Sweden's Convergence Programme 2021

Regeringskansliet

Introduction

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

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

Sweden's Convergence Programme for 2021 is mainly based on the Spring Fiscal Policy Bill for 2021 (Bill 2020/21:100). The Government presented the Bill to the Riksdag on 15 April 2021. The Parliamentary Committee on Finance was informed about the Convergence Programme on 27 April 2021. The Government adopted the Convergence Programme on 29 April 2021.

1. Economic policy framework and targets

1.1 Budgetary policy objectives

The budgetary policy objectives consist of a general government net lending target, an expenditure ceiling for central government, a local government balanced budget requirement and a debt anchor.

General government net lending target

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

Following a proposal in the Spring Fiscal Policy Bill for 1997, the Riksdag decided to introduce a surplus target for general government finances of 2% of GDP on average over an economic cycle. The target was phased in over a three-year period and full application began from 2000. However, the Riksdag decided, following a proposal in the Spring Fiscal Policy Bill 2007, to lower the net lending target from 2% to 1% of GDP on average over an economic cycle. The reason for the change was that Eurostat had decided that net lending in the premium pension system would no longer be included in the general government sector in the National Accounts. This reduced general government net lending by around 1% of GDP.

In the Budget Bill for 2018 the Government proposed, in accordance with the proposal of the Surplus Target Committee (SOU 2016:67), changing the surplus target level to an average of one third of one per cent of GDP over an economic cycle and supplementing the budgetary policy framework with a debt anchor for the general government consolidated gross debt (Maastricht debt). The Riksdag adopted the Government's proposal (Committee Report 2017/18:FiU1, Riksdag Comm. 2017/18:54).

The Government has also made assessment that monitoring of the surplus target should be strengthened and that the Swedish Fiscal Policy Council should be assigned a clearer role in monitoring the fiscal policy framework (Govt Bill 2016/17:100 p. 84 -86).

The Government has given an account of the fiscal policy framework in the communication Fiscal policy framework (Govt comm. 2017/18:207).

Expenditure ceiling and a stringent budgetary process

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

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

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

Local government balanced budget requirement

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

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

Debt anchor

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

In the spring fiscal policy bill the Government has to give an account each year of the development of the general government consolidated gross debt. If this debt deviates from the debt anchor by more than 5% of GDP, the Government has to present a communication to the Riksdag, at the same time as the spring fiscal policy bill, giving an account of the cause of the deviation and how the Government intends to handle it. The debt is measured as the outcome in the national accounts for the preceding year and according to the forecast for the present year or the budget year.

1.2 Sweden's medium-term budgetary objective

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

A special escape clause in the Stability and Growth Pact has been activated on account of the economic situation resulting from the spread of the disease COVID-19. The clause refers to situations when the Union as a whole is in a severe economic downturn. It allows Member States to make temporary general departures from the adjustment path towards their medium-term budgetary objectives, provided that this does not endanger fiscal sustainability in the medium term. It also remains to be seen how any deficits in Member States of more than 3 per cent of GDP will be dealt with in the present economic situation and whether any Excessive Deficit Procedures will be opened.

1.3 Monetary policy objective and monetary policy in Sweden

The Riksbank is responsible for monetary policy in Sweden. Chapter 9, Article 13 of the Instrument of Government provides that no other authority may determine how the Riksbank makes decisions on monetary policy issues. Amendments to the Sveriges Riksbank Act (1988:1385) adopted in 1999 gave the Riksbank greater independence. Under these provisions, the members of its decision-making Executive Board must not seek or accept instructions when fulfilling their monetary policy duties.

According to the Sveriges Riksbank Act, the objective of monetary policy is to maintain price stability. The Riksbank has defined this as a 2% annual increase in the consumer price index with a fixed interest rate (CPIF).

At the same time as monetary policy is aimed at attaining the inflation target, it has to support the objectives of general economic policy in order to attain sustainable growth and high employment. This is achieved by the Riksbank endeavouring to stabilise production and employment around paths that are sustainable in the long-term, in addition to stabilising inflation around the inflation target. The Bank therefore conducts what is termed a flexible inflation target policy. However, the inflation target has priority over the other targets.

It takes time for monetary policy to achieve full impact on inflation and the real economy. Monetary policy is therefore guided by forecasts of economic developments. The Riksbank publishes its own assessment of the future development of the repo rate. However, it should be stressed that the interest rate path is a forecast, and not a promise.

In connection with each monetary policy decision, the Executive Board of the Riksbank makes an assessment of the repo rate path needed, and any supplementary measures necessary, for monetary policy to be well balanced. This trade-off is normally a question of finding an appropriate balance between stabilising inflation around the inflation target and stabilising the real economy. There is no general answer to the question of how quickly the Riksbank aims to bring the inflation rate back to 2% if it deviates from the target. A rapid return may, in some situations, have undesired effects on production and employment, while a slow return may weaken the credibility of the inflation target. In general, the ambition has been to adjust monetary policy so that inflation is expected to be fairly close to the target in two years' time.

To illustrate that inflation will not be exactly 2% each month; a variation band is used that spans between 1 and 3%, capturing around three-quarters of the historical monthly outcomes of CPIF inflation. The Riksbank constantly strives to reach 2% inflation, irrespective of whether inflation is initially inside or outside the variation band.

According to the Sveriges Riksbank Act, the tasks of the Riksbank also include promoting a safe and efficient payments system. Risks linked to developments in financial markets are also taken into account in monetary policy decisions.

However, with regard to preventing an unbalanced development of asset prices and debt, well-functioning regulation and effective supervision are of most importance. Monetary policy only acts as a complement to them.

In some situations, such as during the financial crisis in 2008 and 2009, the repo rate and the repo rate path may need to be supplemented with other measures to promote financial stability and ensure the effective impact of monetary policy.

The Riksbank endeavours to ensure that its communication is open, factual, comprehensible and up-to-date. This makes it easier for other actors to make good economic decisions. It is also makes it easier to evaluate monetary policy.

The Executive Board of the Riksbank normally holds five monetary policy meetings per year, at which it makes decisions on monetary policy. A monetary policy report is published in conjunction with these meetings. Approximately two weeks after every monetary policy meeting, minutes from the meeting are published, in which it is possible to follow the discussion that led to the decision of that meeting and to see the arguments put forward by the various executive board members.

The monetary policy decision is presented in a press release at a set time in the morning of the day after the monetary policy meeting. The press release also states how each executive board member voted and a main justification for any reservations. A press conference is also held the same day.

The Government is responsible for overall currency policy matters and decides on the exchange rate system, while the Riksbank is responsible for the application of the exchange rate system.

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

On 22 December 2016 the Government decided to appoint a cross-party committee of inquiry to review the monetary policy framework and the Sveriges Riksbank Act (terms of reference 2016:114, terms of reference 2017:57, terms of reference 2017:100 and terms of reference 2019:13). Its remit was based on the positions taken in the Riksdag Committee on Finance report Evaluation of the Riksbank's monetary policy 2010–2015 (Utvärdering av Riksbankens penningpolitik 2010–2015, Committee Report 2015/16:FiU41). The Riksbank Committee, consisting of representatives of all the parties in the Riksdag (the Swedish Parliament) presented its final report A new Sveriges Riksbank Act (En ny riksbankslag, SOU 2019:46) to the Government in November 2019.[1]

A consultation has been held on the Committee's proposals, and the ECB has been given the opportunity to state an opinion on its proposals. Since the proposals involve amendments to the Instrument of Government, which requires two decisions by the Riksdag and that a general election is held between the decisions, a new Sveriges Riksbank Act can enter into force in 2023 at the earliest.

1.4 The Government's economic policy

Measures taken on account of the pandemic

Since the outbreak of the virus, the Government and the Riksdag have taken a large number of measures to safeguard people's lives, health and livelihoods. In all, the measures for 2020 and 2021 on account of the pandemic and the green restart amount to more than SEK 400 billion.[2]

To ensure effective health care and social care, increase the number of tests and carry out rapid vaccination as well as to address the additional costs resulting from the spread of COVID-19, considerable resources have been provided for the local government sector. Funding has also been allocated to reinforce skills in care of older people. A number of temporary measures have been taken to limit the spread of infection and protect risk groups.

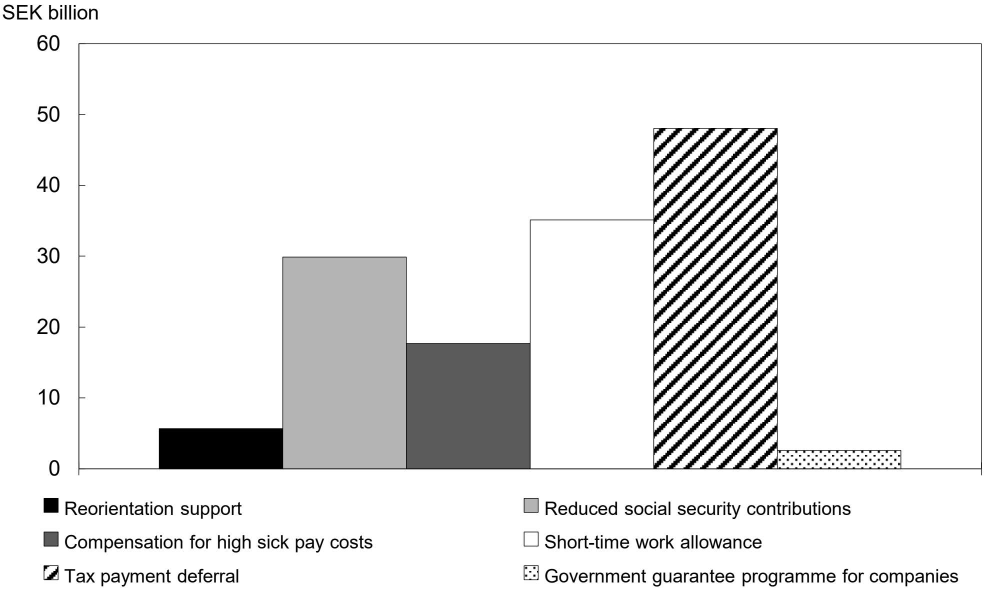
Viable companies have received financial support to reduce the number of jobs lost. The costs of hiring have deceased as a result of temporary reductions of employers' social security contribution for 19-23 year olds and other groups. Several measures have been taken to reduce costs, strengthen liquidity and improve access to financing for business. Considerable amounts of support and compensation have been paid (figure 1.1). The measures have mainly been allocated on the basis of how hard the companies have been hit

[1] See, for instance, Sweden's Convergence Programme 2020 for a brief description of the proposals in the report.

This includes measures linked to the pandemic in the Spring Amending Budget for 2020 and the Autumn Amending Budget for 2020 and all the measures in the other government bills containing proposals for amendments to the central government budget that have been adopted or announced for 2020 and 2021, in the Budget Bill for 2021 and the further measures now proposed in the Spring Amending Budget for 2021.

financially, but some support has been targeted at specific sectors such as media, culture, sport, public transport and rail, air and sea transport. Moreover, front-loaded temporary tax reductions for jobs and businesses have been implemented in 2021. Regions and municipalities have been given additional general resources to cope with their strained economic situation and maintain their level of employment. To support people who end up in a more vulnerable situation, civil society has been given increased resources, and the housing allowance has been raised temporarily.

Figure 1.1 Support paid, deferrals granted and guarantees issued



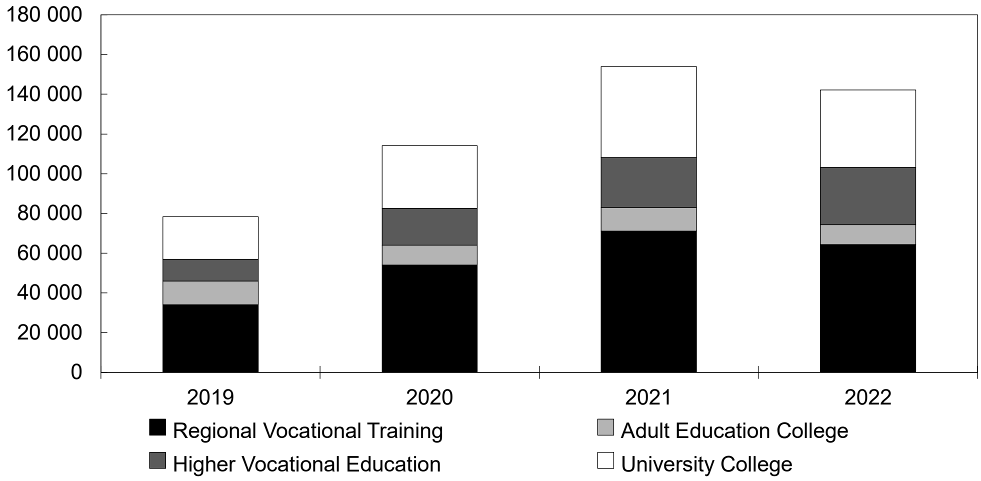
Note: The temporary reductions of employers' social security contributions apply as of January 2021 and are for persons aged between 19 and 23 years. The reduction means that the employer pays a social security contribution of 19.93% instead of 31.42%. The compensation for sick pay costs refers to full compensation for the period April–July 2020; after that compensation is paid for sick pay costs that can be assumed to be higher than normal. All information is as on 31 December 2020.

Sources: Swedish Tax Agency, Swedish Agency for Economic and Regional Growth, the Swedish National Debt Office and own calculations.

Despite the crisis measures taken, many people have been made unemployed or have been hit in other ways. Temporary changes have been made in unemployment insurance, health insurance has been changed and transitioning opportunities have been reinforced. The Knowledge Boost has been reinforced by providing more places in education and training that better meet society's needs (figure 1.2).

Figure 1.2 Increased number of places in education and training

Funds provided converted into places in education and training



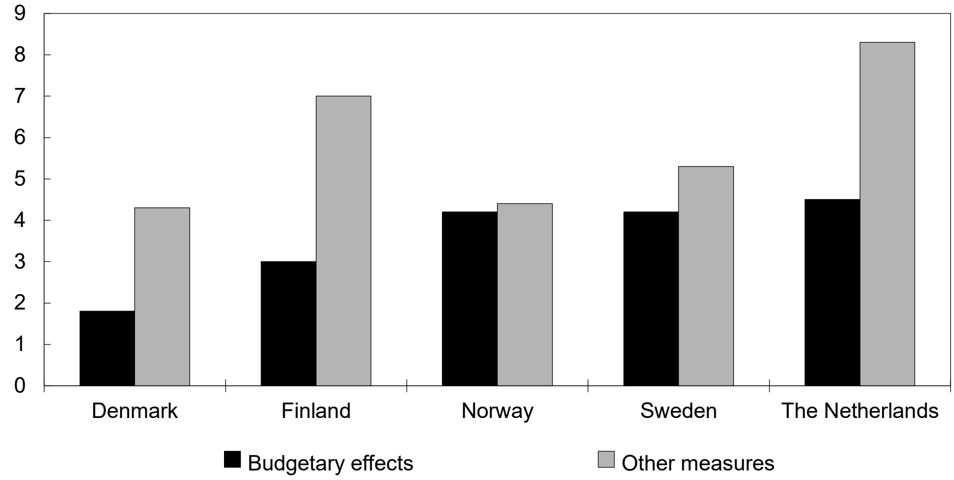
Sources: Swedish Agency for Higher Vocational Education and own calculations.

To get Sweden out of the recession as quickly as possible, an expansionary fiscal policy is being conducted in 2021 and 2022. A powerful green economic restart is being implemented. In the central government budget for 2021 the Government presented reforms for green investments, additional resources for welfare provision and tax reductions on jobs, business and investment as well as better transitioning opportunities in the labour market.

Many countries around the world have, just like Sweden, taken extensive measures to alleviate the economic consequences of the pandemic. In international comparisons financial support is often divided up into two categories. First, support that has direct budgetary effects, such as short-time working and, second, support that improves the liquidity situation of households and businesses, such as loans and guarantees. These comparisons are associated with uncertainty, partly because countries had different systems in place before the pandemic and may use different definitions of support measures. The IMF's estimate of countries' financial support measures suggests that Sweden's measures are well in line with those of some comparable countries.

Figure 1.3 Financial support measures

Per cent of GDP



Note: The estimate of measures with budgetary effects refers to action until the end of 2020, which may have budgetary effects in the same year or later. The estimate of other measures refers to equity injections, loans and guarantees, but not, for example, to deferrals of tax payments, which may be of a considerable size in certain cases.

Source: International Monetary Fund (Fiscal Monitor Reports, January 2021).

Combined budgetary effects of Government policy in 2019–2024

Table 1.1 presents the budgetary effects of all proposals for and announcements of reforms and financing that the Government has submitted and given an account of to the Riksdag and that the Riksdag has either adopted or approved the estimates for. The budgetary effects are reported in relation to the preceding year and are part of the analysis of the change in structural balance and the direction of fiscal policy.

Table 1.1 Combined budgetary effects of Government policy 2019–2024 in relation to the previous year

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

SEK billion unless otherwise stated.

	2019	2020	2021	2022	2023	2024
Change in ceiling-restricted expenditure	11.9	190.3	76.5	-158.6	-27.6	-3.6
Adjustment for differences between the accounting principles in the central government budget and the National Accounts	4.4	-8.6	4.3	0.3	1.0	-1.1
of which, capital contributions, state-owned companies	-0.2	-9.1	7.9	1.4	0.0	0.0
of which, infrastructure investments funded by borrowing[3]	3.2	3.6	0.2	-1.3	-1.7	-1.1
Total expenditure changes[2]	**16.3**	**181.7**	**80.8**	**-158.3**	**-26.6**	**-4.6**
Taxes, gross	-20.5	-45.1	-8.8	13.4	16.1	1.8
Indirect impact of taxes	0.5	8.8	-4.4	-1.0	-1.6	0.0
Other revenue reforms	-0.1	1.4	-0.2	0.2	0.0	0.0
Total revenue changes, net[2]	**-20.1**	**-34.9**	**-13.4**	**12.6**	**14.5**	**1.8**
Changes in expenditure and revenue, impact on general government net lending[2, 4]	**-36.3**	**-216.6**	**-94.1**	**170.9**	**41.1**	**6.4**
Per cent of GDP	**-0.7**	**-4.4**	**-1.8**	**3.1**	**0.7**	**0.1**

Note: The amounts are rounded off and thus do not always agree with the total.

[1] The table includes the budgetary effects of measures proposed by the government in the Spring Amending Budget for 2021 (Govt Bill
2020/21:99) that the Riksdag will consider in June 2021.

