

# 1 Budget Statement

## 1.1 Introduction

Sweden and the rest of the world have been hit hard by the COVID-19 pandemic. Over the last six months, all sectors of Swedish society have mobilised to contain the spread of COVID-19. Despite this, many have been infected and thousands have died. Sweden's health care and care of older people have been put to the test. Staff have worked tirelessly and made impressive efforts, but many patients have nevertheless had their care postponed. The pandemic has exposed serious weaknesses in society's preparedness and exacerbated the already strained situation in health and social care. At the same time, Sweden and the entire global economy have been affected by a severe economic downturn. Businesses have gone bankrupt and unemployment has soared. High rates of unemployment that are allowed to become entrenched are not only a problem for those affected but also pose a threat to the economy, welfare and confidence in the future.

Since the outbreak of the virus, the Government and the Riksdag have implemented a broad suite of measures to protect people's health, lives and livelihoods. These measures have made a difference. Huge efforts by staff and significant additional funding combined to ensure sufficient intensive care capacity, despite the strained circumstances. The fall in employment has been cushioned through short-term lay-offs, reduced employers' social security contributions, reorientation support and substantial additional funding to the local government sector. The benefit levels in unemployment insurance have temporarily been raised and the rules have been adjusted to enable more people to qualify for benefits. The impacts of the restrictions on the cultural, sports and media sectors have been mitigated through significant funding to these sectors.

The pandemic will impact Sweden for a long time to come. Experience from previous economic crises suggests that recovery will take time. An expansionary fiscal policy will also be needed for the next two years to pull Sweden out of the recession as quickly as possible.

The Government proposes reforms worth more than SEK 105 billion for 2021 and more than SEK 85 billion for 2022; this is possible thanks to the responsible fiscal policy that has been pursued for many years.

Temporary measures are being taken to restart the economy, while long-term reforms will contribute to solving societal problems. The climate transition will be accelerated, welfare strengthened, the business environment and competitiveness enhanced, integration advanced, crime tackled and urban-rural linkages strengthened. Sweden will work its way out of the crisis and build a society that is better and more sustainable than before the pandemic.

### **A powerful and green economic restart**

To restart the economy, the Government proposes comprehensive investments throughout the country. A green state credit guarantee will be introduced for large-scale industrial investments that contribute to achieving the environmental and climate goals, reduce emissions and enable Sweden to remain a leader in innovative industries. Funds will be allocated to energy efficiency and multi-dwelling building renovation programmes. Investments will be made in charging infrastructure for heavy vehicles.

Urban environment agreements will be expanded, focusing particularly on cycling. Resources will be allocated to green jobs and the management of protected natural areas.

More resources for welfare will contribute to the recovery by stimulating public investment, sustaining employment and counteracting municipal tax increases. In connection with the Spring Amending Budget for 2020, permanent additional general government grants to the local government sector of SEK 12.5 billion as of 2021 were announced. Additional general resources for 2021 and 2022 are now being allocated. Staffing levels in care of older people will be increased and staff skills enhanced. Care of older people will be strengthened through substantial additional funding to municipalities to enhance quality and improve the lives of older people. The Care of Older People Initiative will be expanded. The municipalities will receive funds directed at schools. Resources will be allocated to cover additional pandemic-related costs in health care, care of older people and care of people with disabilities. Testing and active contact tracing will continue, at least until one or several effective vaccines have been developed and made available, and vaccination has begun. Due to the pandemic, a large number of planned procedures have been postponed, resulting in a care backlog. Additional targeted resources will therefore be allocated to help health care get back on track. Funds will be allocated to strengthen maternity care and tackle mental ill health.

To support viable businesses, contribute to the creation of more jobs and boost the restart of the economy, a range of initiatives will be directed at businesses. Employers' social security contributions for young people will be lowered for two years to tackle the pandemic's adverse impacts on young people's employment prospects and part-time jobs. The reduction in employers' social security contributions for the first employee will be expanded. A tax reduction will be introduced to stimulate and bring forward business investment. Funds will be allocated to extend reorientation support for May–July 2020 to, among other reasons, help seasonal businesses that are dependent on income from a few summer months. Specific turnover-based support will be introduced for sole traders. Household purchasing power will be strengthened through lower taxes on earned income and social insurance benefits, partly within the framework of the green tax shift.

Security and employment transition options will be improved for people who lose their jobs. The increased benefit levels in unemployment insurance will be temporarily extended. The Government also proposes measures that combined will help people quickly get back into work. Funds will be allocated to strengthen labour market policy and reform Arbetsförmedlingen (the Swedish Public Employment Service). Education and retraining opportunities will increase. A temporary tax reduction on labour income directed at low-income earners will be introduced to address increased work-related costs due to the pandemic.

