



Annex 1. Agreement on the fiscal policy framework

In order for Sweden to take greater responsibility for its security and be able to meet NATO's future spending target for military defence of 3.5 per cent of GDP, the Social Democratic Party, the Sweden Democrats, the Moderate Party, the Left Party, the Centre Party, the Christian Democrats, the Green Party and the Liberal Party agree that:

- The Government, in the 2026 Budget Bill, will propose that the target for general government net lending will be a balance target from 2027 onwards, in accordance with the proposal by the Parliamentary Balance Targets Commission (SOU 2024:76).
- The need for new defence expenditures, including support to Ukraine, will be temporarily financed by loans. This will be handled by allowing the general government net lending to temporarily deviate from its target in 2026–2034.
- The deviation for military and civil defence will entail a maximum indebtedness increase of SEK 300 billion.
- A maximum of SEK 50 billion of this may be used for investments in physical infrastructure and stockpiling of food, medicines and fuel as part of the civil defence.
- Support to Ukraine is not included in the ceiling of SEK 300 billion.
- The debt anchor should remain unchanged at 35 per cent of GDP, in accordance with the Parliamentary Commission's proposal (SOU 2024:76).
- General government net lending shall be balanced by 2035 at the latest. This will demand the introduction of successive financing measures.

- By the end of 2030 at the latest, a new assessment of the security situation will be made and a path for a return to balanced general government net lending by 2035 at the latest will be presented.

New defence spending targets will be temporarily financed by loans

Since the Parliamentary Balance Targets Commission presented its report (SOU 2024:76), including the proposal of a balance target for general government net lending from 2027 onwards, the international environment has changed dramatically. The additional investments that will be necessary to ensure Sweden's defence capability in the short term will not be met within the proposed balance target.

In the event of temporary increases in expenditure, debt financing may be justified on grounds of economic efficiency. The alternatives – temporary cutbacks or temporary tax increases – are often associated with greater economic costs, as they involve adjustment costs and reduce the predictability of economic policy.

Adapting to a new security situation should however be seen as a permanent, rather than temporary, expenditure increase. Permanent expenditure increases require permanent financing solutions. Otherwise, debt will grow unheeded, thus making fiscal policy unsustainable in the long term. After a transitional period, general government net lending, including defence expenditure, therefore needs to be rebalanced. Temporary loan financing for new defence spending and support to Ukraine can still be motivated however, given the current circumstances. Temporary loan financing enables a speedier rearmament of Sweden's defence without the need to pare down other expenses or make major tax increases.

Sweden's low level of public debt allows for loan financing over a transitional period for an increase in defence expenditure and support to Ukraine without jeopardising the sustainability of public finances. However, it is vital that Sweden continues to have robust and sustainable public finances. Interest rates, among other things, depend on continued strong confidence in the fiscal framework and the sustainability of public finances.

The fiscal framework is critical in achieving the aim of robust public finances that are sustainable in the long term. In order to maintain a high level of

confidence in the fiscal policy framework and public finances, the Parliamentary Commission's proposals for balanced government net lending (balance target) should be introduced in 2027 and the level of the debt anchor of 35 per cent of GDP should be left unchanged. However, in order to enable rearmament in the short term, there will be allowed scope to deviate for new defence expenditures and support to Ukraine. This is allowed with the aim of providing scope for a stronger expansion of the Swedish defence in the near term to cope with the current security situation. The expenditure ceiling is adapted, taking into consideration the expenditures that, under this agreement, can motivate deviation from the target for general government net lending.

To enable a return to balance in net lending in 2035, by 2030, at the latest, a new assessment of the security situation will be made, and a path for a return to balanced government net lending by 2035 will be presented.

As it will take time to get the financing in place, work on long-term defence financing needs to begin immediately and be implemented successively, so that public finances will be balanced in 2035. To ensure that the ceiling of SEK 300 billion is not exceeded financing needs to be in place at an early stage. In every Budget Bill from 2027 and onwards, the Government will report on how financing is proceeding.

Expenditures permitting deviation

The following expenditures can during the period 2026–2034 permit deviation from the general government net lending target. Over the same period, financing will be successively phased in so that the general government net lending is balanced by 2035 at the latest.

- Additional funds to the military defence within expenditure area 6 that are decided upon after the defence policy bill in late 2024 (Government Bill 2024/25:34).
- Additional funds to infrastructure investments for defence purposes and investments in the stockpiling of food, medicines and fuel. Decisions on investments will be made based on total defence needs.
- Additional funds to the military and civil defence can reach a maximum of SEK 300 billion, of which a maximum of SEK 50 billion can go towards investments in infrastructure and supply preparedness. The sum of expenditures that can lead to a deviation from the balance target

must not exceed SEK 300 billion. The increase in the general government consolidated gross debt that this deviation entails must not lead to the debt anchor being exceeded.

- Support to Ukraine

Timetable

- In the Budget Bill for 2026, the Government will propose a balance target for general government net lending to apply from 2027 and present a description of how the additional expenditures on defence and support to Ukraine will be managed in relation to said target.
- By the end of 2030 at the latest, a new assessment of the security situation will be made and a path for a return to a balanced general government net lending position by 2035 at the latest will be presented.