[2] For the expenditure side, a minus sign reflects a decrease in an appropriation or the cessation or reduction in scope of temporary programmes. For the revenue side, a minus sign reflects a decrease in tax revenues. For the combined budgetary effects of measures on the expenditure and revenue sides, a minus sign indicates a weakening of general government finances compared with the preceding year.

[3] This item shows the change in net borrowing for road and rail work. Net borrowing is the difference between new borrowing and amortisation.

[4] Excluding indirect effects on the revenue side of measures on the expenditure side.

Source: Own calculations.

The Government's further reform ambitions

The spread of the disease COVID-19 has confronted Sweden and the whole world with a situation unparalleled in modern times. In addition to the serious consequences for life and health, the spread of infection has hit jobs and business hard. After an unexpectedly strong economic recovery in the third quarter of 2020, the spread of infection accelerated again at the end of the year and activity in the economy decreased, but not as distinctly as it did in spring 2020.

Sweden is going to be affected by the pandemic for a long time, but the record pace of vaccine development brings hope. First and foremost, the vaccines save lives and health, but they also save jobs and companies. The faster restrictions can be phased out, the sooner society and the economy can recover and unemployment can be pushed back.

The pandemic puts society under great strain. Deficiencies in Sweden's welfare provision have been made visible, including in care of older people. School closures and distance teaching risk having an adverse effect on pupils' learning and health. Moreover, the situation in the labour market is serious. People who already had a weak attachment to the labour market before the pandemic risk getting stuck in long-term unemployment. Industry is back at the same levels of activity as before the crisis, while many sectors in services are still hard hit by restrictions and recommendations about physical distancing.

Further reforms are required to solve the societal problems that Sweden had before the pandemic. Global warming is continuing; one result is that extreme weather conditions are becoming ever more common. Climate emissions are decreasing too slowly, and the threats to biodiversity remain. More needs to be done for better learning outcomes and greater equity in the Swedish school system. Work to reduce and counter segregation must continue. Poverty and overcrowding risk worsening children's living conditions. Vulnerable areas must be lifted. Serious organised crime creates insecurity and division. The gap between urban and rural areas must be closed, especially concerning jobs and business.

Since the outbreak of the virus, the Government and the Riksdag (the Swedish parliament) have taken a large number of measures to safeguard people's lives, health and livelihoods. A lack of financial resources must not prevent work to limit the spread of infection and to care for the sick. Municipalities, regions and government agencies have therefore received major additional funding. Extensive financial support and front-loaded temporary tax reductions have been put in place to alleviate the negative financial consequences of the pandemic for jobs and business but also for other actors and for individuals. Unemployed people have been given stronger financial security and more opportunities of transitioning. Special action has been taken for schools and civil society. A powerful green economic restart is being implemented. The total expenditure for the measures taken since the spread of the infection began is now estimated at more than SEK 400 billion.

On 6 April 2021 the Government adopted the Additional Amending Budget for 2021 – Extended compensation in the area of health insurance, support for companies, culture and sport and other measures on account of the COVID-19 virus (Government Bill 2020/21:166). The Spring Amending Budget for 2021 (Govt Bill 2020/21:99). These two government bills amending the central government budget contain further measures to work

Sweden out of the crisis and build a better and more sustainable Sweden than before the pandemic.

Both the Spring Fiscal Policy Bill for 2021 and the proposed amendments to the budget are based on a political agreement between the Swedish Social Democratic Party, the Centre Party, the Liberal Party and the Green Party.

Limit the spread of infection and carry out vaccination

Rapid and safe vaccination is of fundamental importance for bringing Sweden out of the pandemic. At the same time, work to limit the spread of infection and to care for the sick must continue. The whole of society – the State, government agencies, regions, municipalities and private parties – has a common responsibility to combat the spread of infection and make rapid and large-scale vaccination possible.

The vaccination programme that has now been started is the most extensive ever in Sweden. The State undertakes to pay for vaccines and vaccinations, and the regions carry out the vaccinations in accordance with the recommendations of the Public Health Agency of Sweden. The Government proposes allocating a further SEK 1.7 billion to ensure the resources necessary for vaccine costs and for compensation to the regions. Under the agreement made by the Government and the Swedish Association of Local Authorities and Regions (SALAR), everyone in Sweden who is 18 years or older and individuals under 18 years who belong to a risk group will be rapidly offered vaccination against COVID-19. Sweden is cooperating in the European Union to produce an internationally accepted certificate of vaccination against COVID-19.

The pressure on health care remains high. The Government is therefore proposing additional funding of SEK 2 billion for the regions, over and above the SEK 4 billion so far allocated in 2021, to cover costs of deferred care and care for patients with COVID-19. The Government is carefully following developments in health care due to the spread of infection and is prepared to revert to the Riksdag when needed.

Continuing to limit the spread of infection reduces the risk of health care being overburdened. It is also of the utmost importance to continue to protect risk groups. To meet the need for continued large-scale testing and tracing, the Government is proposing additional funding of SEK 1.65 billion. The Government has also proposed extending a number of temporary measures until and include 30 June 2021; they include compensation for the sick pay standard deduction and the exemption from the requirement of a doctor's certificate as well as forms of compensation to risk groups. The Government intends to extend these measures until the vaccination target has been reached. An extension has also been proposed of the special provisions regarding sickness benefit when health care and rehabilitation are deferred, as well as of the government grant for protective equipment for personal assistants. For infection protection reasons, there is a continued need to be able to get to work without using public transport. An extension has therefore been proposed of the temporary tax and charge exemption for free parking benefit in connection with workplaces that was introduced in 2020.

Measures to alleviate the consequences of the pandemic

In addition to its impacts on life and health, the pandemic has also caused serious consequences for the whole of society. The extensive support measures have alleviated the consequences for many, but more must be done.

The pandemic has led to a clear decrease in demand in the economy, with serious consequences for jobs and business throughout the country. In order to continue supporting viable companies and reducing job losses, the Government has proposed extending several of the temporary measures. They include the compensation scheme for undertakings faced with turnover losses, the reinforced compensation scheme for undertakings faced with turnover losses affected by specific bans and recommendations, the turnover-based support for sole traders, the support for trading partnerships and the rent rebate, as well as the support to employers for sick pay costs above the normal level The Government has also proposed a number of temporary tax reductions. It will be possible to grant deferrals of payments of tax to tax accounts for more reporting periods, and the level of the deferral charge will be reduced. To support various industries in local business, the possibility for an employer to make tax-free-gifts is being expanded and extended. Several of the industries hit hardest have many young employees. The Government has announced that employers' social security contributions for young people will be reduced for June–August 2021 to make it easier for young people to find work. The Government makes the assessment that there is a need for further measures for rural areas and is therefore proposing a reinforcement of the Rural Development Programme. Funding is proposed for Visit Sweden to promote the visitor industry and for Business Sweden to reinforce regional export advice services. The culture sector and sports movement have also suffered negative impacts. The Government has therefore proposed an extension of crisis support for culture and sports, and the provision of funding for several charge-financed museums and certain performing arts institutions. Additional funding is also proposed for media subsidies to enable continued distribution of printed newspapers throughout the country and to provide compensation for increased expenditure for operational subsidies. Event support consisting of a guarantee and expanded grants is also being introduced.

Children and young people risk being adversely affected in several ways by the restrictions introduced; examples include long periods of distance teaching and cancellations of leisure activities. The consequences have been particularly keenly felt by those who were in need of various forms of support even before the pandemic. There is a need to catch up on knowledge lost in all school years, and the Government therefore proposes additional funding for schools for extra teaching and other measures. For instance, the possibility for pupils in Year 3 of upper secondary school to take part in holiday school is expanded so as to avoid pupils leaving upper secondary school without sufficient knowledge. To contribute to good living conditions for all children and young people, the Government's proposal contains funding for municipalities to arrange free, infection-proof activities in school holidays and funding to support the work of the municipalities on creating more summer jobs for young people. Many households have incurred or risk incurring severe reductions of their disposable income on account of the economic downturn. The Government therefore proposes temporary supplementary allowance to reinforce the housing allowance for families with children.

Continued green economic restart

A temporarily expansionary fiscal policy is needed so as to bring Sweden out of the recession as soon as possible. The Government is implementing extensive green investments, increased resources for welfare services and reductions of taxes on jobs and business. At the same time, the transitioning opportunities in the labour market are being improved. The Government proposes allocating additional funding to the climate transition and to getting more people in work throughout the country.

The climate transition and work for biodiversity have priority in the recovery. Sweden aims to be a fossil-free pioneer. The transition to a fossil-free and circular economy is necessary to enable Sweden to achieve both its environmental and climate objectives and the Global Goals in the 2030 Agenda. Making investments in reductions of carbon dioxide emissions, reduced environmental impacts and additional circular solutions strengthens competitiveness and lays the foundation for new and future jobs. The

Government is proposing a range of measures to continue the climate transition, including reinforced environmental compensation or goods transport by rail and funding to the regions for maintained public transport capacity during the pandemic. A further measure proposed is to go ahead with the next step in the introduction of a national ticketing system for all public transport throughout Sweden. To limit society's vulnerability as a result of climate change, funding is proposed for climate adaptation through knowledge-enhancing and preventive measures concerning climate change and its effects. The Government proposes a reinforcement of the county administrative boards' climate work at regional level. Additional funding is proposed for support for solar cells. Action against littering and an initiative for nature-centred jobs for young people are proposed to safeguard Sweden's nature and provide more paths to jobs.

More people are to find work and share in the freedom that comes from having a job and their own income. At the same time as many people have lost their jobs, new jobs have been created and more will be created when the economy turns round. In a recession, however, the risk of getting stuck in long-term unemployment or leaving the labour force altogether can be particularly great for people who already had a weak foothold in the labour market, such as young people without upper secondary education and women born abroad. A broad expansion of places in education and training is now under way to enable people who are unemployed to seek new jobs that emerge. The Government is also proposing targeted education and training initiatives, including more vocational training in combination with Swedish for Immigrants and Swedish as a second language. The possibilities of studying part time alongside participation in the job and development guarantee have been expanded. In addition, funding is proposed to increase the number of summer courses at universities and other higher education institutions. The Government also proposes that additional funding be provided to enable more people who are far from the labour market to participate in action that leads to work, such as introduction jobs, extra jobs and matching services. Increased resources for matching services reinforce work on reforming Arbetsförmedlingen *[the Swedish Public Employment Service]*. Increased resources for employment preparation activities are proposed by the Government so that unemployed people with disabilities will find work or start studies. The Government also proposes that funding be allocated to the start-up of the state transition organisation that follows from the agreement between the social partners on employment protection and transition.

Sweden to be a secure country for everyone

Crime and the causes of crime must be combated. Serious crime hits the whole of society and has a particularly hard impact on people living in socially vulnerable areas. The Government proposes several measures to intensify action against criminal gangs and networks and to break the recruitment of young people to criminal activities. An expansion is proposed of previous reinforcements of the law enforcement chain with new additional funding for the Swedish Prosecution Authority, the Swedish Economic Crime Authority, the Swedish Courts Administration, the National Board of Forensic Medicine, the Swedish Prison and Probation Service and the Swedish Customs. The Government proposes that additional funding be provided to spread the *Stop shooting* project to more places since cooperation between different actors has proved to be successful. The Government also proposes allocating funds to the Swedish Prison and Probation Service to strengthen work to prevent reoffending, in which there will be a special focus targeted on sentenced young adults. Some of this work will be done in socially vulnerable areas (see table 1.2).

The ongoing pandemic has worsened the situation of women, children and LGBTQI people subjected to domestic violence and honour-related violence and oppression. To increase the support for victims, a reinforcement is proposed of the government grant to civil society. Additional funding is proposed for preventive work against domestic violence, especially men's violence against women, and to support young people who are subjected to this in their relationships. The pandemic has also had a negative impact on children and adults in socially particularly vulnerable situations. To alleviate the consequences of increased mental ill health among children and young people and of homelessness, a reinforcement is proposed of the government grants to civil society organisations conducting activities targeted at these groups.

Table 1.2 Proposals in the Spring Amending Budget (SAB) for 2021 and the Extra Amending Budget (EAB) for 2021 – Extended compensation in the area of health insurance, support for companies, culture and sport and other measures on account of the COVID-19 virus
SEK billion

	2021
Limit the spread of infection and carry out vaccination	
Reinforcement of resources for rapid vaccination	1.7
Deferred health care and additional costs	2.0
Continued large-scale testing and tracing	1.7
Extension of compensation for the sick pay standard deduction	0.8
Extension of exemption in sickness benefit on account of deferred health care	0.3
Extension of compensation to risk groups and certain relatives of risk groups	0.1
Extension of tax and charge exemption for free parking benefit	0.1
Extension of exemption from requirement of a doctor’s certificate	0.1
Other measures for vaccination and limiting the spread of infection	0.3
Measures to alleviate the consequences of the pandemic	
Extension of compensation scheme for undertakings faced with turnover losses	6.2
Reinforcement of compensation scheme for undertakings faced with turnover losses affected by specific prohibitions	2.3
Extension of turnover-based support for sole traders	2.0
Extension of turnover-based support for trading partnerships	0.6
Extension of the rent rebate	3.0
Extension and increased costs for compensation for sick pay costs	5.1
Increased number of persons in short-time work	3.2
Reduced employers' social security contributions for young people in the summer months[1]	1.5
Reinforcement of Rural Development Programme	0.4
Extension of support for culture sector and sports movement	2.0
Event support	3.5
Holiday school	0.4
Measures for children and young people	0.4
Increased housing allowance for families with children	0.6
Other measures to alleviate the consequences of the pandemic	0.3
Continued green economic restart	
Extension of support for public transport	1.0
Compensation to forest owners with subalpine forests	0.4
Reinforcement ofenvironmental compensation for goods transport by rail	0.2
More places in education and training etc.	1.3
Increased funding for extra jobs, matching services, etc.	0.4
Other measures for a powerful green restart	0.3
Sweden to be a secure country for all	
Further reinforcement of the judicial system	0.3
Funds for civil society and to counter men’s violence against women	0.2
Other unavoidable items	2.5
Total	44.8

[1] Announcement of proposal in coming additional amending budget.
Source: Own calculations.

The Government's view of the Council's recommendations from 2020

The Council adopted country-specific recommendations to the Member States on 20 May 2020. The formal Council Decision recommends that Sweden take the following action in 2020 and 2021:

1 In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Ensure the resilience of the health system, including through adequate supplies of critical medical products, infrastructure and workforce.

2 Foster innovation and support education and skills development. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, high-tech and innovative sectors, 5G networks and sustainable transport.

3 Improve the effectiveness of anti-money laundering supervision and effectively enforce the anti-money laundering framework.

The Government welcomes the reviews conducted within the framework of the European Semester. The Government shares the assessment that necessary measures should be taken to address the pandemic, sustain the economy and support the recovery. The Government also consider it important to return the structural balance to the surplus target and ensuring debt sustainability when economic conditions so permit. In addition, the Government shares the assessment that necessary measures should be taken to increase resilience in health care. The Government also considers that the areas of investment identified in the country-specific recommendations are important areas in order to support the recovery and if Sweden is to continue to be competitive in the future. Combating money laundering is also a very important issue for the Government, which has also taken a number of measures to further strengthen the legislation in the area and to sharpen supervision. The Council's recommendations are considered further in section 3 of the Sweden's National Reform Programme 2021.

1.5 Monetary policy and financial economy

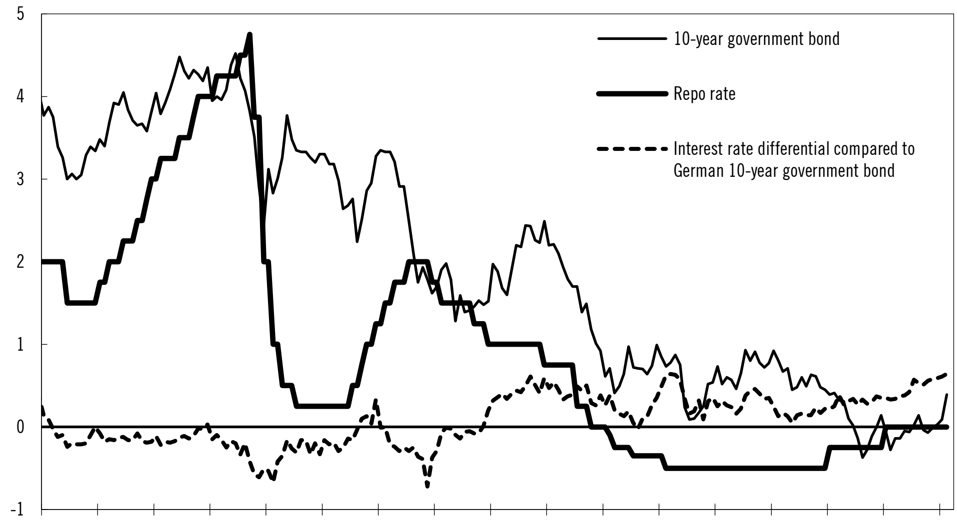
The Riksbank lowered the repo rate in stages between December 2011 and February 2016, from 2% to the historically low level of -0.5%. In December

2018 the Riksbank raised the repo rate to -0.25%, and in December 2019 the repo rate was raised again to zero per cent. In addition to keeping the repo rate low, the Riksbank has also carried out a comprehensive government bond purchase programme. In 2020 several central banks, including the Riksbank, tried to counter the economic consequences of the COVID-19 pandemic. The Riksbank has therefore, for example, increased the number of purchases of assets, such as government securities, local government securities, covered bonds and bonds issued by non-financial companies, to support the supply of credit in the economy.

The development of government bond yields in 2019 was characterised by elevated uncertainty concerning the trade relations between the US and China and by uncertainty surroundning the exit of the UK from the EU. Lower inflation expectations and a more expansionary monetary policy globally led to a fall in government bond yields both in Sweden and in other countries (see figure 1.4). At the end of 2019, however, confidence on financial markets rose and government bond yields increased. In conjunction with the outbreak of the virus in 2020 government bond yields fell.During the autumn of the same year growth and inflation expectations increased, particularly in the US , as a result of expansionary fiscal and monetary policy, which has contributed to a certain rise in government bond yields.