#### **Sweden will be stronger after the crisis**

In addition to measures that support economic recovery, reform efforts continue in order to find long-term solutions to societal problems and build Sweden into a better country than it was before the pandemic.

Work is the most important prerequisite for earning a living and taking part in society. Funds will be allocated to Arbetsförmedlingen to ensure an effective local presence and equivalent service levels throughout the country. The Adult Education Initiative will be reinforced with more education and training places that better address the needs of society.

Strong and competitive businesses create more jobs and secure financing for our welfare system throughout the country. The upcoming Research and Innovation Bill will consolidate Sweden's position as a leading research nation. The reduction in employers' social security contributions for research and development workers will be further increased, and the tax relief for experts, researchers and other key people will be expanded.

The climate transition brings major opportunities for jobs and enterprise. The Swedish people's engagement in the climate transition will be recognised, and a tax reduction on green technology will be introduced. Climate and environmental research will be given increased resources. The green tax shift will continue. Environmental taxes will be raised, which will be compensated through lower taxes on labour and enterprise. The reduction obligation will be tightened and to reduce climate emissions the Climate Leap will also be extended. The Green Industry Leap will be reinforced and broadened to include strategically important initiatives, for example the promotion of biofuels and battery production. Funds will be allocated to restore wetlands, and carbon capture and storage technologies will be promoted to achieve negative emissions. Environmental governance in the bonus-malus system for light vehicles will be enhanced and simplified.

Equitable and knowledge-based education is important for Sweden's future prosperity. The teaching profession will be strengthened through better opportunities for supplementary teacher training programmes for academics and continued development of a professional programme for teachers and head teachers.

Everyone who has taken part in building our country is entitled to security in their old age. Funds will be allocated to municipalities to strengthen care of older people. The final step will be taken to remove the remaining difference between the taxation of pensions and earned income. This difference will be eliminated as of 1 January 2023. Pensions will be raised through a new pension supplement, targeting those who worked for a long time yet still have a low pension. The pension-related age limits will be adjusted to maintain pension levels as we live longer lives. The age limits for the right to sickness benefit, sickness compensation, unemployment benefit and compensation from other security systems will be adjusted in line with the pensionable age.

The entire country must be given the opportunity to grow. Resources will be allocated for a rural development package containing initiatives to promote flourishing rural areas with competitive green industries, more jobs and growing businesses, while also protecting valuable natural areas. Digital infrastructure will be strengthened through a faster broadband expansion. Maintenance of roads and railways will be improved throughout the country.

Sweden must be a country where everyone can live in safety and security, no matter who they are or where they live. Efforts to recruit 10 000 more staff to the Swedish Police Authority by 2024 will continue and play a key role in strengthening the capacity of the Swedish Police to fight serious organised crime. Increased funding will be allocated to the Swedish Prison and Probation Service to manage the close to full capacity at remand centres and correctional institutions, and the planned reform to change reduced sentences for young adults. A package of measures will be implemented to lift vulnerable areas, focusing on schools, preschools, increasing state presence and fighting crime.

The legitimacy of the welfare system must be safeguarded. Tax and benefit fraud undermines the level of trust that exists between people and in society. Systematic abuse or any connection to organised crime is particularly serious. Funds will be

allocated to the relevant authorities to intensify their efforts to fight welfare abuse and money laundering.

The pandemic has highlighted the need to safeguard society's security of supply and for measures to ensure that critical infrastructure will function in an emergency. Civil defence will be strengthened. Increased funds for planning, knowledge-building and capability development in essential services will strengthen the robustness and resilience of Sweden's total defence. Sweden needs a psychological defence that is adapted to current societal conditions and that preserves open society's free exchange of knowledge and information. An agency for psychological defence will be set up in 2022.

Strengthened defence capabilities are required to increase security in Sweden and stability in our neighbourhood. Resources will be allocated to military defence in line with the Defence Commission's proposals.

The Budget Bill for 2021 is based on a political agreement between the Social Democratic Party, the Centre Party, the Liberal Party and the Green Party.

