means of creating buffers to meet future demographic strains on the public welfare systems. The surplus target also provides a safe margin to the maximum deficit of 3 per cent of GDP specified in the EU Stability and Growth Pact. The surplus target thus allows scope for fiscal policy to help moderate economic fluctuations without running up excessive deficits in economic downturns.

Under the surplus target, financial savings can be allowed to fall below 2 per cent in an economic downturn so as to help mitigate any cyclical weakness. Conversely, during an upswing in the business cycle, a larger surplus will restrain economic activity and reduce the risk of overheating. The surplus should therefore be adjusted to take into account the economic situation and the level of resource use in the Swedish economy.

Beginning with the Budget Bill for 2004, the Government specifies surplus targets for the year ahead, not, as previously, for the next three years. The reason for this change is that it is difficult to assess the development of the economy in a longer term perspective. The target for each budget year is to be set taking

into account both the state of the economy and the situation regarding the overall surplus target.

Ever since the surplus target began to apply in 2000, the public finances balance in Sweden has been clearly above the EU average. In 2000 and 2001 savings exceeded the 2 per cent target, while in 2002 and 2003 they were below that level. The balance of the Swedish public finances in 2003 is computed to have been 0.5 per cent of GDP, as against the EU average of -2.6 per cent of GDP.

The precise target for 2004 has been set at a surplus of at least 0.5 per cent of GDP. The Government expects general government financial saving to be slightly lower than the targeted surplus. To be sure, growth has been revised upward since the Budget Bill, but at the same time employment growth has been revised sharply downward. There is a risk that a more restrictive fiscal policy this year would hamper economic recovery.

The general target of an average 2 per cent surplus over a business cycle remains firm and overall the estimated surpluses are considered compatible with the surplus target the Riksdag has decided on. The Government will present an estimate of the surplus for 2005 in this autumn's Budget Bill.

### 1.3.2 Central government expenditure ceiling

The expenditure ceilings are the most important budget policy instrument. Annual spending by the central government is not allowed to exceed the level set in the expenditure ceiling. The system of expenditure ceilings helps to promote a pattern of expenditure that is sustainable in the long term. When times are good, the expenditure ceiling prevents the use of temporarily higher income to finance

permanently higher expenditure. This makes it possible to avoid major cutbacks when times are less good. As a result, welfare provision is more predictable and secure.

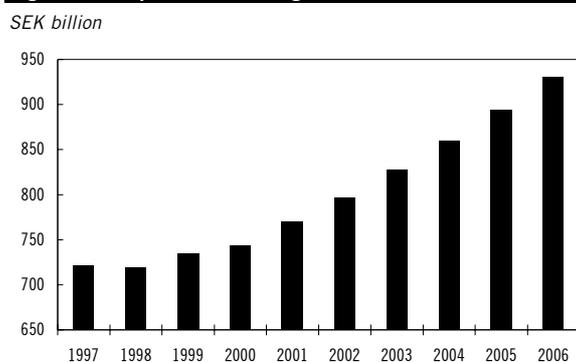
The expenditure ceiling is one reason Sweden has relatively strong public finances, compared with other countries, despite a protracted international recession. The restraining effect of the expenditure ceiling during the economic upswing has helped to provide scope for more stimulation of domestic demand during the latest recession than would otherwise have been possible.

The expenditure ceiling has been met every year since its introduction in 1997. In 2004 and 2005 the expenditure ceiling leaves very limited headroom. The Government will therefore be monitoring expenditure closely in 2004 and 2005. If there is any risk of a set expenditure ceiling being exceeded, the Government will act accordingly or propose necessary measures to the Riksdag. The expenditure ceilings must be met.

The level of the expenditure ceiling for each year is set three years in advance. The Government intends to present a proposed expenditure ceiling for 2007 in the Budget Bill for 2005. In its proposal, the Government will take into account the need for a budget margin that can accommodate cyclical variations in employment.

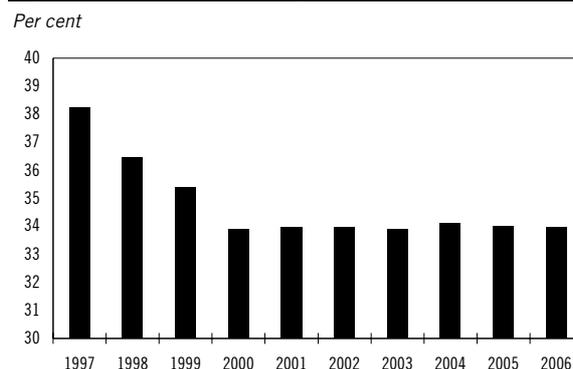
Estimates of expenditure subject to the ceiling in 2004 give a budget margin of SEK 0.1 billion. The budget margins in 2005 and 2006 are forecast to be approximately SEK 2 billion and SEK 24 billion respectively.

**Figure 1.1 Expenditure ceilings in SEK**



Note: For the sake of comparability over time, the expenditure ceilings have been corrected for technical changes that have led to adjustments in the annual ceilings, and for a change in accounting procedures for support to local government (see section 4.1.1).  
Source: Ministry of Finance.

**Figure 1.2 Expenditure ceilings as per cent of GDP**



Note: For the sake of comparability over time, the expenditure ceilings have been corrected for technical changes that have led to adjustments in the annual ceilings, and for a change in accounting procedures for support to local government (see section 4.1.1).  
Source: Ministry of Finance.

## 1.4 Prices and wages

### 1.4.1 Stable prices

Stable prices are a fundamental precondition for a successful economic policy leading to high growth, increased fairness and more resources for welfare. A high rate of inflation makes for poorer prospects of strong, sustained growth and of a stable, high level of employment and welfare. Moreover, a high rate of inflation, particularly when difficult to foresee, has negative distributional effects.

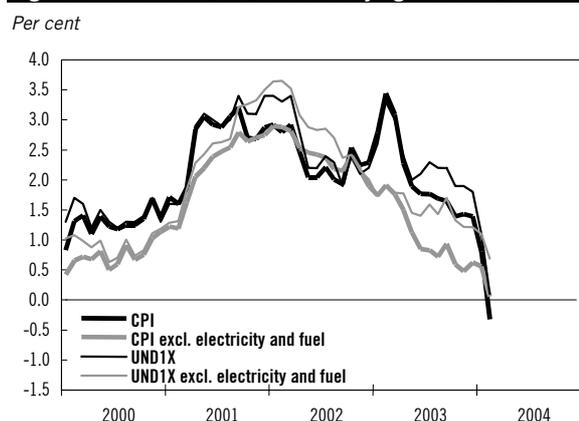
The overriding task of monetary policy, as defined by the Riksdag, is price stability. Subject to this basic principle, the Riksbank (Swedish central bank) is free to conduct monetary policy independently. The Riksbank has defined price stability such that the increase in the consumer price index must be limited to 2 per cent, plus or minus 1 per cent. The Government supports this orientation of monetary policy and endorses the target for inflation.

Last year inflation was pushed up by sharp price rises for energy, especially electricity. In early 2004 the impact of these price increases on the rate of inflation has faded. At the same time price growth has been subdued recently thanks to slow import price growth and low domestic price pressures. Inflation has therefore turned sharply lower. Excluding energy prices, inflation has been declining since the beginning of 2002. Inflationary pressures are expected to remain low in 2004, gradually beginning to pick up in 2005 as the economy strengthens. Inflation

measured by the consumer price index (CPI) is expected to be about 2 per cent at the end of 2005. Over the next few years, inflation is forecast to remain in line with the inflation target.

In recent years the Riksbank has based monetary policy on the expected development of UND1X. UND1X is a measure of underlying inflation in which the direct effects of changes in interest rates, taxes and subsidies are excluded from the consumer price index. In 2003, moreover, the Riksbank indicated that the substantial temporary effects of energy price growth should not influence monetary policy decisions. Over the next two years underlying inflation (UND1X) is expected to be clearly below 2 per cent. The forecast for the end of 2004 is 0.9 per cent, rising to 1.4 per cent at the end of 2005.

**Figure 1.3 Inflation (CPI) and underlying inflation (UND1X)**



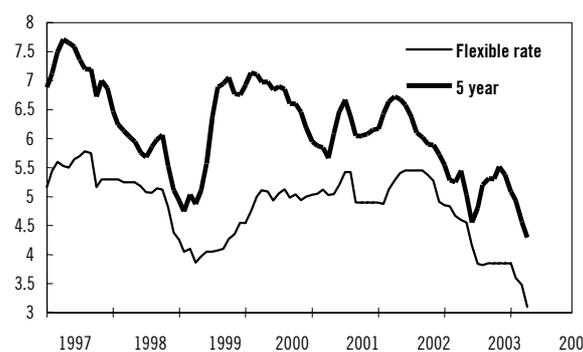
Sources: Statistics Sweden, National Institute of Economic Research and Ministry of Finance.

#### 1.4.1.1 The interest rate and the krona

International interest rates have fallen in early 2004 in the wake of low price increases. Interest rates are now low. Several central banks have continued to cut their key rates in 2003 and early 2004 in an attempt to support economic recovery. The Riksbank has lowered interest rates by 2.25 percentage points since November 2002, to a current level of 2.0 per cent. Low interest rates and the stock market recovery during the past year create favourable conditions for economic recovery.

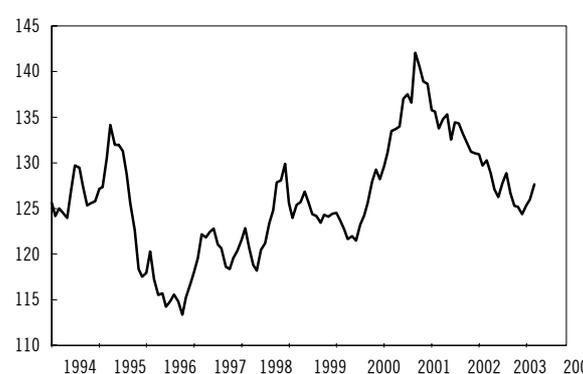
The krona has grown stronger since autumn 2001, particularly relative to the American dollar.

**Figure 1.4 Mortgage rates, 3 months and 5 years (SBAB)**



Source: EcoWin.

**Figure 1.5 Swedish krona against TCW index**



Source: EcoWin.

#### 1.4.2 Wage formation

Properly functioning wage formation is of crucial importance for the satisfactory development of the economy. Wage increases within the given national economic parameters make for lower unemployment, higher employment and growing production. This in turn provides scope for welfare improvements. Both a strong international economy and reasonable nominal wage increases are required to bring the employment and unemployment targets within reach. If total wages increase faster in Sweden than in the countries that are our most significant competitors, there is a risk that unemployment will rise.

Developments in recent years show that reasonable nominal wage increases and a greater assumption of responsibility by the social partners (trade unions and employers' associations) create good conditions for high employment, low unemployment and healthy real wage growth. The nominal rate of wage increases since the late 1990s has been only half

as high as in the 1980s, while real wage growth has been considerably better.