Figure 1.4 Interest rates in Sweden

Per cent



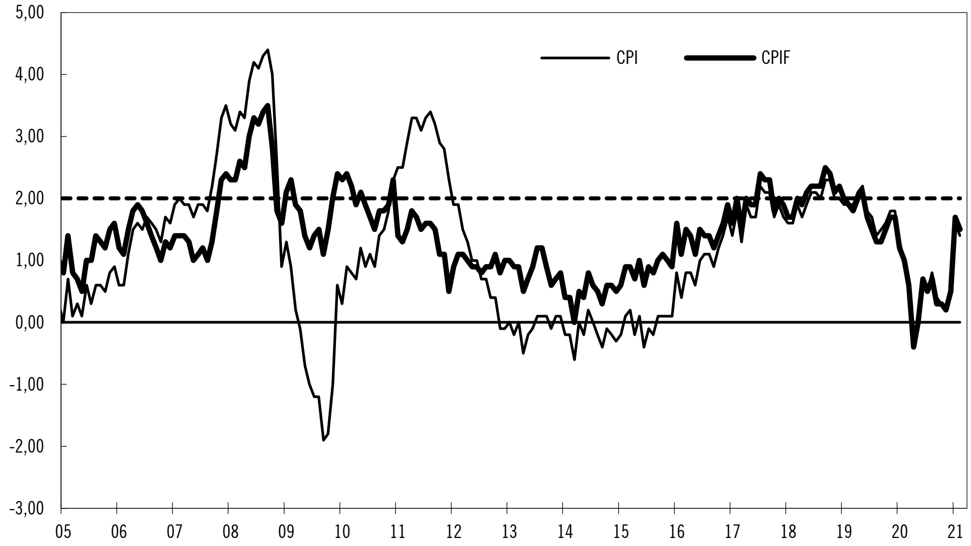
Sources: Riksbank and Macrobond.

Inflation measured as CPIF slowed clearly in 2020 in connection with the pandemic and had previously displayed a negative trend since 2018 (see figure

1.5). At the start of 2021 inflation increased but remained below the Riksbank's inflation target of 2%. CPI inflation, which includes the effect of changes in mortgage interest rates, also increased in early 2021 after having slowed in 2020 and displayed a negative trend since 2018.

Figure 1.5 Inflation measured as CPI and CPIF

Annual percentage change



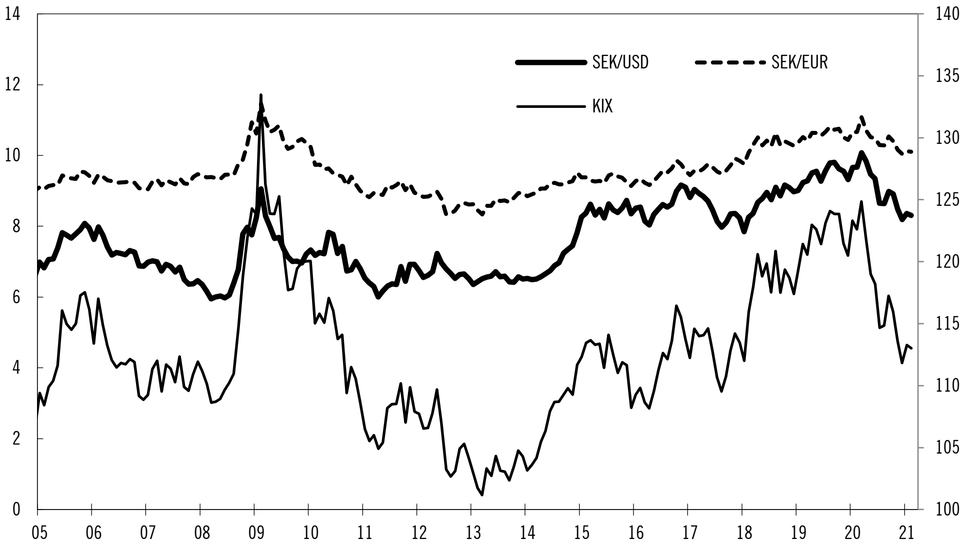
Note: The dashed line shows the Riksbank's inflation target.

Source: Statistics Sweden

Sweden has had a floating exchange rate since November 1992. Figure 1.6 shows the development of the Swedish krona against the euro and the US dollar as of 2005, along with the trade-weighted KIX exchange rate index. The krona has weakened against many currencies since 2014, which is explained to some extent by monetary policy. At the end of 2019, however, the krona strengthened when the Riksbank raised the repo rate. The krona weakened in connection with the virus outbreak in 2020, but has since strengthened against many currencies due to less unrest in financial markets and lower interest rate differences in relation to other economies.

Figure 1.6 KIX krona index and development of the Swedish krona against the euro and the US dollar

KIX index (right scale), SEK/EUR, SEK/USD (left scale)



Source: Riksbank.

2. Macroeconomic developments

2.1 International economy

The spread of COVID-19 is continuing to affect the world economy. After a sharp fall in economic activity in the first half of 2020, there was a clear recovery at the start of the autumn of that year. However, in the latter part of the year the spread of the infection gained pace again and many countries retained or reintroduced tighter restrictions to limit further spread of the virus. This led to economic growth slowing down again. At the end of 2020 the level of GDP was still lower than before the outbreak of the pandemic in the euro area, the US and the UK, while it was higher in China.

In autumn and winter 2020/2021 the impact of the spread of the infection on economic activity was not as distinct as in the spring of 2020. GDP growth was stronger than expected, with positive growth in China and the US. This was because the restrictions were better targeted in order to minimise negative side effects at the same time as businesses and consumers partly had adapted to the new conditions. Even though close-contact industries such as restaurants, travel and retail are still greatly affected by the pandemic, global industrial production has developed positively. There has been a reallocation of consumption from services to goods, with high demand for IT equipment and medical devices. World trade in goods was already as extensive at the end of 2020 as before the crisis. The strong recovery in China has contributed to supplier chains not being hit as severely as in spring 2020.

In 2021 the international recovery is expected to speed up, but with great variation between countries. Vaccination against COVID-19, now under way, is expected to increase confidence about the future development of the economy in many countries in the first half of the year. Growth prospects are highly dependent on when governments are able to relax restrictions and how households and companies will react to the relaxations and to the state of the pandemic. Households' partially involuntary savings in the past year is forecasted to be able to lead to a strong recovery of household consumption when restrictions are relaxed. In the US the recovery is expected to accelerate substantially slightly earlier and faster than in the euro area. This is because of a faster vaccination rate and the major stimulus packages adopted in that country.

In the present situation the development of the global economy is very uncertain. Vaccination has started in many countries, but there are logistical and production-related challenges that may lead to delays. There is also uncertainty about how effective the vaccines developed are against the new mutated forms of the coronavirus discovered in several countries. This may lead to a more protracted pandemic. It is also uncertain how quickly different economies can recover when the spread of the infection eventually abates and restrictions are lifted.

2.2 The Swedish economy

The Swedish economy has been severely affected by the pandemic and restrictions to suppress the spread of infection in 2020 (see table 2.1). The strong recovery that started after the summer and in autumn 2020 halted at the end of the year, and GDP decreased slightly in the fourth quarter. The development during the year was clearly linked to the spread of the virus and the restrictions and recommendations concerning physical distancing introduced. However, the increasing spread of the virus at the end of the year has turned out to have less of an impact on the economy than during the initial phase of the pandemic. To some extent, this is explained by the fact that global industrial production, which is important for an export-oriented country like Sweden, has been less affected. At the same time, many service industries are still clearly affected by restrictions, especially in hotels and restaurants, travel services, culture and entertainment.

At the start of 2021 confidence indicators, such as the Economic Tendency Survey, were at levels that indicate a good activity in manufacturing. However, the confidence indicator for the service sector is still at a lower level than normal. Movement indices and card data also indicate that the development of the service sector will continue to be subdued during the start of the year.

This forecast is based on the assumption that measures to reduce the spread of the virus will remain in place in Sweden and several other countries during the first half of 2021 and that the scope of the measures will decrease during the second half of the year. The spread of infection and the restrictions have hit household consumption hard. This consumption is expected to increase gradually as more and more people are vaccinated. Pent-up consumption needs and a previous high level of saving are expected to contribute to a rapid increase in household consumption. Rising capacity utilisation in industry and an expected increase in production volumes in companies indicate a higher investment need in the future. As the recovery picks up and investments rise internationally, exports are also expected to grow at a faster rate again. Even though strong growth is expected in domestic demand, imports are expected to grow more slowly than exports. Net exports are therefore expected to be positive in both 2021 and 2022.

In an overall assessment, economic activity in Sweden is expected to speed up in 2021, given that the spread of the virus decreases and restrictions are then relaxed. Major stimulatory measures in economic policy help to support the economic recovery. It is only in the second half of 2021 that GDP is judged to back at the same level as before the outbreak of the virus. However, this level is still lower than GDP would have been if the pandemic had never happened. Resource utilisation therefore remains much lower than normal, and the Swedish economy is judged to be in a deep recession in 2021. In 2022 resource utilisation is also judged to be lower than normal.

Table 2.1 Key indicators

Annual percentage change, unless otherwise stated

	2020	2021	2022	2023	2024
GDP	-2.8	3.2	3.8	1.9	1.6
GDP gap[1]	-3.9	-2.6	-0.5	0.0	0.0
Employment[2]	-1.3	0.3	1.9	1.7	0.6
Employment rate[3]	67.2	67.2	68.2	69.0	69.1
Hours worked[4]	-3.8	3.0	2.4	1.1	0.5
Productivity, business sector[4,5]	1.3	0.5	1.7	0.4	1.2
Unemployment rate[6]	8.3	8.7	7.9	7.0	7.0
Wages[7]	2.0	2.5	2.3	2.5	2.7
CPI[8]	0.5	1.4	1.0	1.3	2.1

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

Sources: Statistics Sweden and own calculations.

There has been some recovery in the labour market

The situation in the labour market is still serious in the wake of the pandemic. Unemployment is at a much higher level than before the pandemic, especially among young people, people with at most pre-upper secondary education and people born outside Europe. The Government has taken several measures to moderate the severe downturn in the labour market. For instance, short-time work allowance and reorientation support have been introduced, enabling many companies to survive and to retain employees. In the fourth quarter of 2020 there was a clear recovery in the labour market. The employment rate increased and around a third of the fall that occurred in the spring has been recovered.

Forward indicators of employment have continued to improve clearly in late 2020 and early 2021, despite an increase in the spread of the virus and expanded restrictions. In the first half of 2021 employment growth is judged to be more subdued due to lower economic activity at the start of the year. Looking ahead, service industries in particular, such as hotels and restaurants, are expected to be most affected by the low demand due to restrictions and behavioural change.

As demand rises, employment is expected to grow more quickly. However, this growth will be held back by the fact that many companies are expected to step up their production by increasing the working hours of existing employees in the first place when short-time work is phased out. As a consequence of this, employment is only expected to grow weakly in 2021. Unemployment is forecasted to be higher in 2021 than it was in 2020. In 2022 higher employment growth is expected, especially in service industries in the business sector. It is expected to take time for employment and unemployment to return to the same level as before the pandemic. Even though unemployment is expected to decrease, it is still at a much higher level in 2022 than before the pandemic.

According to preliminary figures, the rate of wage growth according to the short-term wage statistics was at a historically low level in 2020. This was mainly because a postponement of the round of pay negotiations due to the pandemic. The postponed negotiations resulted in several months without negotiated pay rises for many employees. In autumn 2020 the social partners in industry reached an agreement corresponding to a rate of pay growth of around 5.4% over a period of 29 months. This agreement had a broad impact and largely became the standard for the rest of the labour market. The rate of pay growth is judged to increase in 2021, and to then be slightly weaker in 2022.

Inflation, measured as CPIF, increased clearly at the beginning of 2021 after a weak development in 2020. Energy prices, which contributed to the weak inflation in 2020, are instead expected to contribute to higher inflation in 2021. At the same time, low resource utilisation in Sweden means that inflation will continue to be subdued.

In an overall assessment, CPIF inflation is expected to increase in 2021 but to be below the Riksbank's inflation target of 2 per cent in the next few years. CPI inflation, which includes the effect of changes in mortgage interest rates, is also expected to increase in 2021, but to continue to be subdued.

Continued expansionary monetary policy

Several central banks have continued their extensive support measures, including purchases of various securities to reduce unrest in financial markets and contribute to continued good granting of credit in the economy. This expansionary monetary policy has contributed to lower interest rates and to share prices rising in several parts of the world. The Riksbank has also conducted an expansionary monetary policy, which has helped to keep Swedish interest rates at a low level. The Riksbank is expected to keep the repo rate unchanged in 2021.

2.3 Potential macroeconomic imbalances

Macroeconomic imbalances have deteriorated in several member countries on account of the pandemic, especially in countries where imbalances were identified prior to the crisis. To ensure a favourable economic development in the long term, it is important, in the first place, to implement measures that prevent macroeconomic imbalances from arising and, in the second place, to identify and correct at an early stage any imbalances that nevertheless do arise. It is difficult to give an exact definition of a macroeconomic imbalance. But such an imbalance can be said to reflect an underlying problem that risks leading to a rapid and significant correction, which in turn has an adverse impact on the economy as a whole.

The Macroeconomic Imbalance Procedure

The EU Macroeconomic Imbalance Procedure is part of the European Semester and economic policy coordination in the EU. The Imbalance Procedure for the present Semester has been temporarily adjusted to ensure an effective implementation of the Recovery and Resilience Facility. For instance, no country-specific recommendations will be issued in 2021 for the countries that have submitted recovery and resilience plans. However, recommendations in the area of fiscal policy will be issued within the framework of the Stability and Growth Pact.

The procedure began when the European Commission published the Alert Mechanism Report 2021 in November 2020. This report contained a preliminary economic analysis of Member States, including a scoreboard with indicators in areas that might constitute macroeconomic imbalances. The Alert Mechanism Report also selected twelve Member States, including Sweden, for an in-depth review. These twelve countries are the same countries that in February 2020 were identified with imbalances or excessive imbalances. For Sweden, last year's reviews indicated imbalances related to high private debt and high housing prices. The reports for the in-depth reviews will be published in spring 2021, along with the European Commission's assessment of the stability and convergence programmes. The reports will contain accounts of the gravity and evolution of already identified imbalances and the risks that new ones will emerge.

Within the framework of the European Semester, the Commission also submits proposal for measures to address these imbalances, known as country-specific recommendations. However, the country-specific recommendations adopted in 2021 will be limited to imbalances concerning the situation of general government finances in Member States. The information provided in the Member States' national reform programmes and convergence or stability programmes as well as in their recovery and resilience plans will be taken into account. If the European Commission considers that a Member State identified with excessive imbalances takes inadequate measures, the Commission may recommend that the Council initiate the Excessive Imbalance Procedure, which is the corrective arm of the Macroeconomic Imbalance Procedure.

Household debt

Households' high debt entails risks. There is, above all, a risk to macroeconomic stability as households with high debt may reinforce a downturn in the economy if many of them simultaneously choose to reduce their consumption so as to be able to repay their mortgages or increase their savings. A number of measures have been taken in recent years in order to strengthen the resilience of the financial system to financial crises and reduce the risks associated with household debt. An account of these measures is given in Sweden's National Reform Programme 2021. The measures taken have had effect. As a result, households affected by the measures buy cheaper homes, borrow less and amortise more than they would otherwise have done. The rate of increase of household debt has been slowed for several years. Even though this trend was broken in 2020, the rate of increase is still lower than the average over the past five years.

3. General government finances

3.1 Accounting principles

This section presents the forecast for the general government finances given in the Spring Fiscal Policy Bill for 2021 (Govt Bill 2020/21:100). The reporting of general government revenue and expenditure is based on the European System of Accounts (ESA 2010). However, the Government's reporting, which is also used by the National Institute of Economic Research (NIER), differs in certain respects from ESA 2010 (see table 3.1). The main differences are that parts of sales revenue from public activities are recorded on the expenditure side, as a deduction item in general government consumption expenditure, in the national statistics, while these revenues are recorded on the revenue side according to ESA 2010 But there is no difference in the calculation of net lending. A detailed report of general government finances in accordance with ENS 2010 (and EDP) is given in table C.2a in Appendix C.

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

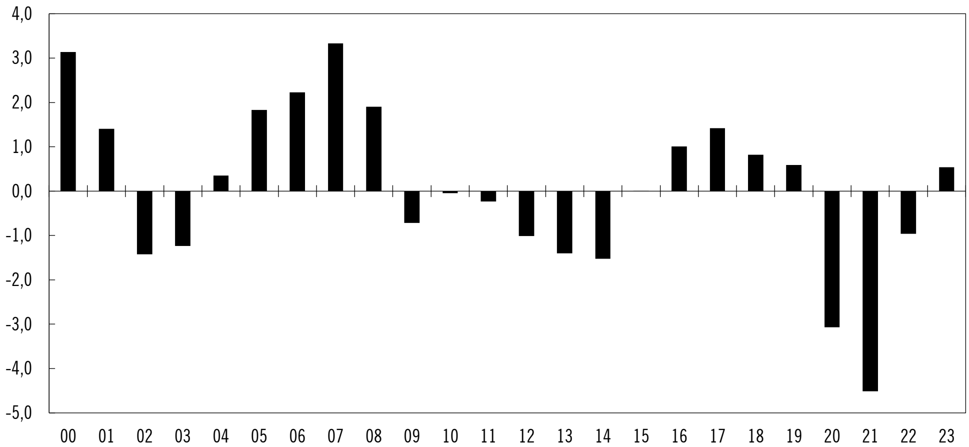
	2020	2021	2022	2023	2024
Spring Fiscal Policy Bill					
Revenue	48.7	48.1	47.8	48.1	47.8
Expenditure	51.8	52.6	48.7	47.5	46.9
Net lending	-3.1	-4.5	-1.0	0.5	1.0
ESA 2010					
Revenue	49.9	48.9	45.8	48.6	48.3
Expenditure	52.9	53.4	49.4	48.1	47.3
Net lending	-3.1	-4.5	-1.0	0.5	1.0

Sources: Statistics Sweden and own calculations.

3.2 Development of general government finances

General government finances were reinforced strongly between 2014 and 2017. Net lending turned round from showing a deficit of 1.5% of GDP to a surplus of 1.4% of GDP (see figure 3.1). Then, as lending was adapted to the new level of the surplus target, net lending fell and was 0.6% of GDP in 2019.

Figure 3.1 General government net lending 2000-2024
Per cent of GDP



Sources: Statistics Sweden and own calculations.

