1 Budget Statement

1.1 A plan to get Sweden through the difficult economic situation

Sweden is in an economic winter. Inflation has not reached a level this high in 30 years, and the Swedish economy is in recession. High inflation is harming the economy and is wage earners' worst enemy, as it leads to a decrease in real wages and the value of savings. High indebtedness and a high proportion of mortgages with variable interest rates make Swedish households and businesses sensitive to the higher interest rates brought on by inflation. At the same time, increased costs also affect the welfare system. Growth continues to develop at a slow rate and Sweden enters recession having high unemployment in comparison with other European countries. Russia's full-scale invasion of Ukraine and other external factors also continue to create uncertainty regarding the economic outlook.

The economic situation is challenging, but Sweden has all the prerequisites to once again navigate its way through a difficult economic period. Central government finances are stable, the labour market is robust and the social partners are taking responsibility, to name a few examples. The most important thing for Sweden's economy right now is to fight inflation, which is largely at the root of Sweden's difficult economic situation. Effectively combating inflation is therefore a necessary step to strengthen the Swedish economy.

In addition to the difficult economic situation, there are major social problems to address. Decades of excessive immigration in combination with a lax integration policy has led to major problems and widespread social exclusion in segments of society. Serious organised crime continues to claim lives while also spreading from the major cities to smaller towns. Moreover, recent Quran burnings and disinformation campaigns have exacerbated the security situation in Sweden and for Swedes abroad. Climate issues remain one of the major challenges of our time. An ambitious and effective climate policy is needed for Sweden to fully realise net zero emissions by 2045.

The Budget Bill for 2024 aims to combat inflation and manage its effects, not least for households and the welfare system, and to strengthen the judicial system and defence. In light of the difficult economic situation, the Government needs to focus first and foremost on addressing Sweden's most acute problems.

The Government's work is based on a three-part long-term plan to get Sweden through the difficult economic situation.

- 1. Combat inflation and assist households and the welfare system
- 2. Re-institute the work-first principle
- 3. Implement structural reforms to stimulate growth

The fiscal policy framework needs to be safeguarded so as to ensure stability and predictability in economic policy. For far too many years, the surplus target level has not been reached. A sound budgetary process contributes to the credibility that is needed not only for economic policy, but also for stability and resilience in Sweden's economy. Recent years have shown that fiscal policy framework is compatible with very active fiscal policy during a recession. This option should be exercised with

caution, and it is important to swiftly return to a sound budgetary process. Pursuing a responsible policy builds up resilience to future crises.

The Government is now taking responsibility in a strained economic situation and making difficult choices of priority so as to avoid the risk of stoking inflation. At the same time, vulnerable households and the welfare system will obviously need assistance through this difficult time. It is necessary to stay the course in fighting inflation to reverse the trend in the Swedish economy.

This Budget Bill is based on an agreement between the Sweden Democrats, the Moderate Party, the Christian Democrats and the Liberal Party. Reforms totalling SEK 39 billion are presented in table 1.1.

Combat inflation and assist households and the welfare system

Given the difficult economic situation that Sweden is in, the Government's top priority is to combat inflation. Inflation needs to return to a low and steady level. This is a prerequisite for a favourable economic outlook and for future real wage growth. A number of actors bear the heavy responsibility of preventing the high inflation from becoming entrenched. The Riksbank's role is to keep inflation at a low and steady level, whereas the social partners are responsible for ensuring that wage negotiations do not drive inflation up. Monetary policy and fiscal policy need to complement each other. A balanced fiscal policy makes it easier to bring inflation down and contributes to a more even distribution of the burden of combating high inflation. In this situation, the Government is taking responsibility by pursuing a restrained fiscal policy. A fiscal policy that is too expansive would run the risk of creating a worse economic situation for Sweden, with even higher interest rates over a longer time and a further diminishing of households' purchasing power. For this reason, prioritisations are necessary, and reforms need to be predominantly costed. By presenting a restrained budget, the Government is helping to combat inflation. At the same time, measures are needed to counter unjustified price increases and provide assistance to households and the welfare system.