The social partners have a shared responsibility for ensuring that changes in relative wages keep within the limits of the overall scope for wage increases. For the sake of future employment and welfare, it is vital that the social partners demonstrate responsibility in the ongoing collective agreement negotiations.

The labour market is still characterised by very substantial gender segregation. Women often work in less well paid occupations and in less senior positions. Involuntary part-time employment is also more common among women than among men. Gender income differentials are reinforced by a skewed distribution of paid and unpaid work.

Wage differentials that have no objective justification and are due only to gender must disappear. Wage discrimination is against the law. Even taking into account differences in occupational choices and sector, there are still considerable gender wage differentials. This is unacceptable. These differentials have various causes. They include the value assigned to different types of work and the effects of segregation in the labour market, as well as direct wage discrimination. The social partners are responsible for wage formation and the State has taken its share of responsibility by prohibiting wage discrimination.

The new Act concerning Equality between Men and Women is one instrument for evening out unjustified, gender-based pay gaps between women and men. A working group will be appointed in 2005 to review the Act Concerning Equality between Men and Women. Wage formation is an issue that the social partners must address: unmotivated pay differentials attributable to sex are an infringement of the law. The Government is actively following work in this area through the Office of the Equal Opportunities Ombudsman and the National Mediation Office. The need for further measures will depend on the outcome of efforts made by the social partners. Efforts to achieve a gender-equal labour market must also focus on opening up the entire labour market to women and men alike. Women and men must be given the same opportunities for professional development. These endeavours must be pursued in tandem with work in other policy areas, particularly family policy.

In its written communication "Jämt och ständigt" (Just Progress) (2002/03:140), the Government has reported to the Riksdag on all the actions being taken to increase gender equality in all policy areas and on the labour market. A national action plan is being drawn up to combat wage differentials due to gender discrimination.

## 1.5 More jobs and sustainable growth

Good, sustainable economic growth provides resources for commitments to welfare and social justice. The Government's policy is based on the 10-point programme for growth that was presented in the Statement of Government Policy delivered in autumn 2003.

Between 1994 and 2003, Sweden's economy grew at an average rate of 2.9 per cent, which is higher than the EU average of 2.2 per cent per year. It is also higher than Sweden's historical growth rate (1970–2003), of approximately 2 per cent per year.

There is no single measure that, in isolation, creates conditions for good growth. Actions taken since 1994 span a wide range of areas. The fundamental approach has been to establish a stable framework for the economy by means of sound public finances and low price increases. Reforms have been implemented to improve different markets by changes in the regulations and steps to increase competition. The fundamental design of the welfare society – financed by all and including everybody – has been reaffirmed. Changes in taxes and benefits have increased the financial payback for extra work. The pensions system has been reformed, education and research have been expanded and major investments are now being made in infrastructure.

Internationalisation and EU enlargement present Sweden with new opportunities, but also new economic challenges. There is tougher competition for investment and production. Older technology is constantly being replaced by more modern alternatives. The Swedish labour force is ageing.

The best way to meet these challenges is to have a dynamic and flexible economy. People and capital must be able to move from industries

with relatively low productivity to industries where productivity is higher. New knowledge replaces old, unprofitable businesses are wound up and new enterprises are born. For this to happen, there must be a clear economic motivation, regulatory systems must be simple and welfare provision must function well. Security and development go hand in hand.

Sweden ranks high in most assessments of important factors that determine growth and competitiveness. Sweden's creditworthiness has been upgraded to the highest possible level. In the follow-up of the EU's Lisbon Strategy, Sweden has ranked at the top in several categories several years in a row and is singled out as a model in various respects, including public finances, employment, research, education and innovation.

The climate for growth and renewal in Sweden must be further advanced and reinforced during this Government's term of office. Efforts will focus on the following areas.

- *Stable macro economy and sound public finances.*  
Sweden has stronger public finances than most countries. The present position of strength must be maintained. The budget policy objectives remain firm.
- *An efficient labour market.*  
The employment and social assistance targets must be met. Open unemployment must be driven back towards the 4 per cent mark. Sweden needs both more people in work and more hours worked. Action is needed to improve the integration of immigrants, shorten periods of unemployment, reduce sickness absence, increase mobility and make work more worthwhile. Measures are needed in the education system to encourage young people in Sweden to work more.
- *Education and research increase productivity and promote security in the midst of change.*  
Sweden is and must continue to be a leading knowledge-based society. This requires good opportunities for basic education and for lifelong learning. Extensive investments in basic research and research education are laying the foundation for an increased number of highly qualified jobs. The Government intends to appoint an inquiry on the

“teacher's exception”. Action to strengthen research and education is essential to improve Sweden's position. The Government intends to present a research policy bill this year.

- *Increased competition.*  
Conditions for competition have been improving for several years. Sweden has an internationally competitive regulatory system. Sweden is well ahead in regulatory change in various markets. Yet price levels are still high in Sweden. In some industries there is a notable lack of competition. Additional efforts are needed to make the fight against cartels and abuse of dominant positions more effective.
- *Innovation.*  
Developments in technology and research-intensive industries, such as biotechnology and pharmaceuticals, have a decisive influence on Sweden's prosperity. Research investments by the business sector, combined with central government action, have made Sweden the OECD country that invests most in research and development as a percentage of GDP. However, the payback in terms of increased productivity and growth needs to improve. Conditions for entrepreneurship, enterprise and innovation need constant improvement to preserve Sweden's world-leading position. Measures to promote enterprise development need better coordination and improved effectiveness. An innovation strategy is being elaborated to reinforce Sweden's ability to create knowledge and translate it into sustainable growth and new jobs. The climate for growth is born of the interplay between politics, business and higher education. Development of new knowledge, more effective use of existing knowledge and stronger drivers for entrepreneurship are necessary components of a strategy for growth. Augmented seed financing and venture capital will be provided for the business sector. In 2004 the money allocated will be raised by an estimated SEK 10 million.
- *Enterprise.*  
Work is under way to find means of increasing the supply of capital in early phases of business or enterprise

- development, within the existing budget, and to improve the coordination and efficiency of actions to support enterprise development. Considerable efforts are being made to promote cooperation on research and development between higher education and the business sector. The special support for women entrepreneurs is being extended. Work is under way to shorten processing times for enterprise registration by increasing the availability of electronic registration. A broad programme of measures is being implemented, with the purpose of simplifying regulations and improving government agencies' services and availability. A method for measuring the administrative burden on enterprises is being developed. There is a continued focus on design, including preparations for the 2005 Year of Design that has been announced.
- *Environmentally driven technology.*  
The Committee on the Swedish Environmental Code has received supplementary terms of reference instructing it to make the environmental appraisal process simpler and more effective, without lowering environmental standards. The environmental technology sector is one of the growth areas of the future. A commitment is being made to environmentally driven business development and environmental technology exports so as to make Sweden even better at developing and commercially exploiting products and services in this area.
  - *Infrastructure expansion.*  
Infrastructure that is well designed for the country's society and economy is a precondition for strong, sustained economic growth. Major investments in roads and railways have been approved for the period until 2015 – investments that will strengthen connections between different parts of Sweden.
  - *More secure and more efficient welfare.*  
The welfare system must continue to develop and modernise so as to help promote increased growth and employment. Major investments are being made in the areas of education and research
- and health and social services. When a country has a large public sector it is particularly important that its welfare systems are efficient and encourage people to work. The Swedish welfare system stands up well in international comparisons.
- *National, European and international cooperation.*  
Cooperation is the best environment for generating conditions for growth. Hence, close cooperation between the different actors in society is essential. National, regional and local cooperation must continue to grow. Deeper cooperation, not least in the Baltic Sea region, is needed to establish better rules for mobility in a range of international markets. Sweden will take a proactive role in the EU's pursuit of the objectives that the Member States agreed on in Lisbon in 2000.
  - *Promoting Sweden's economic interests abroad.*  
Foreign trade is becoming increasingly important for the Swedish economy. The Ministry for Foreign Affairs will give priority to the work of promoting Swedish exports and attracting foreign direct investment.
- Redistribution between different groups in society and between women and men is easier when the available resources are growing. Economic growth facilitates fair distribution and sustainable economic development. Better education and health and medical care strengthen growth. People who are secure dare to move, change jobs, start businesses, take a course of education or bring children into the world – all those things that drive society forward for the better. Investment in new technology and new knowledge contribute to more efficient use of the earth's resources. A growth policy is only sustainable if it leads to a more even distribution of income opportunities and work and an environment that is better in the long term.

### **1.5.1 Full employment and low unemployment**

The objectives of Sweden's economic policy are a high rate of growth and full employment. The

“work first” concept is a guiding principle of the policy for growth. Policies in every area must focus on putting more people to work. Only when many people are in productive work can welfare grow, distribution be fairer and gender equality increase. High unemployment is a waste of human resources.

In 1996 a target was set of 4 per cent open unemployment. The ambition then was to halve open unemployment in four years. This target was achieved at the end of 2000. This was a vital success for economic policy and meant that many people were able to take the step from open unemployment to work or education.

As a result of international economic weakness, open unemployment now exceeds 4 per cent. Government policy is therefore focusing on the fight against unemployment. The main path to lower unemployment will be increased employment – just as was the case in 2000.

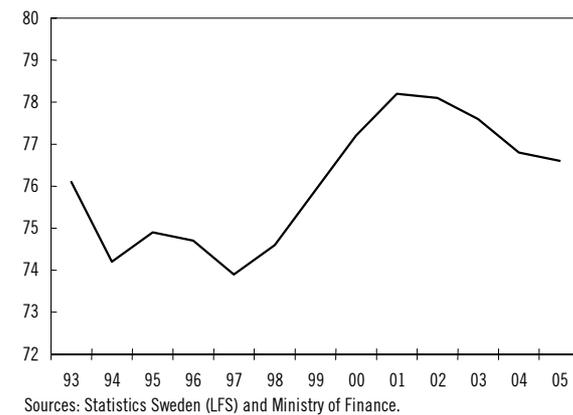
In 1998 the Government and Riksdag supplemented the employment goal with a bold goal for employment. The goal that was set was that 80 per cent of the population aged 20–64 should be employed on the regular labour market in 2004.

From 1998 to 2003 the economy grew at an average rate of 2.9 per cent per year, which is about the growth rate considered necessary to reach the goal. However, regular employment has increased by an average of 1 per cent per year, as against the 1.4 per cent that was thought necessary to reach the goal. Meanwhile, population growth has been twice as fast as expected.

Despite all this, until 2001 the actual development surpassed the expected results. However, the cyclical weakness in recent years has led to low demand for labour. Increased interest in studying, combined with the economic situation, has led more and more people to study for longer and longer periods. Yet Sweden has managed to keep relatively high employment and low unemployment levels, compared with other EU countries.

