Sweden´s convergence programme **2022**

Government Offices of Sweden
Ministry of Finance

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 submitted 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 2022 is mainly based on the Spring Fiscal Policy Bill for 2022 (Bill 2021/22:100). The Government presented the Bill to the Riksdag on 19 April 2022. The Parliamentary Committee on Finance was informed about the Convergence Programme on 21 April 2022. The Government adopted the Convergence Programme on 28 April 2022.

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

General government net lending objective

The objective for general government net lending is intended to contribute to strengthening control of the long-term development of general government finances. The objective 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 space 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 proposal 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 1% 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 2017/18:1 Proposal for the central government budget, budget statement, etc. annex 5, Cmte Rep. 2017/18:FiU1, Riksdag Comm. 2017/18:54).

The Government has also made the 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 pp 84–86).

Expenditure ceiling and a strict 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 level of the total take of taxes and contributes to preventing a situation in which the take of taxes must be gradually raised as a result of a lack of control of expenditure, or in which temporary increases in revenue are used for permanent increases in expenditure.

The expenditure ceiling is the overarching restriction for 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 set. The established practice is to 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, strict 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 cover all revenue and expenditure, as well as other payments that have an impact on the central government borrowing requirement (known as the principle of comprehensiveness). Central government revenue and expenditure also have to be budgeted and reported gross under revenue headings and appropriations (the "gross principle"). This means that expenditure has to be reported on the expenditure side of the budget, while revenue has to be reported on the revenue side. A further main rule 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 balance requirement outcomes 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 attain 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 European Union, 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 in the Spring Fiscal Policy Bill for the present 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. They 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 MTO 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.

1.3 Monetary policy objective and monetary policy in Sweden

The Riksbank is responsible for monetary policy in Sweden According to Chapter 9. Chapter 13, Article 13 of the Instrument of Government provides that no 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 have full impact on inflation and the real economy. Monetary policy is therefore guided by forecasts of economic developments. The information published by the Riksbank includes an assessment of the future development of the repo rate. But 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, when required, what supplementary measures are needed 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 as to how quickly the Riksbank aims to return inflation to 2% if it deviates from this target. A quick 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. Well-functioning regulation and effective supervision are, however, of most importance for preventing an unbalanced development of asset prices and debt. Monetary policy only acts as a complement.

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 well-founded 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 on 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,ToR. 2016:114, ToR 2017:57, ToR 2017:100 and ToR 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 (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 (SOU 2019:46) to the Government in November 2019. Sweden's Convergence Programme 2020 contains a brief description of the proposals in the report.

A consultation was held on the report and almost 100 bodies were given to opportunity to respond to the proposals. In addition, the European Central Bank (ECB) was given the opportunity to give an opinion in accordance with Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union and Article 2(1), seventh indent of Council Decision of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions (98/415/EC). After taking account of the views from the consultation bodies and the ECB, the Government presented a bill to the Riksdag on 28 October 2021 (Govt Bill 2021/22:41). The proposals in the bill are essentially the same as those in the committee report Since the proposals involve amendments to the Instrument of Government, which requires two decisions by the Riksdag with a general election between the decisions, a new Sveriges Riksbank Act can enter into force in 2023 at the earliest.

1.4 The Government's economic policy

Russia's illegal and unjustifiable invasion of Ukraine has had a severe impact on the country and its people and marks a serious deterioration in the security situation. In response to this, the Sweden Government is taking action in three areas: support for Ukraine, sanctions against Russia and strengthening Sweden.

Support for Ukraine

In order to support Ukraine and address the growing humanitarian needs, the Government has increased its humanitarian aid. In addition, the Riksdag (Swedish Parliament) has agreed that Sweden will make a financial contribution to the National Bank of Ukraine's fund in support of the country's armed forces and send defence materiel. At the Government's initiative, resources have also been made available in the form of a loan guarantee to the International Bank for Reconstruction and Development, which is part of the World Bank Group.