The Government proposes several measures to prevent greater-than-necessary price increases. As previously announced by the Government, the greenhouse gas reduction mandate will be lowered at the end of the year to reduce fuel prices. The Government will also propose reduced tax on petrol and diesel. For petrol, it will be ensured that the indexation does not have an effect in 2024. Tax on petrol will also be further reduced in both 2024 and 2025. Tax on diesel will be reduced to the EU's minimum level of taxation in 2024. This proposal will help to lessen the impact of high costs for many people who need to use their cars daily, not least in rural areas. High costs for petrol and diesel have a ripple effect throughout the economy and impact other areas, such as transport prices and food production costs. High food prices also lead to consumers choosing to not buy more expensive alternatives. To improve competitiveness in Swedish food production, the Government will propose extending the temporarily augmented reduction of tax on agricultural diesel and introducing emergency financial support for the agricultural sector.

Fiscal policy also contributes to lessening the effect of cost increases for many households, not least those with small margins. The Government therefore also proposes measures to support those who are particularly hard hit by price increases. One example of this is an extension of the increased housing allowance for economically disadvantaged families. To support health care, schools and social services, the Government proposes to enhance general government grants to municipalities and regions by SEK 10 billion and to further increase performance-

based and targeted grants. This means that government grants to the local government sector will be enhanced by a total of almost SEK 16 billion in the budget.

Re-institute the work-first principle

The second part of the Government's plan to manage the difficult economic situation involves tackling the recession by re-instituting the work-first principle. Getting more people to transition from benefit dependence to self-support requires better incentives - it must always be worthwhile to work. The Government has appointed an inquiry on a benefits ceiling that will ensure that it is always more worthwhile to work than to live on benefits. With the aim of countering social exclusion, increasing the rate of self-support and improving incentive structures, the Government intends to review the large-family supplement. Integration policy also needs to comprise more requirements. The Government therefore intends to introduce a full-time activity requirement for those who are able to work and are living on income support, and stricter requirements to qualify for Swedish welfare. In addition, the Government proposes measures to strengthen teaching of Swedish for Immigrants and intends to introduce entry jobs aimed at improving the prospects of newly arrived migrants and others in the labour market. As entry jobs are introduced, other labour market policy measures will be phased out. To create more pathways to jobs, the Government proposes increasing the number of training places and adopting a more effective labour market policy. This Bill proposes a reduction of introductory jobs.

To be able to implement an effective labour market policy, it is important to have a statistical basis that provides a satisfactory picture of both the employment situation and individuals' opportunities to support themselves. For this reason, the Government intends to develop a self-support metric that shows the proportion of the population that provides for itself, which can complement the current metric for employment. The Government also proposes setting aside funds to continue work on statistics broken down by geographical area, to make it easier to identify the areas in need of special initiatives.

Many who receive benefits and government grants have been fully or partly compensated for the high inflation, whereas wage earners have experienced a substantial reduction in real wages. The wage earners with the lowest monthly wages have suffered the greatest real reduction in their disposable income. It is therefore essential to reduce tax on labour. At the beginning of next year, the Government will propose reducing tax on labour, primarily for low- and middle-income earners. The Government will also propose reducing tax for pensioners, and it will propose that the earned income tax credit for older people be indexed. Provided that there is economic scope, the Government intends to present additional proposals during the electoral period to lower the tax on labour to stimulate the motivating factors that get people into work and education. The same applies to tax adjustments that stimulate saving.

Implement structural reforms to stimulate growth

Fiscal policy also needs to include measures that improve long-term growth. It is essential to Swedish prosperity that both growth and productivity increase. To create better conditions for Swedish companies to grow, they need relief from bureaucracy and administration. Permit issuing processes need to be shorter, more effective and more predictable. The Government has therefore begun working to reduce the regulatory burden and administrative costs for companies. This includes proposed funding for a simplification council. The Government is also taking measures to make processing by government agencies more effective, with shorter processing times. To improve conditions for the smallest companies and other actors with small operations,

the Government will propose raising the turnover threshold for value added tax. The Government has also appointed a productivity commission that will identify obstacles to productivity and propose measures to increase productivity in both the private and public sectors. A secure and stable electricity supply is essential, not least for the business sector. The Government therefore proposes several measures for an improved electricity supply, including credit guarantees for more nuclear energy.