**Figure 1.6 Regular employment, age 20–64**

*Per cent of population*



To supplement the employment target there is also a social assistance target. Enforced, prolonged reliance on social assistance means a lack of economic independence. Under the social assistance target, the number of people dependent on social assistance is to be halved between 1999 and 2004, i.e. from 115 200 to 57 600 full-year equivalents.

The trend for social assistance has been positive since 1999, despite the cyclical weakness. Between 1999 and 2002 the number of full-year equivalents of social assistance fell by 29 000, i.e. 25 per cent. The cost trend for social assistance indicates a continued decline during 2003. This is partly because of a positive employment trend for immigrants.

**Figure 1.7 Number of full-year equivalents of social assistance**

*Full-year equivalents*



The Government is completely determined to persist in its efforts to reach the goals set, even though international economic developments have made this endeavour more difficult.

The Swedish labour market faces significant challenges in the short and long term. The short

term challenge is to restrain unemployment and overcome the remaining effects of the international downturn. In the longer term, the challenge is to increase the labour supply, i.e. the number of people willing and able to work. Our population and our labour force are ageing. Large waves of people will retire in the next few years. A well-educated labour force is an increasing necessity, not least because of growing competition in an enlarged EU.

The main features of the Government's strategy for increased employment are as follows:

- *Measures to restrain open unemployment.*  
The economic upturn will benefit the labour market, though with a certain delay. In 2004 and 2005 special measures are therefore needed to restrain unemployment. Accordingly, labour market policy measures will be expanded, adding 15 000 places this year. This initiative will also include vocational training. The volume of labour market policy programmes will be increased in 2005 as well. The Government will assess the extent of this increase in the Budget Bill for 2005. Tax incentives will be introduced for 2005 and 2006 to further stimulate employment in these two years. To make it easier for the long-term unemployed to obtain work, the budget for special employment support under the activity guarantee system will be increased so as to make it possible to offer places to a further 3 000 people and the ceiling for compensation will be raised from SEK 750 to SEK 1 000 per day.
- *Increased employment and reduced unemployment among young people.*  
About 80 per cent of young people aged 20–24 were employed at the beginning of the 1990s, as against just 60 per cent now. It is a positive thing that more young people are studying to more advanced levels, but the quality of education and student throughput rate must improve further. One of the goals of the Swedish National Labour Market Administration is to halve long-term unemployment among young people in the course of this year.
- *Better integration on the labour market.*  
Even though Swedes with non-Swedish

backgrounds on average have studied to higher levels and speak many languages, employers generally prefer to employ other Swedes. The employment rate is lower among male and female immigrants and many have to accept jobs that are far below their qualifications. The Government's ambition is for the employment rate for people born abroad to rise and to approach the rate for the population as a whole. Enhanced efforts are needed to improve the induction of immigrants, increase access to work experience schemes and combat discrimination.

- *Right to choose working hours.*  
People's will to work and support themselves is fundamental to development. For many people, the desire to improve their own economic position is an important motivating force. Accordingly, a number of measures have been implemented to reduce marginal effects, including compensation for personal pension contributions and a maximum charge for pre-school attendance. People should be given increased opportunities to choose the hours they work as they themselves wish. An inquiry will be appointed to examine the possibility of strengthening the right to full-time employment. Another inquiry will study the right of those who wish to do so to engage in part-time work.
- *Shortening periods of unemployment.*  
Unemployment, though low by international standards, is unacceptably high. In the second half of 2003, an average of 36 000 people were registered as long-term job-seekers. About 52 000 young people aged 16–24 were out of work. Labour market policy must focus more clearly on the major tasks of job placement and employment guidance, along with action to combat labour shortages and measures to help those who are most detached from the labour market. Special attention must be given to the situation of young people. There must be a clearer focus on the role of unemployment insurance as adaptation insurance. The National Labour Market Board will therefore be given the task of developing measures to shorten periods of

unemployment, increase the consistency with which rules are applied, clarify the regulations concerning suitable work, limit the use of exceptions in the body of regulations, and reduce differences in the application of regulations between different county labour boards and employment offices, by conducting systematic comparisons between them.

- *Reduced sickness absence.*  
Sickness absence must be brought down to reduce individual suffering, give more people a chance to support themselves by their own work and reduce the costs to society. Approximately 130 000 people have been on sick leave for more than a year. More than 500 000 people are receiving sickness or activity compensation. A slight reduction in the number of cases of sick leave is observable in recent times but the number of people receiving sickness or activity compensation is still increasing. Continued efforts are needed in order to achieve the Government's goal of halving absence from working life due to sick leave by 2008.
- *Employing more older people.*  
Sweden has an ageing labour force. In the years until 2010 there will be more and more people aged 60–64. The employment rate for this group is just 54 per cent, as against 75 per cent for the entire working age population. The actual retirement age in Sweden is 62. Measures must be taken to make it possible for older workers to carry on at work longer, to encourage them to do so and to increase employer demand for older workers.
- *Reduced dependence on social assistance.*  
The Government intends to conduct a review aimed at strengthening the “work-first” principle and making it easier for people to move from social assistance to work. This will make it easier for the social services to take stronger action to help more vulnerable groups.

The Government and the parties endorsing the 2004 Spring Fiscal Policy Bill agree on the importance of restraining open unemployment and continuing to pursue the goal of full employment. The Government intends to

follow developments on the labour market closely in 2004 and will decide on an ongoing basis whether additional measures should be taken to curb open unemployment.

### Measures implemented and under way

The Government has presented a series of measures in recent years to increase employment and reduce dependence on social assistance. These measures have included action to raise educational quality and throughput rates, improve the integration of immigrants in the labour market, shorten periods of unemployment, make it easier for older workers to carry on at work longer and reduce sickness absence. A follow-up shows that measures have been initiated in most areas.

- *Enhanced local government employment support.*  
Temporary employment support to local authorities amounted to SEK 4 billion in 2004. From 2005 onward, an equivalent sum will be provided via central government grants. For 2005, moreover, general employment support for local authorities worth SEK 1.5 billion is proposed.
- *Infrastructure investments.*  
Road and railway investments worth SEK 381.5 billion will be made over the period 2004–2015. Increased loan-based financing will make it possible to bring forward a number of projects, such as the Mälaren tunnel through central Stockholm, the Haparanda railway and other substantial investments in the road and rail networks.
- *Lower taxes for small entrepreneurs.*  
Taxes on small entrepreneurs will be reduced by easing the 3:12 rules.
- *Recruitment incentives for individuals on long-term sick leave.*  
A new form of recruitment incentive has been introduced to make it easier for people on long-term sick leave to change employer.
- *Shorter periods of unemployment through better management and uniform application of regulations.*  
The Government is working on improving the application of regulations in the

- unemployment insurance system, by giving clearer directions to the authorities concerned. A special supervisory agency has been established. The National Labour Market Board has examined patterns of seasonal unemployment. During the spring of 2004, the Swedish Agency for Public Management will be presenting an evaluation of the work done by employment offices on action plans. The National Labour Market Board has presented and begun to implement an action programme for increased job search activity, which involves a more uniform supply of services and more consistent application of regulations. Additional improvements are necessary, in the shape of reduced regional differences and better compliance with the regulations.
- *A labour market for all.*  
Developments in the labour market in recent years have brought advantages for people with disabilities that do not reduce their capacity to work. Disabled people with a reduced capacity for work, however, still face difficulties. A range of initiatives have been taken in labour market policy to make it easier for people with disabilities to get out into working life.
  - *Giving priority to those most detached from the labour market.*  
The Government has examined employment support to give priority to this group and prevent harmful displacement effects.
  - *Stimulating labour force participation.*  
An analysis of marginal and threshold effects has been presented in an appendix to the long-term study "Vem tjänar på att arbeta" ("For whom does work pay?"). The Government's policies have led to reduced marginal effects. Ways of further reducing marginal and threshold effects are being examined on a recurrent basis.
  - *More consistent application of regulations for the partly unemployed and inquiry into the right to full-time work.*  
People employed part-time or by the hour are an important labour resource, which must be used better. Women, in particular, often work part-time involuntarily. However, developments are on the right
- track, especially in the public sector. But this is not enough. The Government is monitoring developments closely.
- *Speeding up labour market entry of new arrivals.*  
The Government intends to present a bill on the induction of newly arrived immigrants in spring 2005, which will include proposals on speeding up labour market entry.
  - *Higher throughput, fewer dropouts and increased quality in upper secondary school.*  
The Government will shortly be presenting a range of measures for upper secondary school improvement. A completed upper secondary education is often a requirement in the present labour market, and efforts are therefore focusing on improving quality and giving pupils increased motivation to complete their education. The individual programme will be strengthened and the vocationally oriented programmes will be further developed. A new apprenticeship programme will be introduced.
  - *Increasing knowledge about the results and impact of higher education programmes.*  
Impact analyses give prospective students information about the significance of different higher education programmes for job prospects and future pay. The Government will instruct the National Agency for Higher Education to conduct studies on the labour market success of higher education graduates.
  - *Better possibilities of obtaining credit for previous courses at university level.*  
The Government has instructed the National Agency for Higher Education to examine ways to simplify application of the provisions of the Higher Education Ordinance on credit for courses previously taken. The Agency is to report back by 31 May 2004.
  - *Speedier transition from upper secondary level to higher education.*  
It is desirable for more young people to get out onto the labour market more quickly, assuming there is no loss of quality. There must be less use of local government adult education courses to improve upper secondary grades. The Inquiry on University Entrance presented proposals in

this area in February 2004 in a report entitled “Tre vägar till den öppna högskolan” (“Three paths to open higher education”), which has now been circulated for comment. The Government intends to return to these issues in a bill during the present term of office.

- *Eliminating the option of claiming higher study grants for refresher courses at upper secondary level.*

On 1 January 2004 a statutory amendment entered into force under which students who have completed three years of upper secondary education will no longer be eligible for higher study grants for refresher and top-up courses at upper secondary level.

- *Improved valuation and translation of qualifications.*

A special National Commission on Validation has been established for the period 2004–2007 to promote the development of legitimacy, quality and validation methods outside the higher education area. A total of some SEK 60 million has been allocated to these operations over the four-year period.

- *More effective Swedish teaching to facilitate language learning.*

In September 2003 the Inquiry on Swedish for Immigrants (SFI) presented its report to the Government. The Government intends to return to these issues in a bill later in the present term of office.

- *Targeted continuing professional development for SFI teachers.*

At present 9 out of 10 SFI teachers lack adequate training. In February 2004 the Government directed the Swedish National Agency for School Improvement to improve special subject qualifications among SFI teachers. The Government has made SEK 5 million per year available to the Agency for this purpose in 2004 and 2005.

- *Making it easier for older people to work.* Discrimination against older workers in the labour market must be combated. Attitudes and regulations that make older workers less attractive on the market make it difficult for people who have temporarily left working life to return to the labour

market. The Government is considering appropriate measures.

- *Opportunities for older people to continue working.*

The Government is considering changes in the regulations concerning taxes and social transfers, and their mutual interplay, so as to improve opportunities for older people who want to continue in gainful employment.