Many people have been forced to flee Ukraine. Most have gone to neighbouring countries, but many of them have sought protection in Sweden. There is a great deal of uncertainty over the number of people who will come to Sweden and how long they will need to stay. The Government is therefore monitoring developments closely and working on a broad range of different measures. The priority in the short term is to ensure that people have a basic level of security and a roof over their heads The capacity of the Swedish reception system has therefore been significantly expanded over a short time scale. Municipalities have also taken on responsibilities and schools across the country have already admitted children that have arrived or are preparing to do so. The Government is setting aside significant additional funds in order to manage this new situation, and is also proposing extra support for municipalities that take on responsibilities. In line with existing legislation and OECD guidelines, a significant proportion of the increased costs presented in the 2022 Spring Amending Budget Bill will be deducted from the aid budget in 2022. Civil society has been extremely active. Additional funding is being proposed to provide greater support to the important initiatives being undertaken by voluntary organisations. Those people now arriving from Ukraine and being granted a resident permit under the EU Temporary Protection Directive (2001/55/EC) are entitled to work, and it is believed that many people will be in a good position to find work in Sweden. Getting a job means that a person who needed help at the outset is able to take back responsibility for their own livelihood and accommodation.

Sanctions against Russia

Alongside other EU member states, Sweden has quickly and decisively introduced wide-ranging, far-reaching sanctions against Russia and the Russian Government. These include sanctions targeting the financial sector, the energy and transport sectors, products that can be used for both civil and military purposes and individuals with links to the Russian Government. The sanctions have severely restricted Russia’s financing options and trade.

Push back against violence and criminality and break down segregation

In uncertain times, a strong society based on trust and a sense of community is more important than ever. There is no place in that society for segregation, violence or criminality. The Government is therefore taking robust action to break down segregation and push back against violence and criminality. More people must gain employment and become part of the community. The Government will leave no stone unturned in taking the necessary action.

Push back against violence and criminality

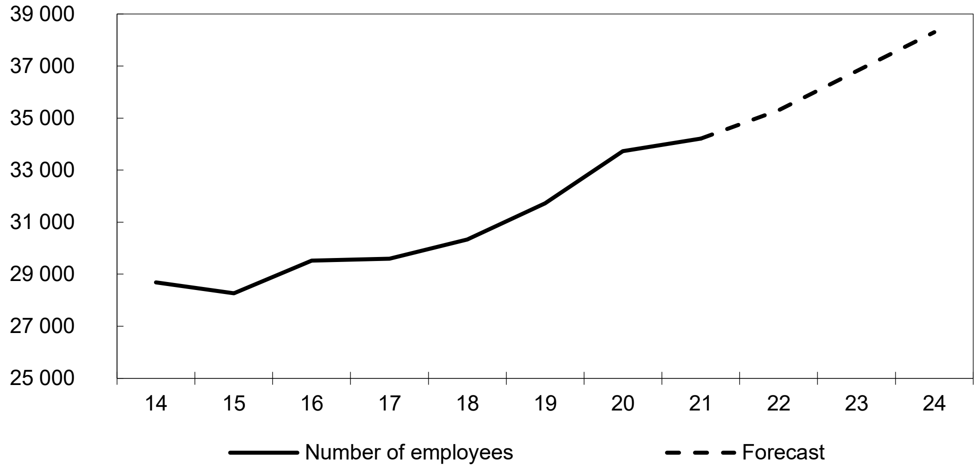
Violence and criminality are a threat to the community, undermine trust between people and erode faith in the future. Since 2014, therefore, the

Government has made changes to Swedish penal policy and embarked on a long-term initiative to combat violence and criminality. The Government's programme of measures against gang crime aims to give the authorities the right tools to combat crime, stiffen the penalties for crime, break down the culture of silence and develop work on crime prevention.

The Government has stiffened penalties for around 60 offences, and around 30 acts that were previously not punishable have been criminalised. The Government has also implemented a historic expansion of the Swedish justice system, which has included an additional 6 000 employees for the police service since 2016 (see figure 1.1). Since 2014, the number of people admitted to police training courses has more than doubled, and courses are now available at more universities and colleges. The aim is to have employed 10 000 more people in the police service by 2024. In addition, the technical capabilities of the police service have been enhanced with new, more effective tools, such as secret data scanning and additional use of surveillance cameras. To break the culture of silence and encourage more people to testify about crime, the Government is to submit proposals for an option of reduced penalties for those who assist with investigations into another person's crime (known as 'turning government witness') and increase protection for witnesses. The Government's investment in crime prevention measures continues, to include additional work with people who drop out of criminal gangs.