General government finances showed a surplus in 2016–2019. As a result of the excessively sharp economic downturn and the measures taken to address the weakening of the economy, general government finances weakened severely in 2020. The initially weak economic growth resulted, in combination with additional stimulatory measures, in continued weakening of general government finances in 2021 in relation to 2019. As the economy recovers, net lending is expected to strengthen gradually until and including 2024 (see figure 3.1 and table 3.2).

Table 3.2 General government finances

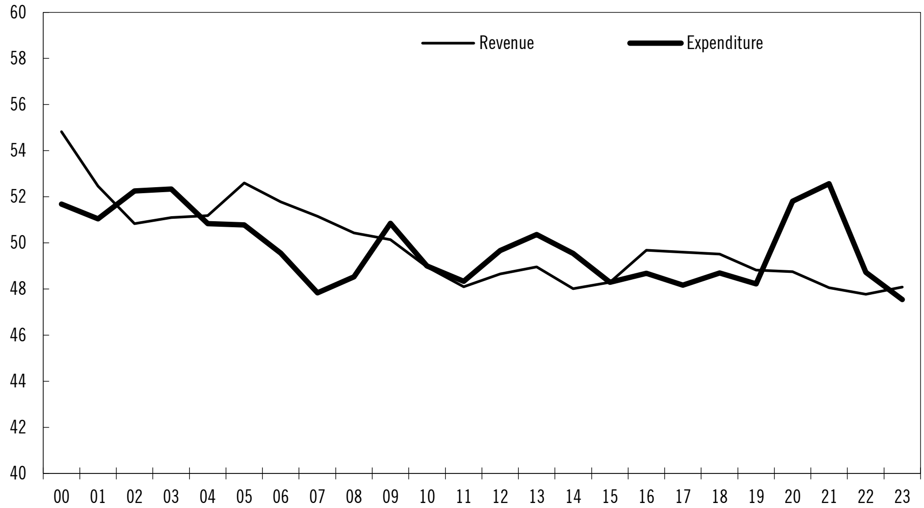
Per cent of GDP if not otherwise stated

	SEK, billions 2020	2020	2021	2022	2023	2024
Revenue	**2 414**	**48.7**	**48.1**	**47.8**	**48.1**	**47.8**
Taxes and charges	2 115	42.7	41.9	41.8	42.2	42.0
Household direct taxes	626	12.6	12.1	11.9	11.9	11.9
Corporate direct taxes	144	2.9	2.7	2.9	3.0	3.0
Employers' contributions	269	5.4	5.3	5.2	5.3	5.2
Indirect taxes	1 076	21.7	21.8	21.7	22.0	21.9
Income from capital	70	1.4	1.5	1.4	1.4	1.4
Other revenue	229	4.6	4.7	4.6	4.5	4.4
Expenditure	**2 566**	**51.8**	**52.6**	**48.7**	**47.5**	**46.9**
Transfer payments[1]	966	19.5	20.0	17.2	16.5	16.1
Final consumption expenditure	1 327	26.8	26.8	26.0	25.5	25.3
Gross fixed capital formation	248	5.0	5.3	5.1	5.0	4.9
Interest expenditure	24	0.5	0.5	0.4	0.5	0.5
Net lending	**-152**	**-3.1**	**-4.5**	**-1.0**	**0.5**	**1.0**
Primary net lending	-136	-2.8	-4.2	-0.7	0.8	1.3
Consolidated gross debt	**1 974**	**39.9**	**39.9**	**37.0**	**33.7**	**31.4**
Net debt	**1 339**	**27.0**	**23.7**	**24.8**	**27.4**	**29.1**

Sources: Statistics Sweden and own calculations.

The main reasons for the weakening of general government net lending between 2019 and 2020 were the strong rise in expenditure in 2020 and also the fall in income. In 2021 expenditure is estimated to increase as a share of GDP and result in a further increase in the deficit in general government finances (see table 3.2 and figure 3.2).

Figure 3.2 General government income and expenditure 2000–2024
Per cent of GDP



Sources: Statistics Sweden and own calculations.

In pace with the expected recovery of the Swedish economy, general government finances also strengthen as of 2022. It is solely central government finances that account for the variations in general government net lending (see table 3.3)

Table 3.3 Net lending and the central government budget balance
Per cent of GDP

	2020	2021	2022	2023	2024
General government net lending	**-3.1**	**-4.5**	**-1.0**	**0.5**	**1.0**
Central government	-3.2	-4.7	-0.4	1.1	1.4
Old-age pensions system	-0.2	0.0	0.1	0.1	0.1
Local government sector	0.3	0.1	-0.7	-0.7	-0.6
Central government budget balance	-4.5	-2.7	1.4	2.6	1.7
Central government debt	24.6	26.2	23.5	20.1	17.8

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

3.3 Net financial wealth and consolidated gross debt

The Maastricht debt is defined by EU regulations and is the debt concept used to assess Member States' general government finances within the framework of the Stability and Growth Pact. For Sweden, this definition means that the debt consists of the consolidated central government debt and local government sector debt in the capital markets, less the Swedish National Pension Funds' holdings of government bonds.

Prior to Sweden's accession to the EU on 1 January 1995, the consolidated gross debt amounted to over SEK 1 200 billion, corresponding to around 70%

of GDP. Since then the nominal value of this debt has increased by around SEK 800 billion and was almost SEK 1 974 billion at the end of 2020. The gross debt increases in 2021 on account of the estimated deficits in central government. However, the Riksbank's amortisation of foreign currency loans means, by itself, that the National Debt Office's borrowing requirement decreases by around SEK 60 billion per year in 2021–2023, which restrains the rate of growth of the gross debt in these years.

Temporary weakening of general government's financial wealth

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

The main component of the net financial wealth of the general government sector is the AP funds in the old-age pension system. The contribution of central government and the local government sector to net financial wealth is negative. The general government sector's capital income in the form of interest and dividends, mainly attributable to the old-age pension system, exceeds its interest expenditure. Its total debt includes the commitments of central government and the local government sector for defined-benefit occupational pensions earned as of 1998. Like the premium pension system, the total liabilities for the funded defined-contribution occupational pensions are not included in the general government sector, but are instead reported in the insurance sector.

In 2019–2021 the deficits in central government lead to the weakening of the net financial wealth of the general government sector. After that, increases in the value of financial assets and the gradual reinforcement of central government finances lead to more rapid growth of net financial wealth.

3.4 General government net lending target

There is judged to be a deviation from the surplus target if the structural balance deviates clearly from the target level in the present year or the coming year. The occurrence of a deviation from the target may be due to several circumstances and this must not be equated with the policy being incorrectly designed or being incompatible with the fiscal policy framework.

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

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

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

Per cent of GDP if not otherwise stated

	2020	2021	2022	2023	2024
Net lending	**-3.1**	**-4.5**	**-1.0**	**0.5**	**1.0**
Retrospective eight-year average	-0.3				
Structural balance[1]	-1.3	-2.7	-0.3	0.6	1.1

Sources: Statistics Sweden and own calculations.

Structural balance

Despite considerable uncertainty about the structural balance, this measure, calculated according to established methods, is considered to be the most suitable measure for assessing whether the present level of net lending and fiscal policy are consistent with the surplus target. The use of the structural balance as the main indicator in the prospective monitoring of the surplus target is also judged to be consistent with EU law. Table 3.4 presents outcomes and forecasts of general government net lending. The structural balance in years *t* and *t+1*, i.e. in the present year and the next year, 2021 and 2022, is used to assess achievement of the surplus target from a forward-looking perspective.

To mitigate the ongoing recession the Government is pursuing an expansionary fiscal policy, whose active fiscal policy is weakening the structural balance. The Government's assessment is that there is a deviation from the surplus target, but that this deviation is justified on grounds of stabilisation policy on account of the economic effects of the spread of COVID-19 (see table 3.4). The retrospective average of net lending for 2013-

2020 is also judged to be under the target level. The fiscal policy framework states explicitly that there can be stabilisation policy reasons that justify conducting an active fiscal policy that weakens the structural balance. This means that even if fiscal policy leads to a deviation from the surplus target, the policy is consistent with the fiscal policy framework. However, when a target deviation is established, the Government has to give an account of how a return will be made to the target. The Government makes the assessment that Sweden will be in a recession until and including 2022. In both 2020 and 2021 the recession is judged to be very deep. It is, in general, very difficult to make forecasts of the development of the economic cycle. Moreover, the forecast for the coming development of the economic cycle is unusually uncertain. This uncertainty is due three factors: the development of the pandemic, when governments choose to relax restrictions and how household and companies will react when they do. It is important, in coming years, to also be able to adapt fiscal policy to the state of the economy. Therefore it is not appropriate in the situation that has arisen to set out a plan for a return to the surplus target other than at a general level. The Government intends to return the structural balance to the surplus target when economic conditions so permit.

Retrospective eight-year average

The retrospective average of net lending for 2013-2020 is also judged to be under the target level.

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

Sweden's medium-term budgetary objective (MTO) is that the structural balance should not fall below -1% of potential GDP.

Table 3.5 Structural balance, European Commission
Per cent of potential GDP

	2020	2021	2022
Structural balance	**-1.4**	**-0.9**	**-0.2**
Medium term budgetary objective (MTO)	-1.0	-1.0	-1.0

Source: European Commission's forecast (November 2020).

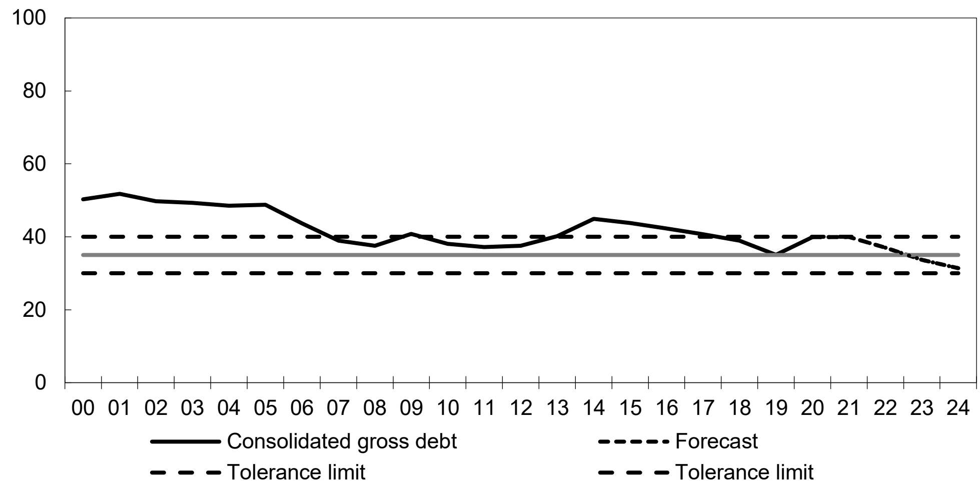
The European Commission's forecast, published in November 2020, estimated the structural balance in Sweden at -1.4% of potential GDP in 2020, with an increase to -0.9% in 2021 (see table 3.5). The main reason for the difference between the Commission's and the Government's forecast is that the Commission has not been able to take full account of the new measures proposed by the Government to alleviate the effects of the outbreak of the novel coronavirus.

3.5 Monitoring of the debt anchor

The fiscal policy framework requires the Government to give an account each year in the spring fiscal policy bill of the development of the general government consolidated gross debt in relation to the debt anchor (see section 1.1). Gross debt as a share of GDP is judged to be within the tolerance limits of the debt anchor (see figure 3.3). One important reason why the debt ratio does not increase more in 2021, despite the increase in the deficit in general government finances is that, as of 2021, the Riksbank is starting a transition to wholly self-financed foreign exchange reserves after previously having financed part of its foreign exchange reserves through the Swedish National Debt Office. The transition will take place gradually until and including 2023 and also contributes to the decrease in the debt ratio during the forecast period since the central government borrowing requirement decreases. According to the present forecast, which is based solely on the fiscal policy adopted or announced, the gross debt is expected to fall later on in the forecast period and to be just over 31% of GDP in 2024.

Figure 3.3 Consolidated gross debt

Share of GDP



Source: Statistics Sweden and own calculations.

3.6 Monitoring of the expenditure ceiling

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

The Riksdag decided to raise the level of the expenditure ceiling for 2020 following the Government's proposal in the Spring Amending Budget for 2020 on account of the need for measures resulting from the spread of COVID-19 For the same reason the Riksdag decided to raise the level of the expenditure ceiling for 2021 and 2022 following the Government's proposal in the Budget Bill for 2021.

The Government considers that the size of the budgeting margin is sufficient to deal with the uncertainty present in the assessment of the development of expenditure in 2021–2023. Compared with the forecast in the Budget Bill for 2021, the budgeting margin is now estimated to be SEK 127 billion lower in 2021, SEK 2 billion higher in 2022 and SEK 2 billion higher in 2023.

In the Spring Fiscal Policy Bill for 2021 the Government makes an assessment of the level of the expenditure ceiling for 2024. The Budget Act requires the Government to propose a level of the expenditure ceiling for the third year ahead in the budget bill. In accordance with the Budget Act the Government will propose a level of the expenditure ceiling for 2024 in the Budget Bill for 2022. An assessed level is not subject to decision by the Riksdag.

Table 3.6 Expenditure ceiling 2021–2024

SEK billions, unless otherwise stated

	2021	2022	2023	2024
Expenditure ceiling	1 695	1 634	1 539	1 595
Per cent of GDP	32.5	29.7	27.1	27.1
Ceiling-limited expenditure	1 621	1 477	1 456	1 471
Per cent of GDP	31.1	26.8	25.6	25.0
Budgeting margin	74	157	83	124
Per cent of GDP	1.4	2.9	1.5	2.1

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

Source: Own calculations.

The budgeting margin under the expenditure ceiling is estimated at SEK 74 billion for 2021. For 2022, 2023 and 2024 the estimated budgeting margins are SEK 157 billion, SEK 83 billion and SEK 124 billion (see table 3.6).

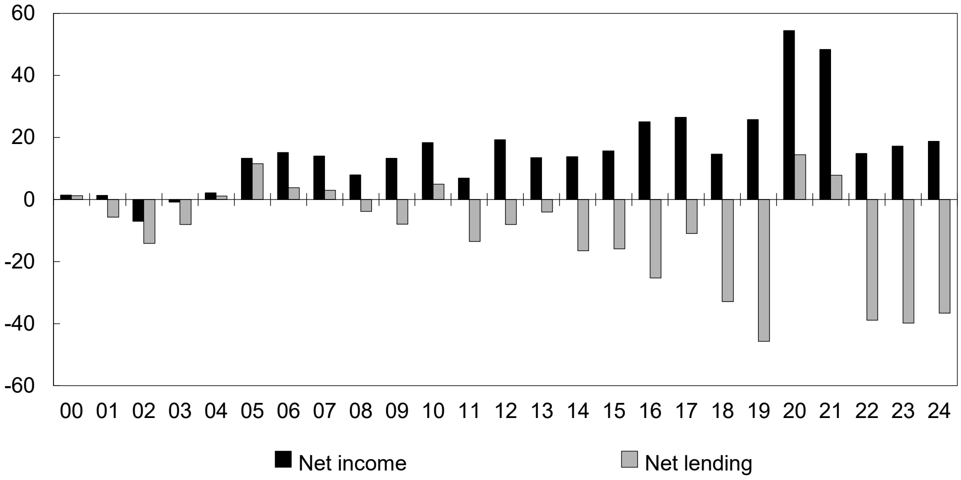
3.7 Monitoring the requirement of sound financial management in the local government sector and the local government balanced budget requirement

It is net income that determines whether each municipality and region meets the balanced budget requirement (see section 1.1). The balanced budget requirement sets a minimum level, but net income generally needs to be higher to fulfil the sound financial management requirement of the Swedish Local Government Act. What is meant by sound financial management is defined by the municipalities and regions themselves.

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

Figure 3.4 Local government net income and net lending

SEK billion



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

Sources: Statistics Sweden and own calculations.

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

Development of net income in local government

In 2020 the local government sector as a whole reported net income after financial items of SEK 55 billion (see figure 3.4). This historically high level of net income is explained by considerable additional central government funding resulting in a strong revenue increase at the same time as the pandemic resulted in local government services and the costs of these services being limited in 2020. The Government's forecast assumes that the local government sector's net income after financial items will be SEK 48 billion in 2021 and SEK 15–19 billion in 2022–2024.

3.8 Central government guarantees

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

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

Composition of the guarantee portfolio

Table 3.7 presents a summary of guarantees and commitments issued. At the end of 2020 the central government guarantee portfolio amounted to SEK 2 189 billion. The largest commitments were the deposit insurance scheme (SEK 1 734 billion) followed by credit guarantees (SEK 264 billion) and guarantees for capital injections (SEK 183 billion).

Table 3.7 Central government guarantee commitments and pledges, 31 December 2020
SEK billions

	Guarantees	Pledges[3]
Deposit insurance scheme[1]	**1734**	
Investor compensation[2]		
Credit guarantees	**264**	**45**
of which		
Bank guarantee programme		
Export credit guarantees[3]	239	44
Credit guarantees in foreign aid	0	
Independent guarantees	6	1
Infrastructure	14	0
Housing credits	3	
International commitments	1	
Guarantees to Corporations	2	
Other	0	
Guarantees for capital injections	**183**	
of which		
Capital cover guarantees	6	
Subscription guarantees	0	
Guarantee capital	169	
Guarantees to the European Union thru SURE	8	
Pension guarantees[4]	**7**	
Total	**2189**	**45**

[1] The commitment for the deposit insurance scheme is as of 31 December 2019.
[2] For the investor compensation scheme there is a lack of data regarding the scope of the protected assets.
[3] Refers to restricted pledges.
[4] The commitment for pension guarantees is as of 31 December 2019.

Source: Swedish National Debt Office.

Expected losses in central government guarantee portfolio

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

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

Table 3.8 Comparison between provisions for expected costs and assets in the guarantee operations as of 31 December 2020 (excluding the deposit insurance scheme, investor compensation scheme, bank guarantee programme and guarantee capital)
SEK billions

Authority	Guarantee commitment	Provisions for expected costs	Guarantee assets
Swedish National Debt Office	24	1	1
The Swedish Export Credits Guarantee Board	239	9	35
Swedish International Development Cooperation Agency	6	0	3
The Swedish National Board of Housing, Building and Planning	3	0	2
Total	**272**	**11**	**41**

Source: Swedish National Debt Office.