- *Survey of occupational benefits.*

Benefits based on occupational agreements provide added security for older people but can also influence their interest in carrying on at work. The National Mediation Office is following developments in occupational agreements and compiling a survey of the compensation systems based on them. Any need for measures will then be assessed at the Government Offices.

- *Reducing the number of people receiving sickness or activity compensation by making it easier to change jobs.*

Mobility leads to a more efficient labour market. The Government intends to promote more in-depth analysis of factors that can generate locking-in effects.

The Government is monitoring developments in the labour market closely. If necessary, in the Budget Bill for 2005 the Government will present further proposals for augmented efforts to combat unemployment and achieve the employment and social assistance goals. The various measures will be subject to recurrent follow-ups and reports.

### Talks on growth

In the Statement of Government Policy, an initiative was taken to gather forces around a policy for a competitive, attractive and future-oriented Sweden. Talks have been held during the winter with the central organisations on the labour market: the Confederation of Swedish Enterprise, the Swedish Association of Local Authorities, the Swedish Federation of County Councils, the Swedish Trade Union Confederation, the Confederation of Professional Employees and the Swedish

Confederation of Professional Associations. The talks have concerned four areas.

- *Taxes*  
These talks have concerned tax changes aimed at promoting growth. The purpose has been to establish the broadest conceivable support for any tax changes that may become relevant. These tax talks have now been brought to a conclusion. The constructive discussions and the proposals presented during these talks provide a good foundation for the continued political process and the Government's work on developing and improving the Swedish tax system so as to make it more conducive to growth.
- *Integration*  
Within the framework of talks on growth, the Government has also invited dialogue on growth and integration. The point of these talks is that it is essential to make use of the skills and qualifications possessed by people in Sweden with non-Swedish backgrounds. The talks have focused on the contribution participating parties can make to increased integration. Talks began in mid-December and are nearing completion. The Government will be disseminating information about legislation against ethnic discrimination and will encourage employers to make use of measures within the framework of present labour market policy.
- *Ethics*  
Talks have also been held with the social partners on ways of increasing confidence in the business sector. Such confidence is vital for the sound development of the economy and a good climate in society. A loss of confidence puts the foundation for growth at risk: transaction costs rise, the unofficial economy grows, the supply of capital to our Swedish enterprises is choked and fewer jobs are created. The purpose of the talks is to propose confidence-building measures that the parties can unite behind. The necessary discussion of business ethics and morality is still continuing.
- *Ill health*  
In autumn 2003 the Government began talks with the social partners on the increasing incidence of sick leave and the

measures that should be taken to reduce absence from working life due to sickness. The talks were conducted in a constructive spirit. The purpose was to establish broad support among the parties involved for changes aimed at reducing sickness absence. These talks concluded in mid-December. The declaration of intent presented later in December by the Government and the political parties cooperating with it contained a range of proposed measures, including a system of co-financing under which employers will be required to pay part of the cost of sickness benefits when an employee is on sick leave. The idea is to encourage a greater commitment on the part of employers to a good working environment and to give employers an interest in ensuring that people on sick leave can return to work quickly. The co-financing scheme will mean that employers pay 15 per cent of the cost of sickness benefits for any case of sickness. The co-financing will cease if the person on sick leave returns to part-time work or to work with rehabilitation compensation. At the same time a mechanism will be introduced to protect small enterprises from being hit by unreasonably high costs. The present system of high-risk protection for individuals who risk being excluded from the labour market will be adapted to the new system. In addition, proposals were presented for measures to improve the sick leave process and ensure the sustainability of the sickness insurance system, as well as a proposal for augmented work environment measures. This will make it possible to restore the level of compensation provided by sickness benefits on 1 January 2005, as announced in the Budget Bill for 2004.

### **The Lisbon Strategy**

In its work on growth, employment and welfare, Sweden is highly dependent on the surrounding world. Developments in Europe in particular have a great influence on economic developments in Sweden. About half of our exports go to EU countries.

The Lisbon Strategy is the EU's most important instrument for increased growth and employment. The objective is to make the EU, by 2010, the most dynamic and competitive knowledge-based economy in the world, with sustainable economic growth, more and better jobs and greater social cohesion. The strategy includes concrete measures in a range of areas: economic reforms, research and development, education, employment, social issues and the environment.

According to estimates produced by the European Commission, if the Member States implemented the jointly agreed reforms in the Lisbon Strategy, the EU's potential growth could increase by 0.5–0.75 percentage points per year in the next 5–10 years.

A central feature of the Lisbon Strategy is that development is driven forward by comparisons between the participating countries. The Government attaches great importance to this open method of coordination, which gives the individual countries great flexibility in how to go about achieving the common goals.

Achievements under the Lisbon Strategy are followed up each year by EU Heads of State and Government, partly using structural indicators. These indicators measure progress in economic reforms, employment, research and development, education, social cohesion and environment and sustainable development.

Every year the Commission produces an overview of the structural indicators and the progress made by the Member States. For several years, Sweden has occupied a leading position. When the indicators are compared across countries, no other country has achieved such good results. The European Commission notes in its latest Lisbon Strategy follow-up report that Sweden and five other EU countries have done best in terms of the Lisbon Strategy objectives. This applies, not least, in important areas such as investments in research and development, public finances, labour force participation among older workers, employment, and progress towards the Kyoto targets for greenhouse gas emissions.

Sweden was able to meet the EU goal of a 70 per cent employment rate in 2010 from the very outset of the Lisbon Strategy. Sweden maintains a high rate of employment in all population groups. The proportion of older workers with jobs is the highest in the EU, as is the

employment rate for women, and young people in Sweden have less difficulty entering the labour market than young people elsewhere.

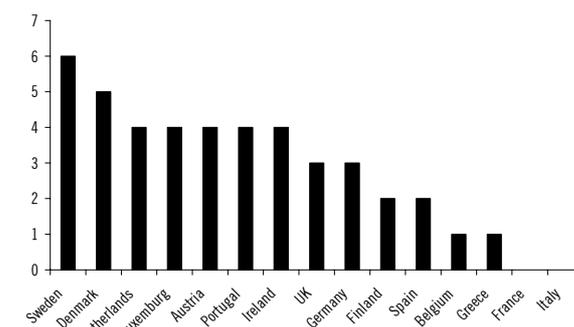
In terms of social cohesion, Sweden tops all comparisons. The long-term unemployment rate is less than half the EU average and the proportion of people living under the poverty line is the lowest in Europe.

In the knowledge-based economy, Sweden is also a European leader and indeed tops several global league tables. The Government and Riksdag took early initiatives to bring computers into school education and to train teachers in computer use. Tax deductions made purchasing a computer for use at home financially possible for many.

Sweden has a long tradition of adult education and opportunities for lifelong learning increased for many people as a result of the Adult Education Initiative. Sweden invests more money in research and development as a percentage of GDP than any other country in the world. All these factors help boost Sweden's results in the internal EU comparisons.

Even if Sweden has already achieved good results there are important areas where further action is needed. For example, in comparison with other EU countries, Sweden has a high price level, partly owing to weak competition. Sweden also needs continued efforts to combat sickness absence and to better integrate people of foreign origin into the labour market.

**Figure 1.8 Number of top 3 rankings in Lisbon Strategy evaluations**



Source: European Commission.

In order to reach the ambitious goals set in Lisbon, the process of reform must speed up throughout the EU. Even better use must be made of comparisons and good examples to support reform efforts in the Member States. The Government will work for improved comparisons and better follow-up instruments.

Sweden's endeavours under the Lisbon Strategy are a natural and important part of the policy for growth. A properly functioning internal market will have significant welfare benefits for Sweden. Reforms to promote growth and employment in Europe strengthen Swedish economic development.

### 1.5.2 Reducing sick leave

The goal set by the Government and Riksdag is that in 2008 absence from working life due to sick leave will be at half the 2002 level. At the same time, the number of new cases of activity compensation and sickness compensation is to decline. Cases of sick leave fell by nearly 2 per cent between 2002 and 2003. This decline accelerated towards the end of 2003 and has continued in 2004. It is estimated that the number of days of sick leave claimed will fall by 16 per cent between 2002 and 2004. Yet between 2002 and 2003, the number of new activity and sickness compensation awards increased by nearly 5 per cent. Unless effective steps are taken, there is a risk that the number of people receiving activity or sickness compensation will rise relatively sharply until at least 2008. The Government will present a more detailed analysis of progress towards the target for reduced sick leave in the Budget Bill for 2005.

The measures that have been implemented, and that have been described in earlier government bills, have thus helped break the negative trend in the number of days of sick leave. The continued increase in the number of people receiving activity or sickness compensation is largely due to the fact that too many cases of sick leave have become protracted. The length of time sick leave lasts is closely related to opportunities to return to work.

#### Measures that will be implemented

More steps must be taken to achieve the goal of halving sick leave. The measures concerned must address all actors in a position to influence sickness absence, i.e. employers, the social insurance administration, people on sick leave and doctors and health care providers.

- A number of measures have been presented previously that will help in achieving the goal. These will now be implemented.
  - There will be a change in the responsibility of employers to share in the financing of sick leave. After the first two weeks, the employer will be required to pay 15 per cent of the cost of sickness benefits in each case of sick leave. The co-financing responsibility will cease in the event of a transfer to part-time sick leave or rehabilitation compensation.
  - The social insurance offices will be required to follow up new cases of sickness compensation for which no time limit has been set. Sickness compensation awards that have already been approved will be followed up much more extensively than previously.
  - The no-benefit qualifying day system will be revised so that it is applied more fairly.
  - The social insurance office will be required to call parties to a case review meeting and draw up a rehabilitation plan within a certain specified time.
- It is of the utmost importance that those who receive sickness benefits or sickness compensation meet the relevant criteria. The National Social Insurance Board has started work aimed at improving the way the regulations are applied. The Government intends to change the rules so as to help doctors and social insurance managers to prevent errors when certifying sick leave and awarding sickness compensation. For example, it should be possible to suspend compensation if an insured person refuses to undergo treatment, examination or rehabilitation that is intended to enable him or her to return to work. This is a matter of increasing and clarifying the responsibility of the individual to cooperate in making it possible to return to work. Concrete proposals will be presented at the earliest in connection with the Budget Bill for 2005.
- Expenditure on social insurance totals more than SEK 400 billion. The social insurance administration pays out more than SEK 1 billion every day. To safeguard the financial security of those in real need it is important

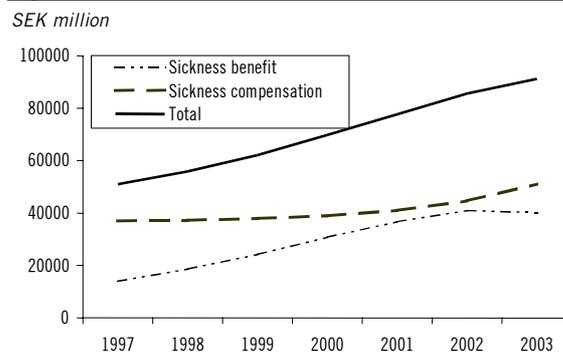
that social insurance benefits are only paid out to people who are entitled to them and that they receive the right amount. In order to maintain public acceptance of the common sickness insurance system, it is just as important that abuse and misuse of the system is discovered and rectified as it is that sickness insurance provides the security individuals need in the event of sickness and rehabilitation. The Government takes a serious view of cases of abuse and misuse in the social insurance system and intends to keep a close watch on developments in this area. The National Social Insurance Board has been assigned the task of minimising abuse and misuse.