Figure 1.1 Number of employees in the Swedish Police Authority

Number of employees 2014–2021, forecast for 2022–2024



Source: Swedish Police Authority.

Drug trafficking is an important source of income for criminal networks and is often a source of conflict. To combat the gangs, the Government is launching a crackdown on drugs, which includes work on stiffening penalties for drugs-related crime. The Government has also taken action to prevent and restrict the harmful effects of drugs, including the biggest review of drugs policy in decades.

To assist in the fight against organised crime, legislation around money laundering is being strengthened. This includes the introduction of a new law on money laundering, with considerably enhanced options for penalties, and several authorities have received additional resources to improve their supervisory activity. The Government also plans to submit proposals to increase the sharing of information between banks and law enforcement agencies.

Work-related crime feeds organised crime and drains the welfare and social security systems of resources. The Government has appointed a national delegation whose role includes increasing knowledge of the extent of work-related crime and supporting the stakeholders working to prevent it. In addition, 2022 and 2023 will see the establishment of regional centres to fight work-related crime. The centres represent an intensification of the joint work of authorities to combat work-related criminality initiated by the Government in 2017, which has resulted in over 6 000 joint authority inspections. To further improve the authorities' joint work, the Government is also evaluating the possibility of greater sharing of information between authorities, municipalities and unemployment insurance funds.

Male violence against women is a serious problem in society that needs to be highlighted and addressed. The Government's work includes initiatives combating honour-based violence and oppression, sexual violence, prostitution and people trafficking, and support and protection for victims. Several related penalties have been stiffened and a programme of preventive measures has been drawn up.

Create jobs by driving climate change adaptation

Sweden is at the forefront of climate change adaptation, thanks to substantial green investment and a clear political direction. Carbon dioxide-free steel production, new battery factories and electric-powered heavy-duty trucks are creating export opportunities and thousands of new jobs across the country. In Norrbotten County alone, there are plans for green investment of up to SEK 700 billion in the coming years. Climate change adaptation will also help reduce dependence on imported fossil fuels, which will provide Sweden with more security. But in order to achieve the Paris Agreement target of limiting global warming to under 1.5 degrees, the rate of adaptation needs to increase. Sweden will take its share of responsibility for getting emissions down and show the world how faster climate adaptation creates jobs and export opportunities

Reduce emissions and protect valuable natural environments

Sweden aims to be the world's first fossil-free welfare state. To achieve this, a climate policy framework has been introduced with an ambitious climate target, a Climate Act and an independent Climate Policy Council. The target is for zero net emissions of greenhouse gases into the atmosphere no later than 2045.

Since 2014, the budget for climate and environmental policy has more than quadrupled (see figure 1.2). One of the Government's most important initiatives in this area is the 'Climate Leap', which supports local and regional climate-related investment. Up to and including 27 December 2021, over 4 000 applications for a total of SEK 9 billion, entailing overall investment of approximately SEK 22 billion, had been granted through the Climate Leap, which is expected to jointly reduce greenhouse gas emissions by 1.8 million tonnes annually. This represents approximately 4% of Sweden's overall emissions in 2020.

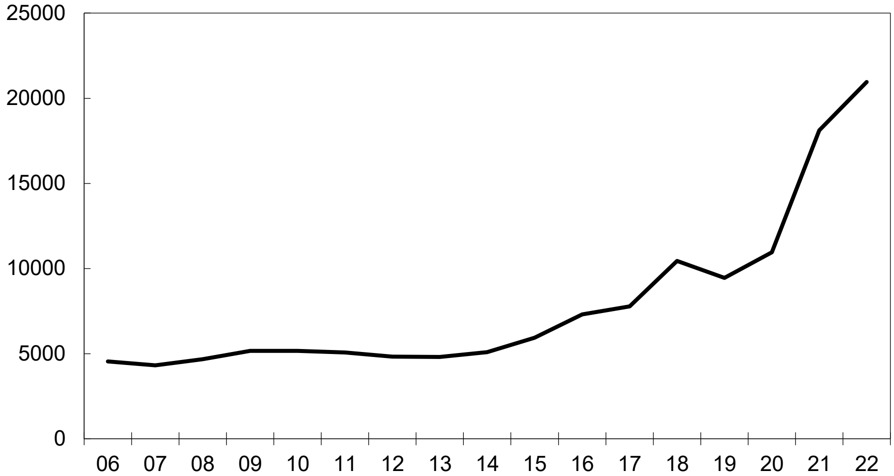
The Government is also working actively, both nationally and internationally, on reducing negative impacts on the climate, the environment and biodiversity caused by the use of plastics and chemicals and waste management. The ongoing work on accelerating the transition to a circular economy enables more efficient use of resources, which helps achieve both environmental and climate-related targets. in addition to this, the Government is taking action to formally protect valuable natural environments. The Government believes that the protection of valuable forests must be undertaken in a positive spirit of cooperation with forest owners. The basic point of departure and a principal working method for authorities should be voluntary formal protection. Forest owners will be compensated financially for protection of valuable natural environments that entail restrictions on rights of ownership and of use in so far as they are entitled to them.