To increase growth, access to the right expertise and competitiveness needs to be secured. This involves everything from strengthening basic skills such as reading, writing and arithmetic to training more engineers. The tax rules need to be formulated so as to strengthen Sweden's prospects of competing for international key skills and to promote research and development. As part of this work, the Government will propose extending the time limit for tax relief under the expert tax regulations from five to seven years. The Government has also appointed an inquiry to review the research and development deduction and the expert tax regulations. To strengthen the skills supply for society and the business sector, the Government proposes an investment in new engineers. Moreover, the Government proposes specific research initiatives on the sixth-generation wireless mobile system (6G). The Government also intends to implement measures to simplify regulations in the housing market so that construction can increase and more buildable land can be made available. This will contribute to improving the functioning of the housing market, which is important for Swedish growth to increase.

Major social problems to solve

Although restraint is needed in fiscal policy, the conditions to implement reforms are good for a Government that is able to set priorities. In addition to the Government's plan to get Sweden through the difficult economic situation and manage its effects, the Government is presenting proposals for reforms to make Sweden strong. The Government therefore proposes strengthening the judicial system, defence and the welfare system.

Sweden will be a safer country to live in – in rural areas, in suburbs and in cities. The past year has been marked by ruthless violence at unprecedented levels and in places that had previously been spared. To reverse this trend, the Government is conducting the largest offensive against organised crime in Swedish history. This involves comprehensive multi-year reinforcements in the judicial system, including through major investments in the Police and expansion of the Swedish Prison and Probation Service. The Prison and Probation Service will be enlarged to be able to meet the need for expansion based on the reforms under the Tidö Agreement. Preliminary estimates show that this means at least doubling the number of places in detention centres and prisons. The Government therefore intends to present a detailed analysis and plan in due course. The Government will also undertake a review of the criminal legislation. This involves a shift in perspective on penalties – from focusing on the perpetrator to focusing on the victim and protecting society. The Government is also working to prevent more young people being drawn into criminality and is therefore enhancing preventive measures, including by initiating work on a new Social Services Act.

Immigration to Sweden has been unsustainable for a long time. This, in combination with a lax integration policy, has made integration more difficult. The result is widespread exclusion and criminality in segments of society. To address these problems, a paradigm shift in Swedish migration policy is now under way. Through reforms, Sweden's legislation on asylum reception will be adapted to ensure that it is not more generous than is required of all Member States under EU law. In addition, efforts to increase returns will intensify. This includes establishing return centres and

more detention centres. The Government is now overhauling integration policy so as to incorporate more requirements, and it must always be more worthwhile to work than to live on benefits.

Due to the global security environment, Sweden's defence forces must be ready to protect Swedish territory, and Sweden's forthcoming NATO membership intensifies the need for a strong collective defence. The Government has substantially increased defence appropriations, and Sweden will already reach NATO's defence expenditure target of two per cent of GDP in 2024. However, Sweden's resilience must continue to improve. Russia's full-scale invasion of Ukraine demonstrates its boundless contempt for international law, the European security order and the most fundamental rules of the UN Charter. Sweden's support to Ukraine is extensive, and Sweden will continue to provide Ukraine with political, economic, humanitarian and military support. At the same time, the Government is working intensively to strengthen resilience to the disinformation campaigns to which Sweden is exposed. In light of the deteriorating security environment and the elevated terrorism threat level, the Government also proposes reinforcing the Swedish Security Service.

Welfare must be reliable. The Government continues its work on establishing a national health care referral centre to shorten waiting times. In addition to increasing general government grants, the Government proposes a new sectoral grant to health and medical care. The Government also proposes targeted and performance-based support to areas such as cancer care and women's health, and is enhancing ongoing efforts to promote mental health and shorten waiting times. The Government intends to appoint an inquiry that will present proposals to strengthen high-cost protection in dental care so as to better match the protection offered for other forms of health care. To create resources and capacity for such a reform, where older people with the worst dental health will be prioritised, the Government proposes adjusting the national dental care subsidy and the age limit for free dental care.