- The longer a person is on sick leave, the more difficult it often is for her or him to return to work. Long periods of sick leave, and the passivity and waiting they entail, often lead to unnecessary suffering for the person who is sick. Active efforts to shorten the duration of sick leave are therefore both in the national economic interest and a matter of reducing individual suffering.
- A single responsible government agency is an important structural reform in the endeavour to break the trend towards increasing ill health. The new organisation proposed by the Government establishes clear leadership and governance of activities while creating conditions for national consensus and consistency in the treatment of sickness insurance cases across the country. Efficiency and legal certainty will increase.
- On 1 January 2005 the sabbatical year system will be brought in nationwide, keeping the same terms and volume as in the present pilot scheme, i.e. a total of some 12 000 places. The National Labour Market Board has now been informed that planning is to begin in 2004. This scheme opens up opportunities for the unemployed and for people who risk illnesses related to stress and strain.
- SEK 50 million have been set aside to finance a trial programme of shorter working hours in 2005 and 2006. One of the purposes of this pilot scheme is to shed

light on the link between health and working hours.

- A person who has been awarded sickness compensation should be able to commence higher education studies and afterwards go back to the same compensation without reassessment. While studying the same conditions are to apply as for other students, i.e. all compensation tied to the sickness compensation award will cease for the duration of studies. Study grants, study loans and housing allowances will be available instead. The purpose of this measure is to motivate more people than at present to study, the intention being that this in turn should lead to a return to work. The Government intends to present proposals in connection with the Budget Bill for 2005.

**Figure 1.9 Costs for sickness absence<sup>1</sup>**



<sup>1</sup> Excluding contributions to the national old-age pension system.  
Source: National Social Insurance Board.

### 1.5.3 Infrastructure

Sweden is dependent on well-functioning communications to underpin larger, sustainable regions. Businesses must be able to deliver goods and services quickly and efficiently. The people of Sweden are dependent on simple and safe transport to and from their places of work, daycare centres, schools and other social services and leisure activities.

The level of ambition for expanding and maintaining Sweden's infrastructure is now being upped. In an investment of historic proportions, SEK 381.5 billion will be distributed over the 12-year period from 2004 to 2015. In the budgeted framework for 2005–2007, SEK 2.5 billion is being allocated to the Swedish National Rail Administration in 2005

and 2006 and SEK 4.8 billion in 2007, over and above the 2004 level. To make it possible to start construction earlier in a number of high-priority projects, loans of SEK 25.5 billion are planned for infrastructure investments.

These announced investments will improve the prospects of ensuring economically efficient, sustainable transport provision for citizens and businesses everywhere in the country.

The infrastructure plans help enlarge present labour market regions. This will facilitate longer distance daily commuting, to the advantage of workers and employers alike. The plans will improve communications between the capital city regions in the Nordic countries. This will improve conditions for business in several of Sweden's growth regions. The plans also safeguard the quality of the road network in Sweden's forest counties, so as to put Sweden's important raw materials industries in a stronger position.

In all, increased appropriations and loan-based financing make it possible to raise the level of ambition in the years ahead. It is expected to be possible to start the Mälaren tunnel under central Stockholm in 2005 and the Haparanda railway between Haparanda and Boden in 2006 at the latest. Extensive investments in the road network in Västra Götaland and the southbound rail freight link from Bergslagen will also be brought forward.

But better communications require broader action than investments in roads and railways. In 2004 work will therefore begin on a broad transport policy bill, based on the transport policy objectives set by the Riksdag. One major aim is that the infrastructure should be used more effectively by promoting better interaction between the different types of transport – road, rail, aviation and shipping.

#### **1.5.4 Public procurement**

Properly functioning public procurement increases public sector efficiency and therefore improves welfare provision in Sweden. Well-functioning public procurement also ensures that the taxpayers' money is put to the best possible use. Public procurement is regulated in the Public Procurement Act. This, in turn, is a consequence of the Directives that are in force in the EU. The common EU regulations put

pressure on costs for those procuring services by means of improved competition, while opening the way for Swedish companies to sell their goods and services throughout the EU.

In February 2004 the EU took a decision on new directives for public procurement. In many areas these directives are a major success for Sweden. For example, they provide increased possibilities of imposing stringent environmental requirements in public procurement processes and they safeguard the existing possibility of taking social factors into account. These directives must now be transposed into Swedish legislation within two years.

Even if Sweden is considered by the EU to have the most open public procurement processes in any EU country, there is room for further improvement. To give one example, the Government has instructed the National Board for Public Procurement to examine the use made of anti-discrimination clauses.

One problem in public procurement is how to deal with public bodies that do not carry out a public procurement process correctly. The Committee on Public Procurement proposed that a market damage fee should be introduced to make it possible to prosecute infringements of the public procurement regulations. The Government is positive towards a financial sanction as a means of improving public procurement.

At the same time, work is in progress in the EU aimed at making EU sanctions in connection with public procurement more effective. In this EU work, Sweden will support a proposal for the introduction of effective legal remedies. The Commission expects to be able to produce a proposal in 2005 for intended EU-level introduction a year or two later. The Government will assess the EU's work at the beginning of 2005 to determine whether it satisfies Swedish demands. Pending this assessment, the Government will wait before presenting any proposal for a market damage fee.

#### **1.6 Reforms to promote welfare and growth**

A comprehensive welfare system that gives people security in times of change creates an

environment for more dynamic economic development. Growth and social justice are interdependent. Welfare will therefore continue to be extended at the rate the economy allows. A properly designed welfare policy reinforces economic growth.

**Table 1.7 New reforms**

SEK million

	2004	2005	2006
<b>Development assistance</b>		<b>590</b>	<b>590</b>
<b>Increased fairness and security</b>		<b>2 340</b>	<b>2 370</b>
Sickness benefit restored to 80%		940	970
Third week of sick pay cancelled		1 400	1 400
<b>Children our future</b>		<b>1 000</b>	<b>3 000</b>
Children in financially vulnerable families			150
Maintenance support			200
Supplementary child allowance for students			450
Housing allowances			200
Pre-school, extra staff		1 000	2 000
<b>Employment</b>	<b>1 860</b>	<b>4 885</b>	<b>850</b>
Shorter working hours		50	50
Sabbatical year <sup>1</sup>			
Special employment support <sup>2</sup>	400	400	
Local government employment support <sup>2</sup>		1 500	
Combined work and study	60	335	
RMI deduction for housing <sup>2</sup>	1 400	1 000	
Tax incentive for source separation <sup>2</sup>		270	130
Environmental investments in public buildings <sup>2</sup>		1 330	670
<b>Roads and railways</b>		<b>2 500</b>	<b>2 500</b>
<b>An ecologically sustainable Sweden</b>		<b>450</b>	<b>750</b>
Biological diversity		300	500
Climate investments		50	150
Biotype protection, etc.		100	100
<b>General grants to local government</b>		<b>3 000</b>	<b>5 000</b>
<b>Other reforms</b>	<b>420</b>	<b>340</b>	<b>760</b>
<b>Total</b>	<b>2 280</b>	<b>15 105</b>	<b>15 820</b>

<sup>1</sup> 12 000 sabbatical year places reported under labour market policy programmes included in macroeconomic assumptions.

<sup>2</sup> Numbers refer to revenue changes.

### 1.6.1 Health and medical care, schools and community services

Health and medical care, schools and community services must maintain high standards and be available to all. Availability

must be determined by need, not by private economic circumstances or where in the country a person lives. For this to become a reality, stable funding is needed.

Local government has been affected by the cyclical weakness, which has led to poorer revenue growth. In order to develop welfare and meet future commitments, the employment level in the economy as a whole must go up.

In 2002 temporary employment support was introduced to strengthen the position of municipalities and county councils. This support was renewed in both 2003 and 2004, under earlier decisions. In addition, since tax assessment for 2000, all receipts from the statutory minimum state income tax of SEK 200 have been transferred to local government. From 2005 these systems of support will be replaced by higher government grants worth SEK 4.7 billion. In 2005, moreover, general local government employment support is proposed. This support will amount to SEK 1.5 billion.

However, the local government sector needs further increased income to enable it to take necessary initiatives. Consequently, an extra SEK 4 billion in all will be transferred to the local government sector in 2005.

Within the framework of this measure, a targeted government grant will be introduced from 2005. The purpose of this grant will be to make it possible to employ an additional 6 000 staff in pre-schools. The grant is for a three-year period, with SEK 1 billion being allocated for 2005. Allocations for 2006 and 2007 are expected to be SEK 2 billion per year. After the three-year period these funds will be incorporated in the general system of central government grants. The aim of these extra staff resources is to improve pre-school standards and reduce the size of groups. The Government intends to present a bill in autumn 2004 setting out this support in detail.

SEK 1.3 billion will be allocated to the local government sector for 2005 to facilitate introduction of the new income equalisation system. The Government will present directions for the distribution of the remaining SEK 1.7 billion in the Budget Bill for 2005.

The Government is now proposing to provide an additional SEK 3 billion to the local government sector in 2006.

The Government is keeping close watch on the consequences that the sharp rise in numbers

of asylum seekers in recent years has had for central and local government and intends to return to this issue later.

Measures addressing the local government sector are also included in labour market policy. In order to safeguard employment and welfare, 5 000 out of a total 15 000 new places in labour market measures are being directed to municipalities and county councils. In addition, a special initiative is being taken for further education and training of staff in health care, school and social services activities financed by local government. In 2004 and 2005, a total of 6 000 people will be given the chance to combine part-time work with part-time study in adult upper secondary programmes or higher education programmes. When allocating these study opportunities, local authorities are to give special priority to employees working on an involuntary part-time basis.

Social insurance is an important part of general welfare. It is important that these insurance systems continue to develop so as to guarantee their legitimacy and stability.

### **1.6.2 More security in everyday life**

Sweden must be a country where everyone feels safe and dares to move about freely. The active engagement of individuals in society is necessary to achieve this. But it is not enough. When crimes are committed and reported, people must know that the judicial authorities will be quick and effective in taking the necessary action.

Substantial resources have been provided to the justice system over the last few years. This enhanced support will continue, so as to increase the number of police officers and in general combat internal threats. During this term of office, 4 000 new police officers will be trained. In order for this investment in the police to have the desired effect in the fight against crime, a well functioning and effective chain of justice must be ensured. The Government intends to return to the issue of continued development of the justice system.