Sweden will be proactive in working to prevent the impact of climate change on security globally. An ambassador for climate and security will therefore be appointed.

Figure 1.2 Funds for climate and environmental policy

Outcome 2006–2021; appropriated funds 2022

SEK million



Note: Includes 2022 Spring Amending Budget proposal.

Source: Own calculations.

Green jobs and investments

Climate change adaptation entails a green industrial revolution that will create thousands of new jobs. Swedish workers must therefore be equipped with new skills and expertise. The Government is making historic investments in skills development and mid-career transition. The 'Knowledge Boost' programme has brought about a significant expansion in education and training places across the country, many of which are permanent. Also included is targeted investment in skills development to facilitate further education and training and transition to support climate change adaptation. The Government is also implementing a comprehensive transition package in line with a proposal from the trade unions and private sector employer. The package includes a new, public support measure to provide greater opportunities for studies and skills development, a new, public transition organisation and a facility for employers funding transition and skills support to be compensated for it. To enhance the supply of skills, the Government has also presented proposals that will make the educational offer at upper secondary school level more responsive to the needs of the labour market, for example, in order to address climate change adaptation.

Access to capital is crucial in supporting climate change adaptation. The Government is working on a broad range of measures to secure green investment and a sustainable financial market, including state credit guarantees for green investment and green government bonds. Pension funds and the

Swedish National Pension Insurance Funds are now subject to additional sustainability requirements.

The Government is working to support projects and investments that reduce emissions from industry. The Government launched the 'Industrial Leap' initiative in 2018 to support precisely this type of project. Sweden is the first country in the world to set aside funds for a state system of support for the capture, separation and storage of carbon dioxide from renewable sources.

Implementing climate change adaptation requires new research. The Government has invested comprehensively in the area, for example boosting the national programmes for climate-related and environmental research. The Government also continues to invest in the European Spallation Source (ESS) research facility in Lund and is now proposing that additional funds be set aside. In addition, the Government aims to facilitate increased participation in IPCEI (Important Projects of Common European Interest) to speed up the green and digital transition to a sustainable society.

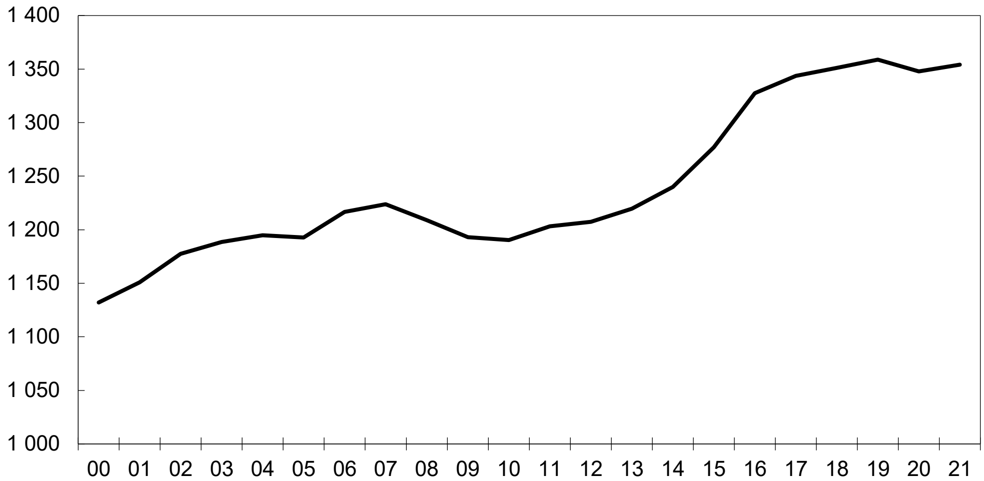
Take back democratic control of the welfare system and ensure social insurance and pensions provide security