Annual analysis of the risk of major losses

The National Debt Office has the task of performing a concerted analysis each year of the risk of large losses in the central government guarantee and lending portfolio along with the Swedish Export Credits Guarantee Board, the Swedish Board of Student Finance (CSN), Swedish International Development Cooperation Agency (Sida), Swedish National Board of Housing, Building and Planning (Boverket) and the other agencies concerned. The term large losses is defined by the National Debt Office as losses of at least SEK 20 SEK billion in the coming five years. The risk of large losses in the regular portfolio is judged to remain low. The risk of major losses linked to the deposit insurance scheme is assessed as moderate.

4. Alternative scenarios and comparison with Sweden's Convergence Programme 2020

4.1 Alternative scenarios

How quickly vaccines can be produced, adapted to mutated variants and delivered to different countries and how quickly people can be vaccinated are factors of central importance for when different countries can relax their restrictions. They are thus also factors that are of crucial importance for economic growth in the short to medium term. At the same time, previous experience shows that a deep or protracted recession can also have lasting negative effects on the economy. Uncertainty about the development of the pandemic and its possible effects on the economy is illustrated by two alternative scenarios based on assumptions about the development of the pandemic.

In scenario 1 the supply of effective vaccines is assumed to be lower than in the main scenario, and new mutated and more infectious virus variants are assumed to be spread generally around the world. Continued restrictions are therefore necessary in this scenario. A more protracted pandemic leads to a greater economic downturn. This is then assumed to cause lower growth in the long term, for example if a reduced willingness to take risks holds back companies' investments or if unemployment remains at a higher level for a longer period. This can i.e. occur if people who become unemployed do not have time to retarin when industry structures change. Overall, GDP growth in 2021 will be lower in this scenario than in the main scenario and also increases more slowly in subsequent years than is assumed in the main scenario (see table 4.1). This leads to unemployment being higher. As a consequence of the lower activity in the economy, general government net lending is lower than in the main scenario, mainly due to lower income from taxes, but also, to some extent, due to increased public expenditure when unemployment rises. The deterioration of general government finances are assumed to be financed with loans, which along with lower GDP, results in a higher general government consolidated gross debt than in the main scenario.

In scenario 2 the supply of effective vaccines globally is assumed to be greater than in the main scenario, making faster vaccination of the world's population possible. At the same time, a pent-up need to consume is assumed, along with the high level of saving during the pandemic, to reinforce the recovery of the world economy when countries relax their restrictions. In addition, decisions by many countries to adopt new stabilisation policy support packages to restart their economies are assumed to generate higher growth in the longer term if, for example, the support is used for productive investments in digitalisation and environmental technology. In this scenario GDP growth in Sweden in 2021 is stronger than in the main scenario, and the economy also recovers slightly faster in succeeding years. This leads to resource utilisation in the economy being higher than in the main scenario, and to unemployment being lower. In aggregate, general government net lending is higher than in the main scenario. The general government consolidated gross debt is therefore slightly lower.

Table 4.1 Alternative scenarios

Percentage change unless otherwise stated

The outcome in 2020 and the forecast according to the main scenario are shown in bold for each variable on the basis of previously adopted and announced reforms and reforms now proposed and announced.[1]

	2020	2021	2022	2023	2024
GDP[2]	**-3.1**	**3.1**	**3.8**	**2.1**	**1.6**
Scenario 1: Deeper and protracted crisis	-3.1	2.2	3.0	2.4	2.0
Scenario 2: Faster and sustained recovery	-3.1	3.3	5.2	2.4	1.4
GDP gap[3]	**-3.9**	**-2.6**	**-0.5**	**0.0**	**0.0**
Scenario 1: Deeper and protracted crisis	-3.9	-3.4	-2.1	-1.3	-1.0
Scenario 2: Faster and sustained recovery	-3.9	-2.4	1.1	2.0	1.7
Unemployment[4]	**8.3**	**8.7**	**7.9**	**7.0**	**7.0**
Scenario 1: Deeper and protracted crisis	8.3	9.3	9.1	7.9	7.7
Scenario 2: Faster and sustained recovery	8.3	8.5	6.7	5.6	5.8
Net lending[5]	**-3.1**	**-4.5**	**-1.0**	**0.5**	**1.0**
Scenario 1: Deeper and protracted crisis	-3.1	-5.1	-2.2	-0.5	0.1
Scenario 2: Faster and sustained recovery	-3.1	-4.3	0.1	1.9	2.2
Maastricht debt[5]	**39.9**	**39.9**	**37.0**	**33.7**	**31.4**
Scenario 1: Deeper and protracted crisis	39.9	41.0	40.0	37.6	35.8
Scenario 2: Faster and sustained recovery	39.9	39.5	34.5	29.5	26.2

1 In the alternative scenarios, supplementary monetary policy measures have also been taken into account.
2 Calendar-adjusted growth rates.
3 The difference between actual and potential GDP as a percentage of potential GDP.
4 Annual average.
5 Percentage of GDP.

Sources: Statistics Sweden and own calculations.

4.2 Comparison with the 2020 Convergence Programme

The Swedish economy turned out to be more resistant to the effects of the pandemic, and GDP growth in 2020 did not fall as much as implied by the forecast in the 2020 Convergence Programme (see table 4.2). This means that GDP growth in 2021 is now expected to be lower than in the assessment in the 2020 Convergence Programme. In an overall assessment, economic activity in Sweden is expected to speed up in 2021, given that the spread of infection decreases and restrictions are then relaxed. Major stimulatory measures in economic policy help to support the economic recovery. GDP is judged to rise by 3.2% in 2021 and 3.8% in 2022.

Table 4.2 Comparison with the 2020 Convergence Programme
Annual percentage change in volume and per cent of GDP

	2020	2021	2022	2023	2024
GDP, percentage change in volume					
2020 Convergence Programme	-4.0	3.5	3.4	3.1	--
2021 Convergence Programme	-2.8	3.2	3.8	1.9	1.6
Difference, percentage points	1.2	-0.3	0.4	-1.2	--
General government net lending, per cent of GDP					
2020 Convergence Programme	-3.8	-1.4	0.1	1.5	--
2021 Convergence Programme	-3.1	-4.5	-1.0	0.5	1.0
Difference, percentage points	0.7	-3.1	-1.1	-1.0	--
Consolidated gross debt, per cent of GDP					
2020 Convergence Programme	39.9	38.3	36.2	32.4	--
2021 Convergence Programme	39.9	39.9	37.0	33.7	31.4
Difference, percentage points	0.0	1.6	0.8	1.3	--

5. Long-term sustainability of fiscal policy

This section presents an assessment of whether fiscal policy is sustainable in the long-term. This is done on the basis of an assessment of the development of the macroeconomy and of general government finances in the long term given assumptions about population change, employment and growth, etc. The purpose of the assessment is to get an indication, in good time, if fiscal policy is unsustainable so that action can be taken as early as possible to make it sustainable.

Despite the economic downturn resulting from the spread of COVID-19, fiscal policy is judged to be long-term sustainable. The weakening of general government net lending in 2020 and 2021 is temporary and does not jeopardise the long-term sustainability of fiscal policy. Since the number of hours worked in the economy has a considerable effect on general government finances, any potential long-term negative effects on employment may, however, worsen sustainability.

At the same time, general government finances are affected by trends that are not related to the spread of COVID-19. Demographic developments mean that the need for health care and social care, in particular, is increasing rapidly at present. This means that staffing in parts of local government services is a challenge.

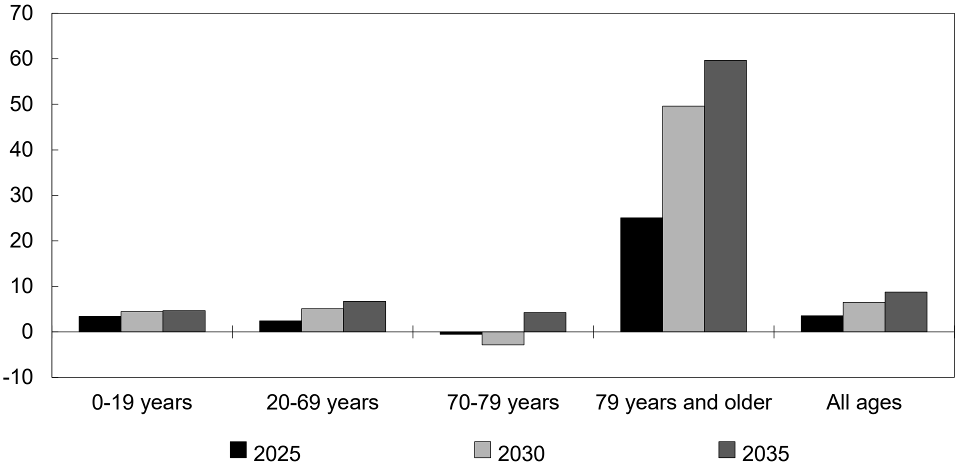
5.1 Long-term challenges

Sweden's population is expected to increase by just over 900 000 persons, or almost 9%, between 2020 and 2035 according to Statistics Sweden's population projection from April 2020 (see figure 5.1). Children and young people account for around 12% of this increase and the number of people of working-age (20–69) for around 47%. The remaining 40% consists of people aged 70 or older.

The number of people who are 80 and older is expected to increase by around 60% between 2020 and 2035. To a great extent, the expected population increase therefore takes place in the age groups for which general government expenditure on welfare services and transfer payments is higher than payments of tax.

Figure 5.1 Changes in population compared with 2020

Percentage change



Source: Statistics Sweden

5.2 What is meant by fiscal policy being sustainable?

The assessment of whether fiscal policy is sustainable is based on a projection of general government income and expenditure far into the future. If the fiscal policy is sustainable, the rules that govern general government income and expenditure can remain unchanged over the long term without this resulting in growing deficits and excessive general government debt. The purpose of the analysis is to assess under what conditions the present regulatory framework is sustainable and under what conditions it is unsustainable, i.e. must be changed.

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

5.3 A scenario for long-term development

The projection of general government income and expenditure presented here, which extends up to and including 2110, is based on Statistics Sweden's population forecast from April 2020.

For tax-financed activities it is assumed that the standard is unchanged, expressed as resource input per user. For example, in the future, a 90-year-old receives the same number of hours of health and social care and access to areas of premises of the same size and the same other assistive devices, etc. as a 90-year-old does today. The compensation level in all transfer systems apart from the pension system is assumed to increase in line with average income. A separate calculation is made for the pension system based on its rules. This calculation includes the effect of the reform announced in the Budget Bill for 2021 (Govt Bill 2020/21:1 Proposal for the central government budget, budget statement, etc. section 1.4) that links age limits in the old-age pension system, in the tax system and in other social insurance systems to a benchmark age that increases with life expectancy at the age of 65.

It is also assumed that current tax rates are unchanged. The projection focuses on the general government commitment as a whole, and the general government sector (central government, municipalities and regions, the old-age pension system) is regarded as a single entity. There is great uncertainty in the projection and it should not be seen as a forecast of the most probable development, but should be viewed as an impact analysis whose purpose is to describe the effect on general government finances of the assumptions made.

Labour supply grows more slowly than the population

The projection assumes that the labour force participation rate, unemployment and average working hours are unchanged for people of different ages with different origins, with the exception of adjustments due to the pension reform and a trend of a decreasing share of sick people outside the labour force. The latter trend increases the labour force participation rate in the 55–64 age group. The share of the population aged 60–69 increases in the long term on account of the reform of the pension system. At the same, there is a rapid increase in the share of older people, who have, on average, a lower employment rate. Overall, the share of the population in employment increases slightly up until 2027, and then decreases.

On average, the share in employment and the number of hours worked increases by around 0.6% and 0.8% respectively per year between 2020 and 2035, and by around 0.3% per year in the period thereafter. One reason why employment increases more than twice as fast in the former period is that it was particularly low in 2020, when it was greatly affected by the recession caused by the spread of COVID-19.

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

The use of public consumption, i.e. health care, schools and social care, etc., varies over life. Early in life, considerable resources are used for preschool and other education. When a person is around 20, their use of general government expenditure usually decreases, and towards the end of life expenditure increases rapidly, primarily for healthcare and elderly care. A rising number of older people means that the need for care of older people and disabled people increases by around 18 per cent between 2020 and 2030, and by around a further 7 per cent between 2030 and 2035.

The demand for services that are not consumed individually, such as the judicial system, public administration and defence, is assumed to rise in pace with the total population and is just less than 9 per cent higher in 2035 than in 2020. If the supply of welfare services is to be maintained at the present level, demographic developments mean that public consumption, in total, will increase by around 12.5% until and including 2035.

When the general government sector expands, the number employed also needs to expand. If the number of employees in the public sector is to keep pace with the number of people using tax-financed services, the need for personnel increases by around 10 000–14 000 per year until and including 2035, which means a total increase of around 190 000 persons between 2020 and 2035. The need for personnel is greater in the local government sector than in central government – especially in care of older people and disabled persons, but also in health care.

Despite a rapid expansion, general government net lending and debt develop in a sustainable way.

Between 2024 and 2035 general government consumption increases slightly as a share of GDP on account of the demographic changes (see table 5.1). It is mainly expenditure for care of older people and disabled persons and health care that rise faster than GDP. The primary balance weakens as a share of GDP in these years, mainly in central government, which bears the overall responsibility for financing welfare provision. After 2024 primary expenditure is more or less stable as a share of GDP. The weak growth of expenditure for consumption as a share of GDP is countered by the fact that investments grow more slowly than GDP. General government transfer payments increase slightly as a share of GDP even after 2035.

The most important tax bases are largely steered by the performance of the labour market. Primary income decreases marginally as a share of GDP after 2024.

Table 5.1 Primary general government expenditure if there is no change in behaviour
Per cent of GDP

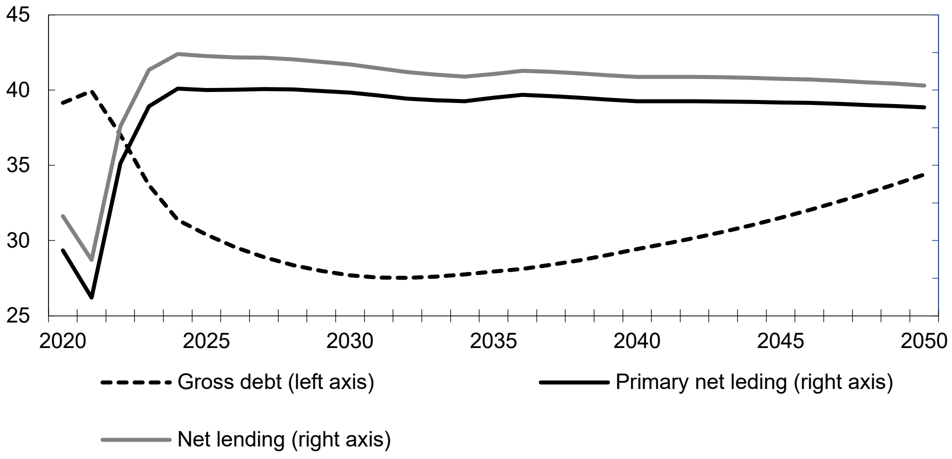
	2020	2024	2035	2060
Primary expenditure	**51.3**	**46.4**	**46.3**	**46.4**
General government consumption	26.8	25.3	25.7	25.7
Investments	5.0	4.9	4.7	4.4
Transfer payments	19.5	16.1	16.0	16.2
To households	14.4	12.6	12.4	12.7
Primary revenue	**47.3**	**46.4**	**46.1**	**45.8**

Sources: Statistics Sweden and own calculations.

Following an initial sharp deterioration, the primary balance improves markedly by 2024 and is then more or less stable as a share of GDP until 2035 (see figure 5.2). The reason for the one-off improvement of the primary balance that takes place around 2035 is that the benchmark age for the age limits in the pension and tax systems is judged to increase by one year. This means that more people will be in employment, at the same time as expenditure for pensions decreases.

Figure 5.2 General government net lending and consolidated gross debt

Per cent of GDP



Sources: Statistics Sweden and own calculations.

Since the financial position of the general government sector is positive, i.e. its financial assets are greater than its debts, net lending is judged to be greater than the primary balance, and to be slightly above the present level of the surplus target in most years as of 2023. The high level of net lending contributes to a decrease in the consolidated gross debt, from just under 40 per cent of GDP in 2021 to just over 31 per cent of GDP in 2024, and to under 30 per cent of GDP in 2030. After 2030 the debt ratio increases again, reaching the benchmark for the debt anchor at the end of the period reported.

Two indicators, called the S1 and S2 indicators, are used to summarise the sustainability analysis; they show the size of the permanent change in general government net lending required for the general government debt to develop as wanted. The S1 indicator is a measure of the size of the change in fiscal policy needed in 2022 for the general government consolidated gross debt (Maastricht debt) to correspond to 60% of GDP in 2035. Since the gross debt is expected to correspond to around 40% of GDP at the end of 2021, there is a safety margin to this level of debt, so S1 is negative. The S2 indicator shows how much general government net lending must change permanently in 2022 for the general government net debt as a proportion of GDP to stabilise in the very long run.

The S1 indicator is -3.1% of GDP, calculated from 2022. The relatively large negative S1 value shows that the present volume of the public commitment can very likely be maintained until and including 2035 without the gross debt exceeding the limit value of the Stability and Growth Pact. If a calculation is instead made of the adjustment in net lending required for the debt ratio to correspond to 35 per cent of GDP in 2035, i.e. a debt ratio in line with the debt anchor, the indicator value is -0.7.

The value of S2 is -0.2. Strictly interpreted, this means that net lending can be permanently weakened by 0.2% of GDP in 2022, without net debt becoming unstable over the very long term. Fiscal policy is therefore also sustainable using this method.

The value of the indicators has changed slightly since the previous assessment.

In the 2020 Convergence Programme for Sweden S1 was calculated as -3.4 and S2 as -1.2. One reason why the S1 indicator has weakened marginally is that the general government consolidated gross debt for the initial year is slightly higher than in the previous projection.

Other assessments of the sustainability of the fiscal policy.

Both the National Institute of Economic Research (NIER) and the European Commission have recently published assessments of the long-term sustainability of Swedish fiscal policy (see Special Study 2021:3, NIER, February 2021 and Debt Sustainability Monitor 2020, European Economy, February 2021).

The NIER's assessment is that Sweden has strong general government finances that are sustainable in the long-term despite the spread of COVID-19. This assessment is based on an assumption that the population is getting healthier and is continuing to work at higher ages. If this is not the case, general government finances are not assessed as being long-term sustainable.