### **1.6.3 More and better housing for a good environment**

For the period 2002–2006, a total of SEK 2.5 billion has been set aside for an investment grant for rental accommodation in areas with housing shortages. In addition, until 2006 there is a VAT-related investment incentive for small rental units and student accommodation.

In order to bring building projects forward and reduce the risk of later overheating, the Government will shortly be presenting a bill proposing introduction of a time-limited RMI (repair, maintenance and improvement) deduction for the period 15 April 2004 – 30 June 2005. In all essentials, the rules will be along the same lines as in the similar system in 1996–1999. This will cost an estimated SEK 2.4 billion.

A special tax incentive will be brought in to encourage sorting at source in multi-family buildings. It is estimated that this will cost SEK 0.4 billion in lost tax revenues. A Ministerial Communication will be drawn up without delay and circulated for comment. The planned date for entry into force of this proposal is 1 January 2005, remaining in effect until 30 June 2006.

The Government also intends to present a proposal later on a special tax incentive for environmental investments in public buildings. This will mean the introduction of a tax incentive equivalent to 30 per cent of the total cost of certain specific energy-saving measures and conversion to renewable energy systems that are undertaken in properties in direct public ownership. For installation of solar cells there will be a tax incentive at the higher rate of 70 per cent. The tax revenue lost as a result is expected to total SEK 2 billion. The proposal will be drawn up with a limit of SEK 100 million for the higher tax incentive for installing solar cells. A Ministerial Communication will be drawn up without delay and circulated for comment. The date for entry into force of this proposal is 1 January 2005, remaining in effect until 30 June 2006.

### **1.6.4 Challenges for social policy**

The purpose of the welfare society is to increase security, justice, gender equality and social equality. Social policy is about helping members of society whose situation is particularly

difficult: the homeless, substance misusers, battered women, women who are victims of trafficking, mistreated children and people in vulnerable financial and social situations. The increased access to drugs in recent years and the rise in alcohol consumption are worrying. Substance misuse often spawns social problems. A successful social policy will build on a broad array of actions.

Implementation of the action plan on drug policy continues. This plan includes initiatives to curtail the availability of drugs, reduce new recruitment to drug misuse and induce more addicts to stop using drugs. An initiative for the care of drug misusers called "Contract for life" is to be implemented. One of its chief components will be increased measures to help the heavy misusers who are at greatest risk.

Implementation of the action plan on alcohol policy will continue, including a broad information campaign and enhanced preventive work at local level. The task of bringing down total consumption, delaying young people's alcohol debut and reducing alcohol misuse is more urgent than ever.

During this term of office the Government intends to take further initiatives to limit the harmful effects of tobacco and to take action to combat the rise in overweight.

### **1.6.5 Children**

SEK 1 billion is being allocated to reforms for children in 2006. A supplementary child allowance for students will be introduced. At the same time, the share of housing allowances payable as a special allowance to families with children will be raised. Maintenance support will also go up.

### **1.6.6 Development assistance**

Swedish development assistance plays a significant part in the fight against world poverty. The current expectation is that there will be scope to raise the development assistance budget to 1 per cent of GNI during this term of office. As a step in this direction, the development assistance budget will rise by SEK 590 million in 2005. As a result of macroeconomic developments, an additional

increase of SEK 34 million is expected in 2005 compared with the framework estimated in the Budget Bill for 2004.

### **1.6.7 Defence**

The basic guideline for the Defence Commission in preparing its proposals is that they must lead to substantially reduced costs. One of the principal scenarios for this process is to be savings of SEK 6 billion. In order to create room for manoeuvre and facilitate the process of adjustment, the defence organisation will have limited authority to order new equipment and services in 2004.

### **1.6.8 Regional development**

In its development, society must aim to use and develop the resources of the entire country. All regions must be able to contribute to Sweden's growth. Sweden needs cohesion – both among its people and between its regions.

## **1.7 Fair taxes**

The prime purpose of taxation is to finance our common welfare. Tax policies must simultaneously encourage work and investment, stimulate sustainable growth and help to reduce economic and social injustice. The Government can never accept large tax cuts for those members of society who are already well off, at the expense of health care, schools and community services.

Over the next few years, tax policy will focus on three areas: globalisation, growth and taxes; measures to combat tax evasion; and the green tax shift. Changes in taxes must be weighed against the objectives of overall economic policy. Any reductions in taxes must be financed in a responsible manner.

### **1.7.1 Globalisation, growth and taxes**

The continuing process of globalisation presents a range of challenges to the Swedish tax system. At the end of 2002, the Tax Base Commission

delivered its final report. This report has been circulated for comment.

One of the Tax Base Commission's main messages is that while the present level of the overall tax burden can be maintained, this will only be possible if we take care of the tax system and tax bases. Countries with high levels of public spending require broad tax bases and need to limit special exemptions. This is a necessary condition for keeping marginal tax rates down in areas that are of strategic importance for good economic growth. It is important both to strengthen the work-first principle and to ensure continued good conditions for investment in Sweden.

Both the labour supply and growth are affected by tax regulations on occupational pensions and private pension savings. The Government is to appoint an inquiry to adapt and simplify the tax regulations for these types of pensions so as to strengthen the work-first principle.

The Government strives as far as possible to create simple tax regulations that treat different types of small enterprises and their owners in a similar way. One of the benefits of such regulations is to facilitate the transitions between different types of business that are often a natural part of the growth of a business. It is also important to analyse more closely the impact of tax regulations on the willingness to take risks, which is a key element of enterprise. At the same time, the progressive taxation of income from work must be safeguarded.

Following proposals in autumn 2003, from income year 2004 the interest rate used as divisor in calculating return on capital under the 3:12 regulations has been increased by two percentage points. The Government intends to present supplementary measures within the assigned budget of SEK 1 billion.

Also from 1 January 2004, gift tax regulations have been changed to help facilitate generation shifts.

Since 1 July 2003, capital gains on business-related shares have been exempt from tax. Business-related shares may be held by Swedish limited liability companies, Swedish economic associations, Swedish foundations and non-profit associations with unlimited tax liability, Swedish savings banks and Swedish mutual insurance companies, and by equivalent non-Swedish companies that are established in the

EEA area. Shares held through trading partnerships, however, are not included in the regulations. A government bill has cited strong reasons, such as neutrality between different corporate forms, in favour of extending the tax relief to include shares held by partnerships. In the bill, the Government also underlined the importance of the partnership arrangement for venture capital provision.

Further reform work addressing a number of difficult questions is dependent on a position being taken on the proposal of the Committee for Simplification of Taxation Rules for Small Enterprises to define partnerships as taxable entities. The proposals made by the Committee have been circulated for comment. Most of the bodies commenting on the proposal have been negative. Several of them express the view that the proposed system is no improvement from the point of view of simplification. Instead, one complicated system is being replaced by another that is at least as complicated. The Government shares this view and is of the opinion that the Committee's proposal should not be implemented. Consequently, partnerships should continue to be legal entities taxed at partner level.

The Committee for Simplification of Taxation Rules for Small Enterprises has also proposed abolition of the regulations on accumulated income and amendment of the provisions of the Annual Reports Act concerning livestock in agriculture and reindeer husbandry. Referral bodies have been doubtful about these proposals as well. These issues should therefore be subject to further consideration and accordingly, the proposals in the report should not be implemented.

There will be augmented seed financing and venture capital provision for the business sector. Special attention will be given to credit guarantees for small entrepreneurs in rural areas.

### **1.7.2 Measures to combat tax evasion**

Tax evasion distorts competition in the economy, impairs the legitimacy of the tax system and thus ultimately represents a threat to welfare. The Government continues to give priority to the fight against tax evasion and economic crime.

Over and above organisational changes and measures to improve control, changes are required in the tax legislation to prevent tax evasion and avoidance.

The tax authorities have been reorganised as from 1 January 2004. The former National Tax Board and ten regional tax authorities have been replaced by a single national authority, the Swedish Tax Agency. One purpose of the reform is to promote more effective and rational use of existing resources. One of the benefits is to create better conditions for effective tax control. The Swedish Tax Agency is in the process of implementing several measures to make tax control more effective. Acting together with other government authorities concerned, the Agency is to review control of self-employed persons. On the instructions of the Government, the Swedish Tax Agency has examined the control process associated with the granting of F-tax cards. These issues are under further consideration by the Government Offices.

In its report "Skärpning gubbar!" ("Pull your socks up, lads!"), the National Commission on Construction proposed the establishment of special contract accounts and "reversed" VAT liability for those commissioning building services, as measures to combat unregistered labour in the construction sector. These issues are currently undergoing further preparation at the Government Offices. The aim is to present a proposal by the autumn.

At present tax control in cash-based businesses is difficult due to the lack of documentation. Consequently, the Government has recently appointed an inquiry to examine the possibility of introducing a mandatory requirement to use type-approved cash registers. The assignment also includes considering and presenting proposals on control powers and sanctions to ensure that the proposed system fulfils its purposes. The inquiry is to report no later than the end of February 2005.

The efforts made in recent years at the tax administration's criminal investigation units have so far yielded good results. However, bearing in mind that these tax crime units have been operating since 1998, the inquiry examining the issue of type-approved cash registers has also been instructed to present proposals on whether their work can be made more effective, and if so, how this can be done.

Turning to value-added tax, it is debatable whether the information required in tax returns is adequate to ensure correct taxation. The Government intends to monitor this issue and to present any proposals that may be necessary following an evaluation by the Swedish Tax Agency. The Government will also follow up the criticisms raised by the Swedish National Audit Office in an audit report in 2003.

In international affairs, work is under way on implementing the Savings Directive agreed on in the EU and negotiations are in progress with a number of third countries and independent territories. The aim is that the Directive will apply from 2005. The Government is also working for the further development of information exchange between countries, in both EU and OECD forums. As regards the pricing of internal transactions by international enterprises, the Swedish Tax Agency has presented certain proposals on extending the obligation to submit statements to the tax authorities. These proposals have been referred for comment and the matter is now undergoing further preparation at the Government Offices with a view to presenting a bill in 2005.

The Swedish Tax Agency has produced a memorandum and a report taking stock of the arguments for and against standardised taxation schemes and has also delivered a basic outline for a system of this kind. The outline has been circulated for comments. As work in this area continues, a broad review is being undertaken of different possibilities for using standardised elements to supplement the present tax regulations. The purpose of this approach is to bring about a correct tax levy and reduce the extent of tax evasion and unregistered labour.

There will be more stringent follow-up of the free parking benefit, one measure being separate reporting in control information submitted to tax authorities.

### **1.7.3 Green tax shift and other policy instruments**

In the 2000 Spring Fiscal Policy Bill, the Government stated that there was an overall scope of SEK 30 billion for the green tax shift in the period 2001–2010. In the previous term of office, a tax shift of just over SEK 5 billion was implemented. The overall scope for tax shifting

in the present term of office has previously been put at SEK 12 billion. Of this total, SEK 5 billion has been used in 2003 and 2004.