Few things are as important for Sweden's future as its schools. Learning outcomes must be improved and all pupils must have the opportunity to reach their full potential. Schools will now go back to basics: all children and pupils must experience schools that are safe and where basic skills such as reading, writing and arithmetic are clear priorities. The Government therefore proposes broad investments in education aimed at focusing more on knowledge development, combating grade inflation and reducing the space for actors with quality issues.

Sweden will pursue an ambitious and effective climate policy. The Government is taking further steps to reduce emissions by accelerating the green transition in industry and the electrification of the transport sector. Electrifying Sweden is essential to reducing emissions, and thus more fossil-free electricity is needed. Starting in 2024, more nuclear reactors will be permitted in more locations in Sweden. The Government also proposes accelerating the expansion of charging infrastructure so that more people will choose to drive electric cars.

Taxpayers in Sweden should get better value for their money. The Government is therefore stepping up its efforts to rectify incorrect payments from welfare systems. The Government is also reviewing expenditures for central government administration and proposes general expenditure cut, among other things. Efforts to reduce the number of government agencies have been initiated.

Government taking responsibility for the economy at a difficult time

The difficult economic situation is testing the staying power of policy and its ability to take responsibility for the Swedish economy. The Government's proposals for the

budget show that it is possible to combine restrained fiscal policy to combat inflation with reforms that strengthen household finances and make Sweden stronger by reinforcing the judicial system, defence and the welfare system. This will get Sweden through the economic winter and establish the foundations for Sweden to be a safer and even better country to live in.

Table 1.1 Table of reforms

SEK billion

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	2024	2025	2026
Combating inflation and assisting households and the welfare system			
Increase in general government grants to municipalities and regions	10.00	10.00	10.00
Extension of increased housing allowance for families with children	0.83	0.00	0.00
Support to civil society for work related to socially vulnerable situations	0.10	0.10	0.10
Reduced tax on petrol and diesel (excluding agriculture)	5.64	7.77	8.05
Compensation for loss of tax reduction and postponement of increased age limit for the increased basic income tax allowance	3.20	0.00	3.40
Extended tax reduction and reduced tax on diesel for agriculture and forestry	0.84	0.00	0.00
Tackling recession by re-instituting the work-first principle			
Tax reduction for low- and medium-income earners	11.04	11.04	11.04
Tax cut for pensioners	2.18	2.18	2.18
Indexation of earned income tax reduction for older people	0.00	0.09	0.13
Paused upward adjustment of threshold for state income tax	-12.31	-12.31	-12.31
Removal of reduction of employers' social security contributions for employees aged 15–18	-1.00	-1.00	-1.00
Reduction of introductory jobs and number of matching services	-2.13	-2.17	-2.17
Increased compensation for additional costs to Samhall AB	1.01	1.01	1.01
Increased funds to the Swedish Public Employment Service	0.20	0.00	0.00
Reformed unemployment insurance	0.00	0.14	-0.10
Additional places in higher vocational education	1.77	0.41	0.90
Increased funds to the Swedish Board of Student Finance for processing of Student finance for transition and retraining	0.05	0.05	0.00
Support to expand folk high school course offerings	0.10	0.10	0.10
Temporarily raised ceiling for tax credit for building repairs, maintenance and improvement	0.96	0.00	0.00
Increasing Sweden's growth through structural reforms			
Measures for better competition and reduced regulatory burden	0.05	0.26	0.24
Investment in new engineers	0.33	0.50	0.64
Investment in research on development of 6G	0.07	0.16	0.17
Stimulus for planning of single-family dwellings and conversion of premises	0.08	0.10	0.10
Increased road maintenance	0.40	0.40	0.00
Enhanced export promotion efforts	0.22	0.22	0.22
Export credit guarantees for exports to Ukraine	0.33	0.33	0.33
Operational support to non-state airports	0.11	0.11	0.11
Maintenance of central government properties with significance to the cultural heritage	0.10	0.18	0.25
Improved safety and security for everyone in Sweden			
Continued growth of Swedish Police Authority	0.00	1.82	4.07
Increased capacity of the Prison and Probation Service	1.48	1.20	2.85
Reinforcement of the Swedish Security Service	0.18	0.25	0.27
			