A supportive welfare system is essential for an equitable and cohesive Sweden. Sweden will have high-quality healthcare, schooling and social care throughout the country and the shared tax revenue will be put to the uses intended. Everyone who is working and helping Sweden to develop will have social insurance and pensions that provide security.

The pandemic has highlighted serious failings in the welfare system. Understaffing and fragmentation create holes in our safety nets. Even before the pandemic, the Government had been allocating significant resources each year to help strengthen the welfare sector. Since 2014, the number of employees in the welfare sector has increased by over 100 000 (see figure 1.3). Additional staff are still needed in the welfare sector, and improvements are to be made to the work environment and working conditions.

Figure 1.3 Number of employees in the welfare sector

Thousands of persons



Note: The information is based on the number of employees in the municipal sector, as reflected in the national accounts, plus an estimate of the number of employees in welfare in the private sector. Municipally-funded activity means the whole municipal sector, i.e. both municipalities and regions. There are no gender-disaggregated statistics.

Sources: Statistics Sweden and own calculations.

High-quality healthcare, schooling and social care throughout the country

The pandemic has highlighted the need for and importance of a supportive welfare system. To further strengthen the welfare system, the Government has ensured that municipalities and regions have access to substantial amounts of funding through general government grants. The regions are also being given additional funds to improve particularly important areas of healthcare, including shortening waiting times, supporting the development of local health care across the country, improving mental health services and improving and developing cancer care and obstetrics. The Government is making more places available for on-the-job training so that teaching institutions can train more nurses and support CPD for nurses. The Government is also proposing further injections of funds aimed at increasing capacity in healthcare, including increasing the number of beds, employing more people in healthcare, such as nurses, and improving the work environment. In addition, several initiatives are being implemented to strengthen emergency preparedness and civil defence within the healthcare system.

The Welfare Commission, appointed by the Government in 2019, has identified several measures needed to improve the ability of municipalities and regions to provide good-quality welfare services. The majority of the Commission's 29 proposed measures have been implemented or started, including investment in a shared digital infrastructure that will enable the private sector to benefit more from the opportunities provided by digitalisation.

All children, irrespective of where they live or their parents' socioeconomic circumstances, are entitled to good schooling. However, society has not been sufficiently strong to counter inequitable conditions and school segregation. The educational level of parents and other socioeconomic conditions continue to be very important factors in pupils' learning outcomes and in the divergence in schools' learning outcomes. Gender too is important – boys perform less well in school than girls. The Government wants to change this and has introduced major investment and reforms to improve learning outcomes and increase equality. More children will attend preschool so that they have better, more equitable prospects of success in education. The number of full-time posts in school has increased by over 35 000 since the 2014/15 academic year. The equality grant for schools has been gradually extended, and the Government is proposing legislative changes to provide a secure and positive environment for learning in all schools. In order to regain democratic control of schools, the Government has also presented proposals for clearer and more equitable allocation of resources to responsible authorities, regulated selection criteria for preschool class, compulsory school and compulsory school for children with intellectual disabilities, and clearer terms and conditions for the establishment of independent schools.

Care for the elderly in Sweden needs to provide reassurance and security. The pandemic has highlighted structural failings in care for the elderly, which have also been noted by the Corona Commission (SOU 2020:80 p. 246). The Commission has said that organisations were poorly prepared, due in part to an inadequate legal framework, organisational failings, insufficient staffing and a lack of medical skills. The Government is putting ambitious measures in place to improve care for the elderly in the long term. This includes a Care of Older People Initiative that will give staff caring for the elderly better opportunities for additional training and development. The profession of assistant nurse ('undersköterska') is to become regulated, anyone receiving home care services will be given a named care contact, and additional places are being created to train specialist assistant nurses. The Government has also set up an inquiry to produce proposals for a law on care for the elderly, with the aim of laying down a solid, long-term foundation for care for the elderly and ensuring access to good healthcare and medical expertise.