A stronger link between the tax system and the environment presupposes a rational and sustainable structure for energy taxation. The Government's tax shift strategy therefore also includes a reform of Swedish energy taxation. The system must be designed so as to make it easier for future tax shifts to include industry, while safeguarding the competitiveness of Swedish enterprise. EC legislation is of material significance in this area as both the provisions of the new Energy Tax Directive and the EU Treaty's provisions on state subsidies must be observed. As a first step in the reform, the zero rate of tax that has hitherto applied to electricity used in industry will be replaced from 1 July 2004 by the tax rate (SEK 0.005/kWh) corresponding to the minimum level in the Energy Tax Directive. The Government will shortly present a bill proposing tax-free status, in certain circumstances, for electricity used in industrial processes. The Government's objective is for a new energy tax system to be able to enter into force no later than 1 January 2006. As work in this area continues, the aim will be to improve environmental management and make energy use more efficient, while safeguarding the competitiveness of Swedish enterprise.

An important aspect of this work is coordination between energy taxation and other policy instruments, such as trade in electricity certificates, emission rights and the programme for more efficient energy use in energy-intensive industries. This latter programme is for a planned period lasting from 1 July 2004 to 1 July 2009. Even though the body of regulations will not be in force until the end of the year, the possibility of a zero rate of tax on electricity will apply from 1 July 2004, provided certain conditions are met. Coordination will thus exist between the introduction of the electricity tax and the programme for more efficient energy use.

Work on introducing a system for EU trade in emission rights, in line with the EU Emissions Trade Directive, is continuing this spring. The system is to start on 1 January 2005. The trade system is an important policy instrument for reducing emissions of greenhouse gases and enabling the EU to meet its commitments under

the Kyoto Protocol. The system also contributes to harmonisation of environmental management in the EU, which, given certain conditions, has the potential to strengthen the international competitiveness of industry while achieving the international climate target in a more cost-effective manner.

In the Budget Bill for 2004, the Government detailed its strategy for taxation of alternative motor fuels. To ensure that alternative fuels are competitive, there is a proposal to exempt carbon dioxide-neutral fuels not just from carbon dioxide tax but also from energy tax. An application for approval under the EU regulations on state subsidies was submitted in February 2004. Apart from energy tax exemption, the application also involves extending the subsidies system to cover hydrogen used, for example, in fuel cell vehicles. According to plans, the subsidies programme will apply until 2008.

#### **1.7.4 Other tax issues**

Sweden's exemption from the general EC regulations for the private import of alcohol and tobacco ended on 1 January 2004. The Government is keeping a close watch on the development of cross-border trade and illegal trade. Tax cuts in Denmark and Finland and the EU accession of Poland and the Baltic States will be taken into account in assessing the need to adjust Swedish taxes, as will the objectives of Swedish alcohol policy. The role of the Swedish Alcohol Retailing Monopoly in alcohol policy will be upheld.

### **1.8 Sustainable development**

Sustainable development is a general objective of Government policy. This means that all political decisions must be designed taking into account the economic, social and environmental consequences. Work on sustainable development builds on the recognition that growth and welfare can only be maintained if we invest long-term in the common resources that are the foundation of our economy: people's health and education, the infrastructure, natural resources and biological diversity.

Economic growth and sustainable social welfare without adverse environmental effects make new demands on policy and on the operations of the Government Offices. Accordingly, the Government has established at the Prime Minister's Office a special liaison office for work on sustainable development. The task of this special office is to coordinate work on sustainable development at all the ministries and to take a proactive role in national and international efforts.

### 1.8.1 A good environment

Environmental policy is an important part of the Government's sustainable development policy. The overall goal of environmental policy is to hand over to the next generation a society in which the major environmental problems have been solved.

The climate is one of the central issues in environmental policy. Swedish efforts to combat climate change are based on international cooperation under the United Nations Framework Convention on Climate Change. The national climate policy continues to have high priority, as reflected in economic policy instruments and support for local government investments to reduce greenhouse gas emissions (KLIMP). Climate investment programmes also pave the way for mobilising local efforts and bringing climate work close to individual people. The climate investment programme is now being expanded in accordance with the 121-point programme, adding SEK 50 million in 2005 and SEK 150 million in 2006. This will make it possible to speed up the process and raise the level of ambition in climate work.

Under the Framework Directive on Water, good water quality is the objective for all water both in Sweden and in Europe as a whole. Swedish work on implementing the Framework Directive has begun at the agencies concerned. Implementation is to follow a tight timetable.

An important part of work on sustainable development is to promote debate about the ideas, extend cooperation between the players in society and support innovative research and development. New lessons are also learned by disseminating results and good examples from previous work at local, national and international levels.

Appropriations to support biological diversity will rise by SEK 300 million in 2005 and SEK 500 million in 2006.

### Environmental cars in the central government sector

Preparatory work is now in progress aimed at drawing up an environmental policy for cars used in the central government sector. A survey of the conditions for implementing this policy is intended for completion on 1 June this year. From 2005 at least 25 per cent of all new cars purchased by the state are to be environmental cars.

### Agriculture, etc.

The Government will place particular emphasis on the production of animal welfare registers, biotope protection and small-scale food processing. The total budget for these and other purposes will increase by SEK 100 million in 2005 and 2006.

### 1.8.2 Green indicators

Since the 1999 Spring Fiscal Policy Bill, green indicators have been reported to supplement the economic indicators. The purpose of green indicators is to reflect national trends for important environmental problems in a simple and informative manner. Variations in the indicators in individual years are often a result of variations in the weather and the business cycle. Over longer time periods, however, green indicators give an indication of progress towards the general environmental quality objective of passing on to the next generation a society in which the major environmental problems have been solved.

Though total energy use has increased in recent years, over time there has been a gradual reduction of energy use relative to GDP.

Sweden's carbon dioxide emissions fell sharply in the 1970s and 1980s. This was a consequence, above all, of the energy policy pursued during the period, which aimed to reduce dependence on oil. Around 1990 the downward trend levelled off and since then

emissions have stabilised at about the 1990 level. According to the latest available statistics, emissions in 2002, including emissions attributable to international aviation and shipping, were just above 1990 levels. If emissions from international shipping and aviation are excluded, emissions were instead slightly below the 1990 level.

Swedish emissions of sulphur dioxide have fallen sharply since 1980 and were almost halved in the 1990s. This is largely a result of increased use of low-sulphur oil along with new purification technologies. Swedish emissions of nitrogen oxides have also declined, though to a lesser extent. The main factors here are improved combustion and purification technologies in the transportation sector, which are largely a result of catalytic converters, and reduced emissions in the energy sector due to the nitrogen oxide charge.

Nitrogen and phosphorus concentrations in offshore waters provide an indicator of nutrient conditions in the sea. Until the 1990s, the burden of these pollutants on offshore waters was decreasing. Swedish emissions of nutrient nitrogen and phosphorous to offshore waters have continued to decline since the mid-1990s. Where nitrogen is concerned, purification plants have contributed most to reducing emissions, while agriculture has accounted for more or less unchanged nitrogen emissions, though lower phosphorous emissions.

Concentrations of most air pollutants in Swedish urban areas dropped strikingly from the 1980s until the end of the 1990s. Since the winter of 2000/2001, however, the trend has been less clear. Changes in weather conditions may be one important reason why the concentrations of certain air pollutants have not declined in recent years. Thanks to catalytic converters and lower benzene contents in petrol, the average concentrations of benzene in urban air have fallen since the beginning of the 1990s, though in many city centres the applicable target values are not met.

**Table 1.8 Green indicators**

<i>Energy use (TWh, Wh/SEK)</i>					
	1980	1990	2000	2001	2002
Total final use <sup>1</sup>	436	442	470	474	483
Energy intensity <sup>2</sup>	300	245	214	214	214
<i>Emissions to air (thousands of tonnes)<sup>3</sup></i>					
	1980 <sup>4</sup>	1990	2000	2001	2002
<b>Climate impact</b>					
Carbon dioxide	82 438	59 344	58 940	59 620	60 345
<b>Acidification</b>					
Sulphur dioxide	508	112	69	70	71
Nitrogen oxides	448	377	358	353	336
<i>Burden on offshore waters (thousands of tonnes)</i>					
	1980	1990	2000	2001	2002
<b>Eutrophication</b>					
Phosphorus	4,7	3,5	4,7	3,9	2,8
Nitrogen	115,5	104,9	146,6	131,9	113,0
<i>Impact on air quality (micrograms per cubic metre)<sup>5</sup></i>					
	1992/93	1996/97	2000/01	2001/02	2002/03
Nitrogen dioxide	22	21	17	18	19
Black smoke	7	5	7	5	6
Benzene	6	3	2	2	2

<sup>1</sup> Total energy use excluding energy conversion losses at nuclear power stations.  
<sup>2</sup> Energy intensity is measured as total energy use relative to GDP, price reference year 2000.

<sup>3</sup> Includes bunkering for international aviation and shipping. Values not corrected for normal year.

<sup>4</sup> Calculated by an older method and so not directly comparable with figures for 1990 and later.

<sup>5</sup> Winter half-year means in urban air.

Sources: Swedish Energy Agency, Swedish Environmental Protection Agency, Statistics Sweden, Swedish University of Agricultural Sciences and Swedish Environmental Research Institute AB.

## 1.9 A fairer Sweden

Economic policy must help to increase growth and reduce economic and social injustices.

Sustainable economic growth is a precondition for increasing social justice and equality. Household economic standards improved by over 12 per cent between 1991 and 2002 and by an estimated further 2 per cent by 2004. A clear policy to promote social justice is required to ensure that everyone benefits from this growing prosperity. The income dispersion observable in the second half of the 1990s has now been slowed.

The economic crisis in the 1990s hit lone parents hard. Despite several reforms in the past few years, lone parents have experienced little improvement in their standard of living. The Government has therefore appointed a special working group to describe and analyse the situation of children living in financially vulnerable families. Priority will be given to improvements for children in this category.

The most important task of distribution policy is to reduce disparities and exclusion. Education policy, development cooperation, the fight against sickness absence, integration policy and welfare policy all play an important part in a policy to increase fairness in the long term.

The widest gap separates those who are in work from those who are unemployed. Widespread sickness absence is one of the most serious problems of distribution policy in our time. Work and good health are the basis of self-support. In a society characterised by development and equality, everyone must have the right to play a part in creating and enjoying the fruits of rising prosperity.

The right of all people to work is also an economic issue. A high employment level is particularly important in a country like Sweden that has high aspirations for welfare. This is true, not least, in light of the demographic change Sweden is facing, with an increasing proportion of older people and a diminishing proportion of people of working age.

People's will and ability to work and support themselves must be looked after and harnessed in every part of the country. This year's distribution policy report presents a comprehensive analysis of regional differences in employment and self-support. Owing in part to marked regional variations in employment rates and working hours, there are substantial differences between household income from work in different parts of the country. Public tax and transfer systems provide extensive equalisation of regional differences in household economic standards. Taking into account, further, the value of public consumption that is attributable to individuals as well as housing costs, the position of residents in the country's different regions becomes still more equal.