	2024	2025	2026
Increased funds to government agencies to fight crime	0.27	0.50	0.49
Stricter penalties for firearms offences, multiple offences, etc.	0.02	0.31	1.05
Establishment of special young offenders prisons and expansion of			
security work	0.15	0.17	0.25
New Social Services Act and staffing investment in social services	0.27	1.33	2.40
Placement-neutral support to municipalities under Care of Young Persons Act	0.00	0.48	0.48
Stronger defence			
Increased defence capability	0.09	0.49	6.36
NATO membership fee	0.75	0.86	1.15
Building-up of civil defence	0.31	0.38	0.39
A reliable welfare system			
Shortened health care waiting times	2.00	3.50	0.00
Expanded primary care and investments in cancer care and women's health	0.74	1.24	0.89
National digital infrastructure for health and medical care	0.08	0.12	0.14
New sectoral grant for health and medical care	3.00	0.00	0.00
Enhanced efforts to promote mental health	0.10	1.60	1.57
Extension of the Care of Older People Initiative	1.25	1.25	1.25
Increased standard amount for assistance allowance	0.26	0.27	0.27
Reading, writing, arithmetic initiative	0.18	0.50	0.50
Stronger school libraries and preservation of culture schools	0.10	0.32	0.53
Increase of knowledge grant	0.85	0.80	0.82
Better conditions for teachers in schools with socioeconomic			
challenges	0.17	0.17	0.17
Measures to address schools with quality issues	0.21	0.17	0.14
Continued overhaul of migration policy			
Government accommodation for asylum seekers	0.02	0.22	0.28
Additional steps towards 1 000 detention centre places	0.00	0.03	0.10
Establishment of return centres, etc.	0.33	0.29	0.39
Increased funds to the Swedish Migration Agency	0.26	0.88	0.03
More effective integration policy			
Stricter requirements for language skills and self-support	0.14	0.07	0.06
Special initiatives for areas with widespread social exclusion	0.08	0.15	0.15
Countering honour-based violence	0.05	0.05	0.05
Effective and ambitious climate policy			
Support to energy planning	0.25	0.29	0.29
Enhancement of Climate Leap and Green Industry Leap	0.90	2.10	2.50
Extended support for production of manure-based biogas	0.20	0.20	0.20
Extension and expansion of charging infrastructure	0.00	0.45	0.62
Temporary scrapping premium	0.25	0.25	0.00
Development and enhancement of climate premiums	1.44	2.04	2.68
Abolished tax on plastic carrier bags	0.11	0.65	0.65
Measures for better marine and aquatic environments	0.16	0.21	0.21
Enhanced efforts to restore wetlands	0.16	0.24	0.38
Increased protection of valuable nature	0.50	0.50	0.50
More effective environmental assessments with shorter processing times	0.12	0.12	0.12
More efficient use of central government resources			

	2024	2025	2026
General expenditure cuts in central government administration	-1.12	-1.12	-1.12
Adjustment of dental care allowance and lowered age for free dental care	0.00	-0.55	-0.55
Amended rules for parental benefit and student finance	-0.15	-0.66	-0.70
Reduction in certain government grants to the local government sector and study associations	-4.62	-4.36	-2.63
Elimination of compensation for high sick pay costs	0.00	-1.23	-2.64
Measures to reduce incorrect payments	0.22	0.23	0.16
Adjusted tax on gambling and tobacco	-0.26	-0.51	-0.52
Other reforms and unavoidables	3.01	-0.51	1.00
Impact on public finances	38.66	37.42	51.61

Source: Own calculations.