The Commission's assessment is that the risk of an unsustainable development is low in both the short and the medium (up until 2034) term. In the long term, the Commission's assessment is that there is a moderate risk of an unsustainable development. Summary sustainability indicators are presented in table 5.2.

Table 5.2 Sustainability indicators for Sweden
Per cent of GDP

	S1	S2
Government	-3.1	-0.2
National Institute of Economic Research (February 2021)		0.4
European Commission (February 2021)	-3.1	2.9

Note: The values of the indicators are not directly comparable since they are calculated based on different assumptions.

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

5.4 Fiscal policy is judged to be long-term sustainable

In an overall assessment, fiscal policy is judged to be long-term sustainable. In the long-term scenario, which is reported in section 5.3, S1 is -3.1% of GDP and S2 is -0.2% of GDP.

It is, however, too early to say whether the sharp economic downturn resulting from the spread of COVID-19 will have long-term effects on general government finances. Since the number of hours worked in the economy has a considerable effect on general government finances, the potential long-term negative effects on employment are of crucial importance. However, the weakening of general government finances in 2020 and 2021 due to the ongoing spread of COVID-19 is temporary and does not, by itself, jeopardise the long-term sustainability of general government finances.

There are important trends for general government finances that are not linked to the ongoing spread of COVID-19. For example, the years up until 2035 are characterised by growing demographically motivated needs of tax-financed welfare services. Primary expenditure in central government and in the local government sector is estimated to increase in these years, but the increase is not of an order that makes fiscal policy unsustainable.

6. Quality of general government finances

6.1 Expenditure

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

Table 6.1 General government expenditure by purpose, per cent of GDP
Per cent of GDP

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Change 2009–2019
General public services	7.4	7.4	7.6	7.6	7.8	7.5	7.0	6.7	6.8	7.1	6.9	-0.5
Interest payments	1.3	1.2	1.3	1.1	1.0	0.8	0.7	0.7	0.6	0.6	0.6	-0.7
Other	6.1	6.2	6.3	6.6	6.8	6.6	6.3	6.0	6.2	6.4	6.4	0.3
Defence	1.5	1.5	1.4	1.4	1.4	1.3	1.2	1.2	1.2	1.2	1.2	-0.2
Public order and safety	1.3	1.3	1.3	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	0.0
Economic affairs	4.6	4.5	4.4	4.5	4.4	4.3	4.2	4.2	4.2	4.3	4.4	-0.2
Environmental protection	0.5	0.4	0.4	0.5	0.5	0.4	0.4	0.4	0.5	0.5	0.5	0.0
Housing and community amenities	0.6	0.5	0.5	0.5	0.6	0.6	0.6	0.5	0.6	0.7	0.7	0.1
Health	7.0	6.7	6.7	6.8	6.9	6.9	6.8	6.9	6.8	7.0	7.0	0.0
Recreation, culture and religion	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.3	1.3	0.0
Education	6.7	6.4	6.3	6.4	6.5	6.5	6.4	6.6	6.7	6.9	6.9	0.2
Social protection	21.4	20.3	19.6	20.4	21.0	20.5	20.1	20.6	20.0	19.6	19.0	-2.4
Total expenditure	**52.3**	**50.4**	**49.7**	**50.9**	**51.6**	**50.7**	**49.3**	**49.7**	**49.2**	**49.8**	**49.3**	**-2.9**
Excluding interest	50.9	49.2	48.4	49.8	50.6	49.9	48.6	49.1	48.6	49.2	48.7	-2.2

Sources: Statistics Sweden and own calculations.

Expenditure as a share of GDP (the expenditure ratio) was relatively uneven in the wake of the financial crisis in 2008 and 2009 but has, since 2015, been relatively stable at just under 50% of GDP. As shown in table 6.1 and table 6.2, expenditure on social protection in Sweden in 2019 amounted to around 19% of GDP and just under 39% of total general government expenditure. After having swung around 40% of total expenditure since 2009, expenditure on social protection has decreased gradually in recent years. Expenditure on health care also accounts for a large share of general government expenditure. After being around 13% of total expenditure in 2009, this share has risen, and was around 14% in 2019. There has been a large decrease in the share of expenditure consisting of interest payments; this is mainly because the general government consolidated gross debt has fallen strongly as a proportion of GDP at the same time as the level of interest rates has been relatively low.

Table 6.2 General government expenditure by purpose, per cent of total expenditure
Per cent of total expenditure

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Change 2009–2019
General public services	14.2	14.7	15.3	15.0	15.0	14.7	14.3	13.5	13.8	14.2	14.1	-0.1
Interest payments	2.5	2.4	2.6	2.1	1.9	1.6	1.4	1.3	1.2	1.3	1.2	-1.4
Other	11.7	12.3	12.7	12.9	13.2	13.1	12.8	12.2	12.6	12.9	12.9	1.2
Defence	2.8	3.0	2.8	2.7	2.8	2.5	2.4	2.4	2.4	2.4	2.5	-0.3
Public order and safety	2.6	2.7	2.6	2.7	2.6	2.6	2.6	2.6	2.6	2.6	2.7	0.1
Economic affairs	8.8	8.9	8.9	8.9	8.4	8.6	8.4	8.5	8.5	8.7	9.0	0.2
Environmental protection	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	0.1
Housing and community amenities	1.1	1.0	1.1	1.0	1.1	1.2	1.2	1.1	1.1	1.4	1.4	0.3
Health	13.3	13.3	13.5	13.4	13.4	13.6	13.8	13.8	13.9	14.0	14.2	0.8
Recreation, culture and religion	2.5	2.6	2.6	2.5	2.5	2.6	2.6	2.6	2.5	2.5	2.6	0.1
Education	12.8	12.7	12.7	12.7	12.6	12.8	13.0	13.3	13.6	13.8	14.1	1.2
Social protection	40.9	40.3	39.5	40.1	40.6	40.5	40.8	41.3	40.6	39.2	38.6	-2.3
Total expenditure	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	
Excluding interest	97.5	97.6	97.4	97.9	98.1	98.4	98.6	98.7	98.8	98.7	98.8	1.4

Sources: Statistics Sweden and own calculations.

6.2 Income

The tax ratio, i.e. total tax revenue as a percentage of GDP, is usually affected most by changes in regulations, since tax bases normally follow the development of the economy. Between 2013 and 2024, the tax ratio is expected to decrease by 0.4 percentage points, but the variations during this period are larger (see table 6.3 and table 6.4). The tax ratio rose at the beginning of the period, peaking at 44.1% in both 2016 and 2017. After that the tax ratio is estimated to decrease gradually and to be lowest in 2022 at 41.9%. This is due both to previously adopted changes in regulations and to the measures the Government has taken on account of the outbreak of the coronavirus. At the end of the forecast period the tax ratio is expected to rise slightly, to just over 42 per cent.

A large part of the variation in revenue from tax on labour is explained by regulatory changes. A reinforcement of the earned income tax credit held tax revenue back in 2014. Then the abolition of reduced social security contributions for young people meant that revenue from tax on labour rose. It was highest in 2016 and 2017. Thereafter revenue decreased again, and it is expected to continue to decrease in the forecast period, reaching its lowest level in 2022. The decrease in revenue from tax on labour as a share of GDP in 2020−2022 is due to the Government's measures on account of the spread of COVID-19, such as temporary reductions of employers' social security contributions and reduced tax on work income.

As a share of GDP, revenue from tax on capital is expected to rise by 0.6 percentage points in the period 2013-2024. But the share is expected to vary more during the period. In 2015 and for a few years thereafter the share was unusually high, which is explained by temporarily higher revenue from both tax on corporate profits and tax on household capital. In 2020 revenue from tax on capital are expected to decrease strongly on account of the outbreak of the coronavirus, which has decreased company profits. In 2021 a tax reduction for business investments also means that revenue from tax on capital decreases even more as a share of GDP. Some recovery is expected during the remainder of the forecast period.

Revenue from the taxes on consumption is estimated to remain stable overall as a share of GDP throughout the period 2013 and 2024. But the share taken by revenue from value added tax is expected to rise and the share taken by excise duties to fall during the period. Part of the explanation of the rise in revenue from value added tax as a share of GDP is the strong increase in housing investments. These are investments a large part of which are made by households. Looking ahead, a strong increase in household consumption is expected to lead to a rise in revenue from value added tax as a share of GDP. Revenue from excise duties is decreasing continuously as a proportion of GDP There are several reasons for this, for example: the use of certain products subject to selective taxation decreases over time, a part of excise duties tax rates is not adjusted to inflation and the use of various kinds of energy in transport, heating and production is becoming increasingly efficient.

Revenue from tax arrears and other taxes as a share of GDP is only expected to fall by 0.1 percentage points in 2013−2024, but their share varies slightly more during the period. Revenue from tax arrears and other taxes is affected by factors including temporary respites granted to companies and collection losses.

Table 6.3 Tax revenue, by tax types, per cent of GDP

Per cent of GDP

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Change 2013–2024
Tax on labour	25.4	24.9	24.6	25.8	25.8	25.7	25.2	25.2	24.8	24.5	24.7	24.6	-0.8
Direct taxes	13.7	13.3	13.1	13.8	13.7	13.6	13.1	13.6	13.0	12.7	12.7	12.7	-1.0
Indirect taxes	11.8	11.6	11.5	12.0	12.1	12.1	12.0	11.7	11.9	11.8	12.0	11.9	0.2
Tax on capital	4.5	5.0	5.7	5.6	5.7	5.4	5.6	5.1	4.9	5.1	5.2	5.2	0.6
Households	0.8	1.2	1.6	1.7	1.7	1.4	1.4	1.2	1.2	1.2	1.2	1.1	0.3
Corporate incomce	2.3	2.4	2.8	2.6	2.7	2.8	3.1	2.8	2.6	2.8	2.9	2.9	0.5
Tax on consumption	12.1	12.0	12.0	12.3	12.2	12.2	12.0	12.3	12.1	12.1	12.1	12.1	0.0
VAT	8.9	8.9	8.9	9.2	9.2	9.2	9.2	9.4	9.4	9.4	9.4	9.5	0.6
Excises duties	3.2	3.1	3.0	3.1	3.0	2.9	2.8	2.8	2.7	2.7	2.7	2.6	-0.6
Arrears and other taxes	0.4	0.3	0.3	0.5	0.4	0.5	0.3	0.2	0.2	0.2	0.3	0.3	-0.1
Total tax revenue	**42.5**	**42.2**	**42.6**	**44.1**	**44.1**	**43.8**	**43.1**	**42.8**	**42.1**	**41.9**	**42.3**	**42.1**	**-0.4**

Sources: Statistics Sweden and own calculations.

Table 6.4 Tax revenue, by tax types, per cent of total tax revenue

Per cent of total revenue

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Change 2013–2024
Tax on labour	59.9	59.0	57.8	58.4	58.6	58.8	58.5	58.9	59.1	58.4	58.4	58.4	-1.5
Direct taxes	32.2	31.5	30.7	31.2	31.2	31.1	30.5	31.6	30.8	30.3	30.1	30.1	-2.1
Indirect taxes	27.7	27.5	27.1	27.2	27.4	27.7	28.0	27.3	28.2	28.1	28.4	28.3	0.6
Tax on capital	10.6	11.9	13.5	12.6	12.9	12.4	13.0	12.0	11.8	12.2	12.2	12.2	1.6
Households	2.0	2.8	3.8	3.8	3.9	3.3	3.2	2.8	2.9	2.8	2.8	2.7	0.7
Corporate incomce	5.5	5.7	6.6	5.9	6.2	6.3	7.1	6.5	6.1	6.7	6.8	6.8	1.3
Tax on consumption	28.5	28.4	28.1	27.9	27.6	27.8	27.9	28.7	28.8	28.8	28.6	28.7	0.2
VAT	20.9	21.1	21.0	20.9	20.9	21.1	21.3	22.1	22.3	22.4	22.3	22.5	1.6
Excises duties	7.6	7.3	7.1	7.0	6.7	6.6	6.6	6.6	6.5	6.4	6.3	6.2	-1.4
Arrears and other taxes	1.0	0.7	0.6	1.1	0.9	1.1	0.6	0.4	0.4	0.6	0.7	0.7	-0.3
Total tax revenue	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	

Sources: Statistics Sweden and own calculations.

Appendix A – Technical assumptions

This annex gives a more detailed account of the methods applied in the calculation of general government finances in the period 2024-2110.

Demographic assumptions

The calculation is based on Statistics Sweden's population forecast from April 2020, shown in table A.1.

Table A.1 Demographic assumptions

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

	2020	2030	2040	2050	2060	2070	2080
Birth rate	1.69	1.86	1.84	1.86	1.88	1.88	1.88
Average life expectancy, women	84.8	85.8	86.8	87.8	88.8	89.6	90.5
Average life expectancy, men	81.4	82.9	84.3	85.4	86.5	87.4	88.4
Net migration, thousands	64	34	24	22	22	23	23

Source: Statistics Sweden.

Labour market

The performance of the labour market depends on demographic developments. The projection of the employment rate and the number of hours worked is calculated disaggregated by age, gender and country of origin. The labour force participation rate, employment rate and average working hours are assumed to remain constant in each group in the long term. This can be interpreted as unchanged labour market behaviour because the absenteeism rate, rate of sickness and activity compensation, average hours worked, employment rate and unemployment rate are constant within each sub-group. Two exceptions are made from this principle. First, it is assumed that the current low inflows to sickness compensation continue, which means that the labour supply for persons in the 55–64 age group continues to increase slightly in the next few years. Second, it is assumed that the reform announced in the Budget Bill for 2021 (Govt Bill 2020/21:1) that links age limits in the old-age pension system, in the tax system and in other social insurance systems to a benchmark age that increases with life expectancy at the age of 65 will lead to an increase in the number of employed people in the 60–69 age group.

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

Productivity

The assumption about productivity growth in the business sector is based on the historical development. The relatively low rate of productivity growth in recent years is assumed to increase gradually in the next few years so that productivity in the business sector again increases at the same rate as it did on average in 2000-2020. This means a trend in productivity growth of about 1.9 per cent per year as of 2030 (See table A.2). Productivity growth in the general government sector is assumed to be zero as of 2025.

GDP, expenditure and output approach

GDP growth is determined by the sum of the productivity growth in the economy as a whole and the increase in the number of hours worked. The use side of GDP, i.e. how production is used, is determined so that households' current relatively high savings ratio decreases gradually. Household consumption expenditure as a share of GDP therefore increases gradually over the period as people live longer and an increasing share of the population does not work. In total, gross fixed capital formation accounts for around 23–24% of nominal GDP. The projection of general government consumption in volume terms is determined by demographic developments, while its price growth is determined by assumptions about hourly pay growth and the price growth for other production factors such as rents etc. The production of general government consumption is obtained with an assumption of unchanged productivity and degree of privatisation. The remaining component of the expenditure approach of GDP is net exports, which are calculated as the difference between GDP and its domestic use. Production in the business sector is determined as the product of productivity and the number of hours worked in that sector.

Inflation and wages

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

Assumptions regarding yield on capital

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

Table A.2 Macroeconomic assumptions

Annual percentage change and per cent

	2020	2030	2040	2050	2060	2070	2080
Percentage change							
Population, 15–74 years	0.5	0.5	0.1	0.2	0.3	0.2	0.3
Labour force, 15–74 years	0.3	0.4	0.2	0.2	0.2	0.9	0.3
Number employed, 15–74 years	-1.3	0.4	0.2	0.2	0.2	0.9	0.3
Hours worked	-3.2	0.5	0.2	0.2	0.2	0.9	0.3
Business sector productivity	1.3	2.0	1.9	1.9	1.9	1.9	1.9
GDP, fixed prices	-2.8	2.0	1.8	1.8	1.9	2.6	2.0
GDP per capita	-3.7	1.5	1.5	1.5	1.6	2.3	1.7
GDP productivity	0.4	1.6	1.7	1.6	1.7	1.8	1.8
GDP deflator	1.4	2.9	2.4	2.3	2.3	2.0	2.2
CPI, annual average	0.5	2.5	2.0	2.0	2.0	2.0	2.0
Hourly wages	4.4	4.7	4.2	4.1	4.1	3.9	4.0
Per cent							
Real interest	0.5	0.8	2.9	2.8	2.7	3.0	2.8
Employment rate, 15–74 years	67.1	69.2	69.2	69.9	69.5	71.6	71.4
ILO unemployment rate, 15–74 years	8.3	6.9	7.1	7.0	6.9	6.8	6.5

Sources: Statistics Sweden and own calculations.

General government income

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

Table A.3 Taxes and charges
Per cent of GDP

	2020	2030	2040	2050	2060	2070	2080
Taxes and charges	42.7	41.9	42.0	42.0	42.3	42.1	42.3
Household direct taxes and charges							
Proportion of GDP	12.6	11.9	12.0	12.0	12.1	12.1	12.2
Implicit tax rate of direct taxes	22.9	22.7	22.7	22.7	22.6	22.7	22.6
Tax base for direct taxes as a proportion of GDP	55.1	52.3	52.7	53.0	53.6	53.3	53.8
Implicit tax rate of charges	6.6	6.5	6.5	6.5	6.5	6.5	6.5
Tax base for charges as a proportion of GDP	40.9	40.1	40.6	40.9	41.1	41.3	41.5
Corporate direct taxes							
Proportion of GDP	2.7	3.0	3.0	3.0	3.0	3.0	3.0
Implicit tax rate	9.3	10.4	10.4	10.4	10.4	10.4	10.4
Tax base as a proportion of GDP	29.0	29.0	28.8	28.8	28.6	28.8	28.7
Indirect taxes[1]							
Proportion of GDP	12.8	12.4	12.3	12.1	12.3	12.0	12.1
Implicit tax rate	29.0	27.7	26.7	26.0	25.6	25.4	25.1
Tax base as a proportion of GDP	44.3	44.7	45.9	46.8	48.0	47.5	48.3
Social security contributions from employers and the self-employed[2]							
Proportion of GDP	14.3	14.5	14.7	14.8	14.9	15.0	15.0
Implicit tax rate	35.0	36.3	36.3	36.3	36.3	36.3	36.3
Tax base as a proportion of GDP	40.9	40.1	40.6	40.9	41.1	41.3	41.5

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

Sources: Statistics Sweden and own calculations.