Looking after and harnessing people's will and ability to work and support themselves is decisive for social justice and for growth and welfare. One way forward here is to continue to reduce threshold and marginal effects.

Marginal effects are the total effect of taxes and transfers. When a person moves from social assistance to work or wants to work longer hours, the effect of lower transfers and higher taxes can sharply reduce the economic payback for their change of status.

There is a risk that groups that experience no short-term financial benefit if they work more, study, change jobs, or move from social assistance to work may become stuck with permanently low economic standards. Counteracting the obstacles posed by marginal effects is therefore an important part of the Government's policies for social justice and growth.

Several changes have been made over a period of some years so as to reduce marginal effects. The Government has introduced compensation for three quarters of the pension contribution and raised the threshold for state income tax. The introduction of maximum charges for childcare has considerably reduced marginal effects for families with children.

The action the Government has taken to reduce marginal effects and increase motivation has been successful. An analysis of developments from 1996 to 2002 shows that the average marginal effect went down from 53.2 per cent to 45.1 per cent. However, in 2002–2004, the marginal effect is estimated to have gone back up to 46.0 per cent. Amended decisions have lessened the marginal effect of the unemployment insurance and sickness insurance systems. However, as a result of higher unemployment and the tax increases some local authorities have implemented in order to safeguard the quality of their services, the average marginal effect has nonetheless risen slightly.

The Government will continue to work on reducing marginal and threshold effects, particularly for low and medium earners.



# Summary

## Public sector tax revenues, EU taxes and government budget revenues 2001–2006

<i>SEK billion</i>	Outcome 2001	Outcome 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
<b>Taxes on labour</b>	<b>756,9</b>	<b>765,2</b>	<b>801,5</b>	<b>827,4</b>	<b>853,2</b>	<b>884,0</b>
<i>Direct taxes</i>	423,4	420,4	449,9	467,0	481,6	498,7
Local government tax	359,4	378,5	403,3	421,0	434,5	450,9
State income tax	34,6	33,1	32,6	33,6	36,8	38,6
National pension contributions	65,7	68,1	70,8	72,9	74,9	77,6
Tax reductions, etc.	-36,4	-59,4	-56,9	-60,5	-64,6	-68,3
Non-resident entertainers tax	0,1	0,1	0,1	0,1	0,1	0,1
<i>Indirect taxes</i>	333,5	344,8	351,6	360,4	371,6	385,2
Employer's contributions	304,3	314,9	321,9	329,9	340,5	353,2
Self-employed contributions	8,4	8,9	9,0	9,4	9,8	10,1
Special employer's contributions	25,3	27,6	27,6	28,3	29,0	29,8
Reductions	-6,2	-8,1	-8,4	-8,7	-9,0	-9,3
Occupational group life insurance, etc.	1,7	1,4	1,6	1,5	1,4	1,4
<b>Taxes on capital</b>	<b>119,5</b>	<b>101,8</b>	<b>107,7</b>	<b>113,9</b>	<b>119,8</b>	<b>126,3</b>
<i>Taxes on investment income and profits</i>	105,0	89,1	95,0	100,6	106,2	112,1
Tax on capital, households	14,2	6,3	9,1	13,5	14,5	14,4
Tax on corporate profits	52,1	43,9	46,8	48,7	51,8	54,6
Tax on investment income	14,9	13,4	12,6	12,1	13,0	14,9
Real estate tax	21,2	23,5	24,5	25,1	25,6	26,1
Tax on dividends	2,6	2,0	1,9	1,2	1,3	2,1
<i>Taxes on property</i>	14,4	12,7	12,8	13,3	13,7	14,2
Wealth tax	6,5	3,9	4,4	4,5	4,7	4,9
Inheritance and gift tax	2,6	3,0	2,5	2,6	2,5	2,6
Stamp duty	5,4	5,8	5,9	6,2	6,4	6,7
<b>Taxes on goods and services</b>	<b>296,8</b>	<b>311,5</b>	<b>325,4</b>	<b>332,6</b>	<b>346,2</b>	<b>360,8</b>
Value-added tax	207,3	217,7	228,8	233,4	241,9	251,3
Tobacco tax	8,1	8,4	8,3	8,4	8,6	8,8
Tax on spirits	4,9	5,1	4,7	3,9	3,8	3,9
Tax on wine etc.	3,7	3,5	3,6	3,8	4,0	4,2
Tax on beer	2,4	2,6	2,6	2,7	2,8	2,8
Energy tax	36,4	37,1	36,4	35,2	37,2	39,2
Carbon dioxide tax	17,0	19,9	23,8	27,8	30,1	32,3
Other taxes on energy and environment	3,5	3,4	3,4	3,4	3,4	3,4
Road tax	7,7	8,2	8,3	8,4	8,5	8,6
Import duty	3,6	3,5	3,5	3,6	3,8	4,1
Other taxes	2,2	2,0	2,0	2,0	2,1	2,2
<b>Taxes due, reductions, etc.</b>	<b>2,1</b>	<b>-0,2</b>	<b>2,8</b>	<b>1,2</b>	<b>1,3</b>	<b>1,1</b>
<b>Total tax revenues</b>	<b>1 175,3</b>	<b>1 178,2</b>	<b>1 237,5</b>	<b>1 275,2</b>	<b>1 320,5</b>	<b>1 372,1</b>
- Local government tax	359,4	378,5	403,3	421,0	434,5	450,9
- Contributions to pension system	152,3	158,2	159,8	164,4	169,8	176,2
- EU taxes	13,3	9,3	9,3	7,9	7,3	7,7
<b>= Central government tax revenues</b>	<b>650,2</b>	<b>632,2</b>	<b>665,1</b>	<b>681,9</b>	<b>709,0</b>	<b>737,4</b>
- Value-added tax, government	-18,9	-20,2	-21,3	-20,9	-21,2	-21,7
+ Local government contributions	20,9	23,7	-1,8	-5,8	-6,8	-8,0
+ EU taxes	13,3	9,3	9,3	7,9	7,3	7,7
+ Accruals and deferrals	19,1	14,4	-42,8	-37,4	-17,4	-20,0
<b>= Central government tax revenues</b>	<b>684,6</b>	<b>659,4</b>	<b>608,5</b>	<b>625,7</b>	<b>670,8</b>	<b>695,4</b>
+ Other central government revenues	70,5	71,1	53,3	69,2	69,6	68,1
<b>Government budget total revenues</b>	<b>755,1</b>	<b>730,5</b>	<b>661,7</b>	<b>694,9</b>	<b>740,4</b>	<b>763,6</b>

## Government budget expenditure 2004 – 2006

<i>SEK billion</i>	Forecast 2004	Forecast 2005	Forecast 2006
1 Governance	7,5	7,8	8,2
2 Economy and financial administration	9,3	9,3	9,6
3 Taxes, customs and enforcement	8,5	8,7	8,8
4 Justice	26,0	26,6	27,1
5 International cooperation	1,3	1,3	1,3
6 Defence and contingency measures	45,3	44,4	45,3
7 International development cooperation	20,5	21,9	22,9
8 Immigrants and refugees	7,3	6,7	6,3
9 Health care, medical care and social services	38,1	38,7	40,2
10 Financial security for the sick and disabled	120,1	127,0	130,6
11 Financial security for the elderly	51,1	49,6	48,5
12 Financial security for families and children	54,1	55,8	57,5
13 The labour market	69,1	66,9	63,2
14 Working life	1,1	1,2	1,2
15 Financial support for students	20,7	21,2	22,0
16 Education and academic research	42,1	43,8	42,9
17 Culture, the media, religious communities and and leisure activities	8,7	8,9	9,1
18 Planning, housing provision and construction	8,6	9,1	9,5
19 Regional development	3,3	3,0	3,0
20 General environmental protection and nature conservation	3,3	4,0	4,3
21 Energy	1,7	0,5	0,5
22 Transport and communications	29,2	31,8	32,4
23 Agriculture, forestry, fisheries and related industries	12,2	14,5	14,9
24 Industry and trade	3,1	3,6	3,7
25 General grants to local government	71,1	84,0	88,7
26 Interest on the national debt, etc.	52,0	41,4	53,7
27 Contribution to the European Community	27,2	25,1	25,2
Reduction of appropriation balances	0,0	6,9	0,6
<b>Total, all expenditure areas</b>	<b>742,6</b>	<b>763,7</b>	<b>781,0</b>
<b>Total excluding interest on central government debt</b>	<b>690,6</b>	<b>722,4</b>	<b>727,3</b>
Old-age pension system outside the budget	165,3	170,0	179,6
<b>Expenditure subject to ceiling</b>	<b>855,9</b>	<b>892,4</b>	<b>907,0</b>
Budgeting margin	0,1	1,6	24,0
<b>Central government expenditure ceiling</b>	<b>856,0</b>	<b>894,0</b>	<b>931,0</b>

## Public sector revenues and expenditure (forecast)

<i>SEK billion</i>	<i>Central government</i>	<i>Old-age pension system</i>	<i>Local government</i>	<i>Consolidated</i>	<i>Per cent of GDP</i>
<b>Revenues</b>	<b>770</b>	<b>217</b>	<b>597</b>	<b>1 409</b>	<b>55,9</b>
Taxes and contributions	701	145	421	1 267	50,3
Internal public sector transfers	3	47	125	–	–
Central government	–	47	125	–	–
Old-age pension system	–	–	–	–	–
Local government	3	–	–	–	–
Other revenues	66	25	51	142	5,6
Capital	21	25	10	56	2,2
Other	45	–	41	86	3,4
<b>Expenditure</b>	<b>811</b>	<b>166</b>	<b>599</b>	<b>1 401</b>	<b>55,6</b>
Transfers to private sector	350	163	36	549	21,8
Transfers to public sector	172	0	3	–	–
Central government	–	–	3	–	–
Old-age pension system	47	–	–	–	–
Local government	125	–	–	–	–
Consumption and investments	236	3	552	791	31,4
Interest payments	53	–	8	61	2,4
<b>Financial saving</b>	<b>–41</b>	<b>51</b>	<b>–2</b>	<b>8</b>	<b>0,3</b>
<b>Central government budget</b>					
Revenue	695				
Expenditure, etc.	757				
Expenditure areas excl. interest on debt	691				
Interest on central government debt	52				
Net lending by National Debt Office	21				
Cash correction	–6				
<b>Budget balance</b>	<b>62</b>				
Central government debt	1 240				
Per cent of GDP	49,2				
GDP	2 521				

**Note:** The table is drawn up in accordance with the presentation of the public sector (general government) finances in the national accounts. This presentation differs in several respects from the presentation in the central government budget, both as regards revenues and expenditure. The Swedish surplus target refers to general government financial saving (net lending), as presented in the national accounts. General government net lending/borrowing is also the measure used by the EU in assessing the public finances of a country.