**Table 1.1 Table of reforms**

SEK billion

	2021	2022	2023
<b>A powerful and green economic restart</b>			
<i>Investment in sustainable growth and climate transition</i>			
Energy efficiency and renovation of multi-dwelling buildings and outdoor environments	0.90	2.40	1.00
Investment support for rental housing		1.10	1.90
Transition of the transport sector	1.22	1.22	0.89
Adjusted taxable benefit rates for passenger cars	-0.15	-0.73	-1.31
Enhanced and simplified environmental governance in the bonus-malus system	-0.33	-0.85	-1.38
Abolished reduction of energy tax on fuel in certain sectors	-0.15	-0.60	-0.60
Charging infrastructure for heavy vehicles	0.50	0.55	
Support to public transport	2.00		
Maintenance of railways	0.50	0.50	0.50
Investments to protect natural areas	1.59	1.67	0.61
Reduce climate emissions	1.88	1.14	0.52
Measures to protect valuable natural areas	0.60	0.25	
Tax reduction for installation of green technology	0.20	0.20	0.20
Circular economy	0.15	0.14	0.01
<i>Equip the welfare system for the jobs of tomorrow</i>			
General government grants to municipalities and regions	10.00	5.00	
Improved care of older people	4.00	4.00	4.00
Care of older people initiative	1.70	0.51	0.21
Recovery bonus in health care and care of older people	0.30	1.00	1.00
Care backlog and continued COVID-19 care	4.00	4.00	
Tackling mental ill health	1.18	1.18	
Continued testing and contact tracing	2.00		
School initiative to alleviate the pandemic-related backlog in education	1.00		
Initiatives for equitable and knowledge-based education	0.27	0.26	0.33
Increased standard amount for assistance allowance	0.47	0.47	0.47

	2021	2022	2023
Strengthened maternity and primary care	0.80	0.80	
Municipal Commission, including funds to municipalities with a high refugee intake	0.45	0.25	0.25
A new pension supplement	2.17	6.19	5.86
Reduced tax for people over age 65	2.36	2.36	2.36
Working Group on Pensions agreement: adjusted age limits	0.02	0.03	-0.79
Higher maintenance support	0.10	0.20	0.20
Strengthened culture and civil society	1.88	0.58	0.53
<i>More people in work</i>			
Lower employers' social security contributions for young people	7.52	8.95	1.43
Tax reduction to promote investment	5.50	1.40	0.10
Tax reduction on labour income to address increased work-related costs due to the pandemic	5.00	5.00	
Abolished standard income assessment on deferred capital gains	1.72	1.72	1.72
Reduction of employers' social security contributions for up to two employees	0.02	0.14	0.18
Extended reorientation support, and turnover-based support for sole traders	3.50		
Competitive businesses	0.15		
A new Research and Innovation Bill	3.40	3.16	3.30
Lower employers' social security contributions for R&D workers	0.25	0.48	0.47
<i>Financial security and transition to the next job</i>			
Higher unemployment compensation levels	5.70	4.78	
Reformed employment service and procured matching services	1.99	2.05	2.80
Support to people far from the labour market	0.60	0.20	0.10
Increased number of education and training places	4.02	4.34	1.44
<i>Growth throughout the country</i>			
A competitive agricultural and food sector	2.26	2.37	0.12
Road maintenance	0.50	0.50	0.50
Other measures to promote growth throughout the country	0.15	0.09	0.08
Broadband expansion	1.40	0.50	0.10
Paused GDP indexation of fuel	0.94	1.80	1.72
<i>Sweden must be a safe and secure country for all</i>			
10 000 more police employees		1.65	1.65
Reinforcement of the legal system	2.34	1.69	2.01
Fighting fraud	0.26	0.24	0.24
Increased funding for schools in vulnerable areas	0.39	0.42	0.41
Social measures in socio-economically disadvantaged areas	0.25	0.25	0.25
Reinforcement of preschool language initiative	0.10	0.10	0.10
<i>Strengthened preparedness in a new era</i>			
Strengthening civil defence	1.00	1.49	2.47
Strengthening military defence			5.00
<i>Tax changes</i>			

	2021	2022	2023
Lower income tax <sup>1</sup>	5.01	7.13	13.48
<i>of which tax reduction on earned incomes</i>	<i>8.49</i>	<i>10.61</i>	<i>16.96</i>
<i>of which previously announced</i>	<i>-3.48</i>	<i>-3.48</i>	<i>-3.48</i>
Higher tax on the financial sector			-1.00
Other tax changes	1.83	0.24	-4.65
<b>Other reforms</b>	<b>8.04</b>	<b>1.00</b>	<b>1.44</b>
<b>Impact on public finances</b>	<b>105.41</b>	<b>85.49</b>	<b>52.22</b>

<sup>1</sup> The legislation to be drawn up within the framework of this measure also includes an announcement in the 2020 Budget Bill of lower taxes on labour and enterprise worth SEK 3.48 billion per year. The combined tax reductions amount to SEK 8.49 billion in 2021, SEK 10.61 in 2022 and SEK 16.96 billion in 2023.

Source: Own calculations.