General government expenditure on consumption

The projection of general government consumption is made in two parts: a volume projection and a price projection. The calculation of general government consumption is based on costs for various purposes such as schools, health care and social care, disaggregated by age and gender (see table A.4). All expenditure areas are projected in line with the demographic trend. This means, for example, that an average 70-year-old woman is allocated the same amount of public services, in real terms, in 2060 as in 2024. This can be seen as an expression of unchanged standards in general government services. The price of general government consumption develops in line with a weighting of the price of the component parts of gross production, i.e. hourly pay, the price of consumables used and the price of consumption of fixed capital (the price of gross fixed capital formation).

Table A.4 General government consumption

Per cent of GDP

	2020	2030	2040	2050	2060	2070	2080
Total consumption	**26.8**	**25.5**	**25.8**	**25.7**	**25.7**	**25.0**	**25.0**
Childcare	1.7	1.6	1.6	1.6	1.6	1.5	1.5
Education	5.3	4.8	4.7	4.6	4.5	4.3	4.2
Healthcare	6.7	6.3	6.3	6.3	6.2	6.0	5.9
Elderly care	5.1	5.3	5.7	5.9	6.2	6.2	6.4
Other activities	8.0	7.5	7.5	7.4	7.3	7.1	7.0

Sources: Statistics Sweden and own calculations.

Transfer payments

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

Table A.5 General government transfer payments

Per cent of GDP

	2020	2030	2040	2050	2060	2070	2080
Total transfer payments	**19.5**	**15.9**	**15.9**	**15.9**	**16.2**	**15.9**	**16.1**
Transfer payments to households	14.4	12.4	12.4	12.4	12.7	12.4	12.6
Old age	8.1	7.1	7.1	7.0	7.2	6.9	7.1
Ill-health	2.2	1.8	1.9	1.9	2.0	2.0	2.0
Children/studies	2.1	1.8	1.8	1.9	1.9	1.9	1.9
Labour market	0.9	0.6	0.6	0.6	0.6	0.6	0.5
Other	1.1	1.0	1.1	1.1	1.1	1.1	1.1
Transfer payments to businesses and the rest of the world	5.1	3.5	3.5	3.5	3.5	3.5	3.5

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

Sources: Statistics Sweden and own calculations.

Old-age pension system

Table A.6 shows the old-age pensions system's income and expenditure and its financial position. The calculation of pension expenditure is based on demographic developments, economic assumptions and the applicable regulations. The average pension age is assumed to increase over time at a rate determined by average life expectancy at the age of 65.

Table A.6 Old-age pensions system

Per cent of GDP

	2020	2030	2040	2050	2060	2070	2080
Revenue	**6.5**	**6.6**	**6.9**	**7.1**	**7.3**	**7.4**	**7.6**
Fees	6.0	5.7	5.7	5.8	5.8	5.9	5.9
Interest, dividends etc.	0.5	0.9	1.1	1.3	1.5	1.6	1.7
Expenditure	**6.7**	**5.8**	**5.7**	**5.6**	**5.9**	**5.6**	**5.8**
Pensions	6.6	5.6	5.5	5.5	5.7	5.4	5.6
Other	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net lending	**-0.2**	**0.8**	**1.2**	**1.4**	**1.4**	**1.8**	**1.8**
Net financial assets	**34.6**	**30.0**	**32.1**	**35.9**	**41.1**	**43.3**	**48.7**

Sources: Statistics Sweden and own calculations.

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

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

Per cent of GDP, unless otherwise stated

	2020	2030	2040	2050	2060	2070	2080
Total expenditure	51.8	47.4	48.1	48.1	48.5	47.6	47.8
Age-related[1]	35.7	33.2	33.4	33.3	33.6	32.4	32.6
Pensions[2]	8.1	7.1	7.1	7.0	7.2	6.9	7.1
Guarantee pensions	0.3	0.3	0.3	0.4	0.4	0.3	0.3
Old-age pensions	6.6	5.6	5.5	5.5	5.7	5.4	5.6
Other pensions (disability and survivors')	0.4	0.4	0.4	0.4	0.4	0.4	0.4
General government occupational pensions	0.8	0.8	0.8	0.8	0.8	0.7	0.8
Healthcare	6.7	6.3	6.3	6.3	6.2	6.0	5.9
Elderly care and care services for disabled	5.1	5.3	5.7	5.9	6.2	6.2	6.4
Childcare	1.7	1.6	1.6	1.6	1.6	1.5	1.5
Education	5.3	4.8	4.7	4.6	4.5	4.3	4.2
Unemployment benefit	0.9	0.6	0.6	0.6	0.6	0.6	0.5
Other age-related expenditure	8.0	7.5	7.5	7.4	7.3	7.1	7.0
Interest expenditure	0.3	0.9	1.4	1.6	1.8	2.1	2.2
Total revenue	48.7	48.1	48.4	48.2	48.4	48.0	48.2
of which income from capital	1.4	1.9	2.4	2.5	2.7	2.8	2.9
of which is from the pensions system	0.5	0.9	1.1	1.3	1.5	1.6	1.7
Assumptions							
Labour productivity growth, GDP level	0.4	1.5	1.7	1.6	1.7	1.8	1.8
GDP growth	-2.8	2.0	1.8	1.8	1.9	2.6	2.0
Unemployment rate	8.3	6.9	7.1	7.0	6.9	6.8	6.5
Population aged 65 + as a proportion of the total population	20.1	21.6	23.1	23.5	25.0	24.8	25.5

[1] Age-related expenditure includes childcare. This expenditure is not included in the age-dependent expenditure presented in Appendix B as calculated by an EU working group.
[2] In addition to old-age pensions, pensions also include sickness and activity compensation.

Sources: Statistics Sweden and own calculations.

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

A working group (Working Group on Ageing Populations and Sustainability) under the Economic Policy Committee (EPC) has, together with the European Commission, calculated the development of demographically dependent expenditure in all Member States up to and including 2070. These calculations were reported most recently in spring 2018. However, the calculations in this Convergence Programme are based on the data presented to the Riksdag in the 2021 Spring Fiscal Policy Bill. This section compares the key demographic and macroeconomic indicators and also the demographically dependent expenditure from these two sources (see table B.1 and table B.2).

Table B.1 Macroeconomic assumptions in the EPC estimates and in the Swedish convergence programme

Index, unless otherwise stated

	2019	2020	2030	2040	2050	2060	2070
Population, 15–74 years							
EPC	100.0	100.5	107.1	113.9	118.2	123.0	125.4
Convergence programme	100.0	100.5	105.5	108.7	110.5	113.8	115.5
Employed							
EPC, 15–74 years	100.0	100.6	107.5	113.7	118.7	121.0	125.1
Convergence programme, 15–74 years	100.0	98.7	106.8	110.0	113.0	115.8	121.0
Hours							
EPC	100.0	100.7	107.3	113.5	118.5	120.8	124.9
Convergence programme	100.0	96.8	107.0	110.3	113.1	115.5	121.3
Unemployment rate, percentage points							
EPC, 15–74 years	5.8	5.8	5.6	5.6	5.6	5.6	5.6
Convergence programme, 15–74 years	6.8	8.3	6.9	7.1	7.0	6.9	6.8
Labour productivity							
EPC	100.0	101.3	115.0	132.5	154.1	179.5	208.9
Convergence programme	100.0	100.4	113.6	133.3	157.0	185.5	220.4
Potential GDP							
EPC	100.0	102.0	123.4	150.4	182.6	216.7	260.9
Convergence programme	100.0	97.2	121.5	147.1	177.5	214.3	267.4
Potential GDP per capita							
EPC	100.0	100.9	111.9	127.9	146.9	166.5	192.4
Convergence programme	100.0	96.3	112.9	131.3	153.2	179.0	216.2

Sources: European Commission and own calculations.

The population projection for Sweden used by the EPC was prepared by Eurostat in 2017. The calculations in this Convergence Programme are based on a population projection performed by Statistics Sweden in April 2020. That assessment takes account of actual developments in recent years, which means that the population increases slightly more rapidly than in the EPC calculation in the next few years. In the longer term, however, the population grows more slowly according to this Convergence Programme. The EPC thus assumes a stronger increase both in hours worked and in the number of persons employed in the longer term. Productivity growth is faster in the Convergence Programme than according to the EPC calculations, which means that both GDP and per capita GDP are higher in the long term in the Convergence Programme than according to the EPC calculations.

Table B.2 Change in age-dependent general government expenditure in the EPC calculations and in the Swedish convergence programme

Proportion of GDP

	Change 2018–2035			Change 2018–2070		
	CP	EPC	CP-EPC	CP	EPC	CP-EPC
Pensions	-0.5	-0.7	0.2	-0.8	-0.8	0.0
Healthcare	0.0	0.3	-0.3	-0.4	0.7	-1.0
Elderly care and care services for disabled	0.6	0.8	-0.2	1.2	1.7	-0.5
Education/Unemployment benefit	-0.4	0.3	-0.7	-0.9	0.4	-1.3
Total	**-0.3**	**0.7**	**-1.0**	**-0.8**	**2.1**	**-2.9**

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

Sources: European Commission and own calculations.

Appendix C – Tables

Table C.1a Macroeconomic prospects

Annual percentage change

	Mdkr 2020	2020	2021	2022	2023	2024
Real GDP	4 883	-2.8	3.2	3.8	1.9	1.6
Nominal GDP	4 952	-1.5	5.2	5.5	3.4	3.5
Components of real GDP						
Private consumption expenditure	2 169	-4.7	3.3	6.2	2.8	1.9
Government consumption expenditure	1 294	-0.5	2.0	-0.3	-0.9	0.1
Gross fixed capital formation	1 211	0.6	2.6	3.4	2.6	2.2
Changes in inventories and net acquisition of valuables	2 270	-5.2	6.0	4.7	3.3	2.8
Exports of goods and services	2 059	-5.8	6.2	4.6	3.2	2.6
Imports of goods and services						
Contributions to real GDP growth						
Final domestic demand		**-2.1**	**2.6**	**3.5**	**1.7**	**1.4**
Changes in inventories and net acquisition of valuables		-0.8	0.3	0.0	0.0	0.0
External balance of goods and services		0.0	0.2	0.2	0.2	0.2

Sources: Statistics Sweden and own calculations.

Table C.1b Price developments

Annual percentage change

	Level 2020	2020	2021	2022	2023	2024
GDP deflator	101	1.4	2.0	1.7	1.5	1.8
Private consumption deflator	101	1.1	1.5	1.3	1.5	2.0
HICP[1]	108	0.7	1.5	1.2	1.6	1.9
Public consumption deflator	103	2.5	3.1	3.0	2.3	2.5
Investment deflator	101	0.5	1.1	1.5	1.5	1.5
Export price deflator (goods and services)	97	-3.5	-0.5	1.0	1.0	1.0
Import price deflator (goods and services)	96	-4.2	-0.4	1.2	1.2	1.2

Note: All deflators are indices. 2018=100.

[1] Index, 2015=100.

Sources: Statistics Sweden and own calculations.

Table C.1c Labour market developments

Annual percentage change if not otherwise stated

	Level 2020	2020	2021	2022	2023	2024
Employment, persons[1]	5 059	-1.3	0.3	1.9	1.7	0.6
Employment, hours worked[2]	796 773	-3.2	3.3	2.4	0.6	0.5
Unemployment rate (%)[3]	459	8.3	8.7	7.9	7.0	7.0
Labour productivity, persons[4]	855	-1.8	3.1	1.8	0.1	1.0
Labour productivity, hours worked[5]	606	1.3	0.5	1.7	0.4	1.2
Compensation of employees[6]	2 423	0.9	3.4	4.5	3.7	3.1
Compensation per employee[7]	479 020	2.3	3.1	2.6	2.0	2.5

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

Sources: Statistics Sweden and own calculations.

Table C.1d Sectoral balances

Per cent of GDP

	2020	2021	2022	2023	2024
Net lending/borrowing vis-a-vis the rest of the world	5.4	4.7	4.3	4.3	4.3
of which					
Balance on goods and services	4.4	4.3	4.2	4.2	4.2
Balance of primary incomes and transfers	1.0	0.4	0.1	0.1	0.1
Capital account	0.0	0.0	0.0	0.0	0.0
Net lending/borrowing of the private sector	8.8	8.8	5.3	3.8	3.4
Net lending/borrowing of the general government	-3.3	-4.2	-1.0	0.5	1.0

Sources: Statistics Sweden and own calculations.

Table C.2a General government budgetary prospects

Per cent of GDP

	SEK bn 2020	2020	2021	2022	2023	2024
Net lending by sub-sector						
General government	-152	-3.1	-4.5	-1.0	0.5	1.0
Central government	-156	-3.2	-4.7	-0.4	1.1	1.4
Local government	14	0.3	0.1	-0.7	-0.7	-0.6
Social security funds	-10	-0.2	0.0	0.1	0.1	0.1
General government						
Total revenue	2 468	49.9	48.9	45.8	48.6	48.3
Total expenditure	2 620	52.9	53.4	49.4	48.1	47.3
Net lending/borrowing	-152	-3.1	-4.5	-1.0	0.5	1.0
Interest expenditure	15	0.3	0.3	0.3	0.3	0.3
Primary balance	-136	-2.8	-4.2	-0.7	0.8	1.3
One-off and other temporary measures	0	0.0	0.0	0.0	0.0	0.0
Selected components of revenue						
Total taxes	1 977	39.9	39.2	39.1	39.4	39.4
Taxes on production and imports	1 076	21.7	21.8	21.7	22.0	21.9
Current taxes on income. wealth. etc.	900	18.2	17.4	17.3	17.5	17.4
Capital taxes	0	0.0	0.0	0.0	0.0	0.0
Social contributions	171	3.5	3.4	3.3	3.4	3.3
Property income	75	1.5	1.6	1.5	1.5	1.5
Other	245	5.0	4.8	4.5	4.3	4.1
Total revenue	2 468	49.9	48.9	48.5	48.6	48.3
Tax burden	2 121	42.8	42.0	41.9	42.3	42.1
Selected components of expenditure						
Compensation of employees + intermediate consumption	1 061	21.4	21.1	20.4	19.9	19.7
Compensation of employees	647	13.1	13.1	12.7	12.4	12.2
Intermediate consumption	414	8.4	8.0	7.7	7.5	7.4
Social payments	827	16.7	16.3	15.5	15.0	14.8
of which Unemployment benefits	43	0.9	0.9	0.8	0.6	0.6
Social transfers in kind supplied via market producers	184	3.7	3.7	3.5	3.4	3.4
Social transfers other than in kind	643	13.0	12.6	12.0	11.6	11.4
Interest expenditure	15	0.3	0.3	0.3	0.3	0.3
Subsidies	140	2.8	3.3	1.6	1.5	1.5
Gross fixed capital formation	248	5.0	5.3	5.1	5.0	4.9
Capital transfers	23	0.5	1.2	0.8	0.6	0.5
Other	306	6.2	6.0	5.7	5.6	5.6
Total expenditure	2 620	52.9	53.4	49.4	48.1	47.3
Government consumption (nominal)	1 327	26.8	26.8	26.0	25.5	25.3

Sources: Statistics Sweden and own calculations.

Table C.2b Revenue and expenditure forecasts

Per cent of GDP if not otherwise stated

	SEK bn 2020	2020	2021	2022	2023	2024
Total revenue	2 468	49.9	49.0	48.6	48.7	48.4
Total expenditure	2 623	52.9	53.6	49.5	48.2	47.4

Sources: Statistics Sweden and own calculations.

Table C.2c Amounts to be excluded from the expenditure benchmark

Per cent of BNP if not otherwise stated

	SEK bn 2020	2020	2021	2022	2023	2024
Expenditure on EU programmes fully matched by EU funds revenue	4	0.1	0.1	0.1	0.1	0.1
of which investment fully matched by EU funds revenue	0.0	0.0	0.0	0.0	0.0	0.0
Cyclical unemployment benefit expenditure[1]	-1	0.0	-0.3	0.2	0.0	0.1
Effect of discretionary revenue measures	-17	-0.3	-0.7	0.5	0.1	0.0
Revenue increases mandated by law	–	–	–	–	–	–

Source: Statistics Sweden and own calculations.

Table C.3 General government expenditure by function

Per cent of GDP

	COFOG code	2019
General public services	1	6.9
Defence	2	1.2
Public order and safety	3	1.3
Economic affairs	4	4.4
Environmental protection	5	0.5
Housing and community amenities	6	0.7
Health	7	7.0
Recreation, culture and religion	8	1.3
Education	9	6.9
Social protection	10	19.0
Total expenditure		49.3

Source: Statistics Sweden and own calculations.

Table C.4 General government debt developments

Per cent of GDP

	2020	2021	2022	2023	2024
Gross debt	39.9	39.9	37.0	33.7	31.4
Change in gross debt ratio	4.8	0.1	-2.9	-3.3	-2.3
Contribution to changes in gross debt					
Primary balance	2.8	4.2	0.7	-0.8	-1.3
Interest expenditure	0.3	0.3	0.3	0.3	0.3
Stock-flow adjustment	1.2	-2.5	-1.8	-1.6	-0.2
of which					
Differences between cash and accruals	0.5	-0.5	-0.3	-0.2	-0.1
Privatisation proceeds	0	-0.1	-0.1	-0.1	-0.1
Valuation effects and others	0.8	-2	-1.4	-1.3	0
Nominal GDP change	0.5	-2	-2.1	-1.2	-1.1

Sources: Statistics Sweden and own calculations.

Table C.5 Cyclical developments

Per cent of GDP if not otherwise stated

	2020	2021	2022	2023	2024
Real GDP growth (%)	-2.8	3.2	3.8	1.9	1.6
Net lending of general government	-3.1	-4.5	-1.0	0.5	1.0
Interest expenditure	0.5	0.5	0.4	0.5	0.5
One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0
Potential GDP growth (%)	1.7	1.7	1.6	1.6	1.6
Output gap	-3.9	-2.6	-0.5	0.0	0.0
Cyclical budgetary component	-1.8	-1.8	-0.6	-0.1	-0.1
Cyclically-adjusted balance	-1.3	-2.7	-0.3	0.6	1.1
Cyclically-adjusted primary balance	-0.8	-2.3	0.1	1.1	1.6
Structural balance	-1.3	-2.7	-0.3	0.6	1.1

Sources: Statistics Sweden and own calculations.

Table C.6 Divergence from previous update

	2020	2021	2022	2023	2024
Real GDP growth (%)					
Previous update	-4.0	3.5	3.4	3.1	--
Current update	-2.8	3.2	3.8	1.9	1.6
Difference	1.2	-0.3	0.4	-1.2	--
General government net lending (% of GDP)					
Previous update	-3.8	-1.4	0.1	1.5	--
Current update	-3.1	-4.5	-1.0	0.5	1.0
Difference	0.7	-3.1	-1.1	-1.0	--
General government gross debt (% of GDP)					
Previous update	39.9	38.3	36.2	32.4	--
Current update	39.9	39.9	37.0	33.7	31.4
Difference	0.0	1.6	0.8	1.3	--

Sources: Statistics Sweden and own calculations.

Table C.7 Long-term sustainability of public finances

Per cent of GDP

	2020	2030	2040	2050	2060	2070	2080
Total expenditure	**51.8**	**47.4**	**48.1**	**48.1**	**48.5**	**47.6**	**47.8**
of which							
Age-related expenditure	35.7	33.2	33.4	33.3	33.6	32.4	32.6
of which							
Pension expenditure	8.1	7.1	7.1	7.0	7.2	6.9	7.1
of which							
Social security pension	0.3	0.3	0.3	0.4	0.4	0.3	0.3
Old-age and early pensions	6.6	5.6	5.5	5.5	5.7	5.4	5.6
Other pensions (disability- and survivors-)	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Occupational pensions (if in general government)	0.8	0.8	0.8	0.8	0.8	0.7	0.8
Health care	6.7	6.3	6.3	6.3	6.2	6.0	5.9
Long-term care	5.1	5.3	5.7	5.9	6.2	6.2	6.4
Educational expenditure	5.3	4.8	4.7	4.6	4.5	4.3	4.2
Other age-related expenditures	8.0	7.5	7.5	7.4	7.3	7.1	7.0
Interest expenditure	0.3	0.9	1.4	1.6	1.8	2.1	2.2
Total revenue	**48.7**	**48.1**	**48.4**	**48.2**	**48.4**	**48.0**	**48.2**
of which							
Property income	1.4	1.9	2.4	2.5	2.7	2.8	2.9
of which							
From pensions contributions (or social contributions if appropriate)	0.5	0.9	1.1	1.3	1.5	1.6	1.7
Pension reserve fund assets	34.6	30.0	32.1	35.9	41.1	43.3	48.7
of which							
Consolidated public pension fund assets (assets other than government liabilities)	35.4	29.3	31.1	34.9	40.2	42.5	48.0
Assumptions							
Labour productivity	1.3	2.0	1.9	1.9	1.9	1.9	1.9
Real GDP growth	-2.8	2.0	1.8	1.8	1.9	2.6	2.0
Unemployment rate	8.3	6.9	7.1	7.0	6.9	6.8	6.5
Population aged 65+ over total population	20.1	21.6	23.1	23.5	25.0	24.8	25.5

Sources: Statistics Sweden and own calculations.

Table C.7a Contingent liabilities

Per cent of GDP

	2020
Central government guarantees	**44.2**

Sources: Statistics Sweden and own calculations.

Table C.8 Basic assumptions

Annual average if not otherwise stated

	2020	2021	2022	2023	2024
Short-term interest rate (annual average)[1]	-0.2	-0.2	-0.4	-0.6	-0.4
Long-term interest rate (annual average)[2]	0.0	0.3	0.5	0.6	0.7
USD/ € exchange rate (annual average)	1.1	1.2	1.2	1.3	1.2
Nominal effective exchange rate vis-á-vis the €[3]	10.5	10.0	10.2	10.3	10.4
World. GDP growth[4]	-3.5	5.5	4.0	3.5	3.5
EU GDP growth[4]	-6.3	4.0	4.5	2.0	1.5
Growth of relevant foreign markets[4]	-9.8	6.5	6.0	3.5	3.2
World import volumes, excluding EU	-	-	-	-	-
Oil prices (Brent USD/barrel. annual average)	42	61	58	56	55

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

Sources: Statistics Sweden and own calculations

Table C.9 Central government guarantees – Measures adopted during 2020

Measures in response to COVID-19	Date of adoption	Maximum amount of contingent liabilities (% of GDP)	Estimated take-up (% of GDP)
State credit guarantees for Swedish airlines	March	0.1	0.0
State guarantees for loans to companies	April	2.0	0.0
Guarantees via the Swedish Export Credit Agency	April	1.0	1.1
Guarantees to EU institutions (EIB and SURE)	June	0.4	0.2
Total		**3.5**	**1.3**

Table C.10 Table on the discretionary measures adopted/announced according to the Programme

Budgetary impact (percent of GDP - change from previous year)[1]

EXPENDITURE	ESA-code	2020	2021	2022	2023
Care backlog and continued COVID-19 care	Compensation of employees D.1	0.00	-0.04	0.02	0.03
	Intermediate consumption P.2	0.00	-0.03	0.01	0.02
	Social payments D.62+D.632	0.00	-0.02	0.01	0.01
	Interest expenditure D.41	0.00	0.00	0.00	0.00
	Subsidies, payable D.3	0.00	0.00	0.00	0.00
	Current transfers D.7	0.00	-0.01	0.00	0.01
	TOTAL CURRENT EXPENDITURE	**0.00**	**-0.11**	**0.04**	**0.07**
	Gross fixed capital formation P.51g	0.00	-0.01	0.00	0.00
	Capital transfers D.9	0.00	0.00	0.00	0.00
	TOTAL CAPITAL EXPENDITURE	**0.00**	**-0.01**	**0.00**	**0.00**
Compensation for extended costs for health care and social services	Compensation of employees D.1	-0.08	0.00	0.08	0.00
	Intermediate consumption P.2	-0.06	0.00	0.06	0.00
	Social payments D.62+D.632	-0.04	0.00	0.04	0.00
	Interest expenditure D.41	0.00	0.00	0.00	0.00
	Subsidies, payable D.3	0.00	0.00	0.00	0.00
	Current transfers D.7	-0.01	0.00	0.02	0.00
	TOTAL CURRENT EXPENDITURE	**-0.19**	**-0.01**	**0.20**	**0.00**
	Gross fixed capital formation P.51g	-0.01	0.00	0.01	0.00
	Capital transfers D.9	0.00	0.00	0.00	0.00
	TOTAL CAPITAL EXPENDITURE	**-0.01**	**0.00**	**0.01**	**0.00**
Continued testing and contact tracing	Compensation of employees D.1	-0.07	-0.02	0.09	0.00
	Intermediate consumption P.2	-0.05	-0.02	0.07	0.00
	Social payments D.62+D.632	-0.03	-0.01	0.05	0.00
	Interest expenditure D.41	0.00	0.00	0.00	0.00
	Subsidies, payable D.3	0.00	0.00	0.00	0.00
	Current transfers D.7	-0.01	0.00	0.02	0.00
	TOTAL CURRENT EXPENDITURE	**-0.16**	**-0.06**	**0.22**	**0.00**
	Gross fixed capital formation P.51g	-0.01	0.00	0.01	0.00
	Capital transfers D.9	0.00	0.00	0.00	0.00
	TOTAL CAPITAL EXPENDITURE	**-0.01**	**0.00**	**0.01**	**0.00**
Disease carrier's allowance and others	Compensation of employees D.1	-0.05	0.03	0.02	0.00
	Intermediate consumption P.2	-0.04	0.02	0.01	0.00
	Social payments D.62+D.632	-0.03	0.02	0.01	0.00
	Interest expenditure D.41	0.00	0.00	0.00	0.00
	Subsidies, payable D.3	0.00	0.00	0.00	0.00
	Current transfers D.7	-0.01	0.01	0.00	0.00
	TOTAL CURRENT EXPENDITURE	**-0.13**	**0.08**	**0.05**	**0.00**
	Gross fixed capital formation P.51g	-0.01	0.00	0.00	0.00
	Capital transfers D.9	0.00	0.00	0.00	0.00
	TOTAL CAPITAL EXPENDITURE	**-0.01**	**0.00**	**0.00**	**0.00**
Extended reorientation support, and turnover-based support for sole traders	Compensation of employees D.1	0.00	0.00	0.00	0.00
	Intermediate consumption P.2	0.00	0.00	0.00	0.00
	Social payments D.62+D.632	0.00	0.00	0.00	0.00
	Interest expenditure D.41	0.00	0.00	0.00	0.00
	Subsidies, payable D.3	-0.12	-0.80	0.92	0.00
	Current transfers D.7	0.00	0.00	0.00	0.00
	TOTAL CURRENT EXPENDITURE	**-0.12**	**-0.80**	**0.92**	**0.00**
	Gross fixed capital formation P.51g	0.00	0.00	0.00	0.00
	Capital transfers D.9	0.00	0.00	0.00	0.00
	TOTAL CAPITAL EXPENDITURE	**0.00**	**0.00**	**0.00**	**0.00**
General government grants to municipalities and regions	Compensation of employees D.1	-0.17	0.00	0.13	0.04
	Intermediate consumption P.2	-0.12	0.00	0.10	0.03
	Social payments D.62+D.632	-0.08	0.00	0.07	0.02
	Interest expenditure D.41	0.00	0.00	0.00	0.00
	Subsidies, payable D.3	0.00	0.00	0.00	0.00
	Current transfers D.7	-0.03	0.00	0.03	0.01
	TOTAL CURRENT EXPENDITURE	**-0.40**	**-0.01**	**0.32**	**0.09**
	Gross fixed capital formation P.51g	-0.02	0.00	0.02	0.01
	Capital transfers D.9	0.00	0.00	0.00	0.00
	TOTAL CAPITAL EXPENDITURE	**-0.02**	**0.00**	**0.02**	**0.01**
Higher unemployment compensation levels	Compensation of employees D.1	-0.01	0.00	0.00	0.01
	Intermediate consumption P.2	-0.01	0.00	0.00	0.00
	Social payments D.62+D.632	-0.01	0.00	0.00	0.01
	Interest expenditure D.41	0.00	0.00	0.00	0.00
	Subsidies, payable D.3	-0.02	0.00	0.01	0.02
	Current transfers D.7	-0.06	-0.01	0.03	0.05

EXPENDITURE	ESA-code	2020	2021	2022	2023
	TOTAL CURRENT EXPENDITURE	**-0.11**	**-0.02**	**0.04**	**0.09**
	Gross fixed capital formation P.51g	0.00	0.00	0.00	0.00
	Capital transfers D.9	0.00	0.00	0.00	0.00
	TOTAL CAPITAL EXPENDITURE	**0.00**	**0.00**	**0.00**	**0.00**
Increased number of education and training places	Compensation of employees D.1	-0.07	-0.03	0.06	0.03
	Intermediate consumption P.2	-0.03	-0.02	0.03	0.01
	Social payments D.62+D.632	-0.01	-0.01	0.01	0.01
	Interest expenditure D.41	0.00	0.00	0.00	0.00
	Subsidies, payable D.3	0.00	0.00	0.00	0.00
	Current transfers D.7	-0.02	-0.01	0.01	0.01
	TOTAL CURRENT EXPENDITURE	**-0.13**	**-0.06**	**0.12**	**0.05**
	Gross fixed capital formation P.51g	0.00	0.00	0.00	0.00
	Capital transfers D.9	0.00	0.00	0.00	0.00
	TOTAL CAPITAL EXPENDITURE	**0.00**	**0.00**	**0.00**	**0.00**
Short-term layoffs	Compensation of employees D.1	-0.02	0.01	0.01	0.00
	Intermediate consumption P.2	-0.01	0.00	0.01	0.00
	Social payments D.62+D.632	0.00	0.00	0.00	0.00
	Interest expenditure D.41	0.00	0.00	0.00	0.00
	Subsidies, payable D.3	-0.51	0.18	0.33	0.00
	Current transfers D.7	-0.16	0.06	0.10	0.00
	TOTAL CURRENT EXPENDITURE	**-0.71**	**0.25**	**0.45**	**0.00**
	Gross fixed capital formation P.51g	0.00	0.00	0.00	0.00
	Capital transfers D.9	0.00	0.00	0.00	0.00
	TOTAL CAPITAL EXPENDITURE	**0.00**	**0.00**	**0.00**	**0.00**
Sickness benefit and others	Compensation of employees D.1	-0.01	0.00	0.01	0.00
	Intermediate consumption P.2	-0.01	0.00	0.00	0.00
	Social payments D.62+D.632	0.00	0.00	0.00	0.00
	Interest expenditure D.41	0.00	0.00	0.00	0.00
	Subsidies, payable D.3	-0.24	0.03	0.20	0.00
	Current transfers D.7	-0.07	0.01	0.06	0.00
	TOTAL CURRENT EXPENDITURE	**-0.32**	**0.05**	**0.28**	**0.00**
	Gross fixed capital formation P.51g	0.00	0.00	0.00	0.00
	Capital transfers D.9	0.00	0.00	0.00	0.00
	TOTAL CAPITAL EXPENDITURE	**0.00**	**0.00**	**0.00**	**0.00**
Strengthened culture and civil society	Compensation of employees D.1	0.00	0.00	0.00	0.00
	Intermediate consumption P.2	0.00	0.00	0.00	0.00
	Social payments D.62+D.632	0.00	0.00	0.00	0.00
	Interest expenditure D.41	0.00	0.00	0.00	0.00
	Subsidies, payable D.3	-0.09	-0.06	0.16	0.00
	Current transfers D.7	0.00	0.00	-0.01	0.00
	TOTAL CURRENT EXPENDITURE	**-0.09**	**-0.06**	**0.15**	**0.00**
	Gross fixed capital formation P.51g	0.00	0.00	0.00	0.00
	Capital transfers D.9	0.00	0.00	0.00	0.00
	TOTAL CAPITAL EXPENDITURE	**0.00**	**0.00**	**0.00**	**0.00**
Vaccination	Compensation of employees D.1	0.00	-0.07	0.07	0.00
	Intermediate consumption P.2	0.00	-0.05	0.05	0.00
	Social payments D.62+D.632	0.00	-0.03	0.03	0.00
	Interest expenditure D.41	0.00	0.00	0.00	0.00
	Subsidies, payable D.3	0,00	0,00	0.00	0.00
	Current transfers D.7	0.00	-0.01	0.01	0.00
	TOTAL CURRENT EXPENDITURE	**0.00**	**-0.16**	**0.16**	**0.00**
	Gross fixed capital formation P.51g	0.00	-0.01	0.01	0.00
	Capital transfers D.9	0.00	0.00	0.00	0.00
	TOTAL CAPITAL EXPENDITURE	**0.00**	**-0.01**	**0.01**	**0.00**
Other Expenditure[2]	Compensation of employees D.1	-0.03	-0.20	0.09	-0.01
	Intermediate consumption P.2	-0.02	-0.14	0.06	-0.03
	Social payments D.62+D.632	-0.02	-0.08	0.05	0.01
	Interest expenditure D.41	0.00	0.00	0.00	0.00
	Subsidies. payable D.3	0.00	-0.15	0.05	0.03
	Current transfers D.7	-0.07	-0.22	0.05	0.05
	TOTAL CURRENT EXPENDITURE	**-0.13**	**-0.79**	**0.29**	**0.04**
	Gross fixed capital formation P.51g	-0.03	-0.09	0.03	0.02
	Capital transfers D.9	0.00	0.00	0.00	0.00
	TOTAL CAPITAL EXPENDITURE	**-0.03**	**-0.09**	**0.03**	**0.02**

EXPENDITURE	ESA-code	2020	2021	2022	2023
TOTAL EXPENDITURE	Compensation of employees D.1	-0.50	-0.33	0.58	0.09
	Intermediate consumption P.2	-0.34	-0.23	0.40	0.04
	Social payments D.62+D.632	-0.22	-0.14	0.27	0.05
	Interest expenditure D.41	0.00	0.00	0.00	0.00
	Subsidies, payable D.3	-0.99	-0.81	1.68	0.05
	Current transfers D.7	-0.45	-0.20	0.32	0.12
	TOTAL CURRENT EXPENDITURE	**-2.50**	**-1.71**	**3.24**	**0.34**
	Gross fixed capital formation P.51g	-0.09	-0.10	0.09	0.03
	Capital transfers D.9	0.00	0.00	0.00	0.00
	TOTAL CAPITAL EXPENDITURE	**-0.09**	**-0.10**	**0.09**	**0.03**
REVENUE	**ESA-code**	**2020**	**2021**	**2022**	**2023**
Lower employers' social security contributions for young people	Taxes on production and imports, D.2r	-0.67	0.52	-0.02	0.14
	Taxes on income, wealth, etc. D5r b	0.00	0.00	0.00	0.00
	of which, from corporations, D5r bx	0.00	0.00	0.00	0.00
	TOTAL	**-0.67**	**0.52**	**-0.02**	**0.14**
Tax reduction to promote investment	Taxes on production and imports, D.2r	0.00	0.00	0.00	0.00
	Taxes on income, wealth, etc. D5r b	0.00	-0.09	0.06	0.02
	of which, from corporations, D5r bx	0.00	-0.09	0.06	0.02
	TOTAL	**0.00**	**-0.09**	**0.06**	**0.02**
Tax reduction on labour income to address increased work-related costs due to the pandemic	Taxes on production and imports, D.2r	0.00	0.00	0.00	0.00
	Taxes on income, wealth, etc. D5r b	0.00	-0.10	0.01	0.09
	of which, from corporations, D5r bx	0.00	0.00	0.00	0.00
	TOTAL	**0.00**	**-0.10**	**0.01**	**0.09**
Lower income tax[2]	Taxes on production and imports, D.2r	0.00	0.00	0.00	0.00
	Taxes on income, wealth, etc. D5r b	0.00	-0.10	-0.03	-0.11
	of which, from corporations, D5r bx	0.00	0.00	0.00	0.00
	TOTAL	**0.00**	**-0.10**	**-0.03**	**-0.11**
Other tax changes	Taxes on production and imports, D.2r	0.00	-0.01	0.00	0.01
	Taxes on income, wealth, etc. D5r b	0.00	-0.09	0.07	0.07
	of which, from corporations, D5r bx	0.00	-0.05	-0.01	0.16
	TOTAL	**0.00**	**-0.14**	**0.06**	**0.13**
Total tax measure	Taxes on production and imports, D.2r	-0.67	0.51	-0.02	0.15
	Taxes on income, wealth, etc. D5r b	0.00	-0.38	0.11	0.08
	of which, from corporations, D5r bx	0.00	-0.14	0.05	0.19
	TOTAL	**-0.67**	**0.10**	**0.08**	**0.27**
Total effect on net-lending		**-3.25**	**-1.71**	**3.41**	**0.64**

[1] All reforms are temporary unless otherwise stated.
[2] Party permanet effect.

Source: The Swedish Financial Management Authority and own calculations.