Insurance and pensions that provide security

Society must provide a safety net when people suffer illness or unemployment. General social security provisions are a key element of the Swedish welfare model that provide security and combat financial vulnerability. The Government is working to improve the system. For people receiving sickness compensation or activity compensation, the housing supplement and guaranteed rate have been increased. Measures have also been put in place to improve options for those able to work part-time while they are on sick leave. There is now greater protection for on-call employees and older people in the event of illness, and the ceiling for sickness compensation has also been raised by 25%. Changes has been made to legislation to make it easier for people in need of longer-term care, treatment and rehabilitation to return to regular working. Taxation for people receiving sickness or activity compensation has been further reduced with the aim of eliminating the discrepancy between taxation of this compensation and taxation of earned income.

Anyone losing their job will be financially secure while transitioning to a new job. More people will have the security of an unemployment benefit fund ('a-kassa'). To encourage membership, the Government has proposed tax relief on 25% of unemployment benefit fund fees from 1 July 2022.

The Government wants to continue to improve the financial position of pensioners. During its term of office, there has been a rise in the national guarantee pension and the housing supplement has been boosted. The Government has also put forward proposals to reform the premium pension system. For those who have worked for a long period on a low income, an income pension complement was introduced in 2021. The Government is also working towards a 'security pension', so that no person who is physically weakened by their work or becomes ill close to retirement age is forced to draw their pension in advance. As the Government has reduced taxes for pensioners, the discrepancy between taxation of pensions and earned income will have been eliminated by 2023. In order to raise pension levels generally, the Government is also seeking to increase payments into the pension system. The aim is for a person who retires to receive a total of at least 70% of their final salary through the national public pension and an occupational pension.

The Government wants to continue improving the financial position of pensioners who receive only a small public pension. It is therefore proposing a reform that will put SEK 1 000 more in the wallet of around half a million pensioners every month. In total, over a million pensioners will be better off from August 2022. This is ultimately a way to show respect for the people who have helped to build up our country.

Tax revenue will be put to the uses intended

The welfare system needs to be clear and systematic. Those entitled to compensation must receive it, but not a single krona must go to anyone who cheats the system. The Government has therefore embarked on a campaign against cheating and welfare crime. This includes combating erroneous payments, tax offences, benefits offences, work-related crime, money laundering and the financing of terrorism.

The Government is setting up the Utbetalningsmyndigheten, an agency (payment authority), which will develop cross-system control of all welfare system payments. This will make work on criminality and erroneous payments within the welfare system more systematic and efficient than it has been previously. The Swedish Public Employment Service, CSN (the national authority for the payment of higher education grants), the Swedish Migration Agency and the Swedish Pensions Agency have been given resources to prevent, check and monitor erroneous payments and welfare benefit cheating. The Government has also tightened up several laws, for example to improve the quality of the population register. In addition, the Government has appointed an inquiry tasked with making proposals for the better prevention and combatting of offences perpetrated against authorities that pay out benefits. The Government has also appointed an inquiry whose tasks include making proposals for the introduction of specific safeguards under criminal law in respect of state support for companies and other legal entities (Dir. 2022:25).

Measures taken on account of the pandemic

The spread of COVID-19 has caused great hardship and society has been put to the test. Since the Government categorised COVID-19 as a disease dangerous to society on 1 February 2020, the whole of Sweden has come together in response. Sweden's responsible fiscal policy meant that the country had the necessary resources to deal with the pandemic. In the Government's first term of office, SEK 35 billion was invested in the welfare system and payments were made to reduce the national debt. As a result, when the crisis arose, Sweden had 100 000 more staff working in the welfare system than in 2014 and the lowest level of national debt as a proportion of GDP since 1977.

The Government and the Riksdag have put a large number of measures in place to manage the pandemic and its consequences. In total almost SEK 600 billion has been made available to safeguard people's lives, health and ability to support themselves (see table C.10). The support measures have meant that bankruptcies have been prevented, employment levels have been maintained and cuts in the welfare system have been avoided. This differs from previous crisis situations, when the number of staff in the welfare sector fell. The Government is also proposing that further resources be made available for the ongoing management of the pandemic and its consequences.

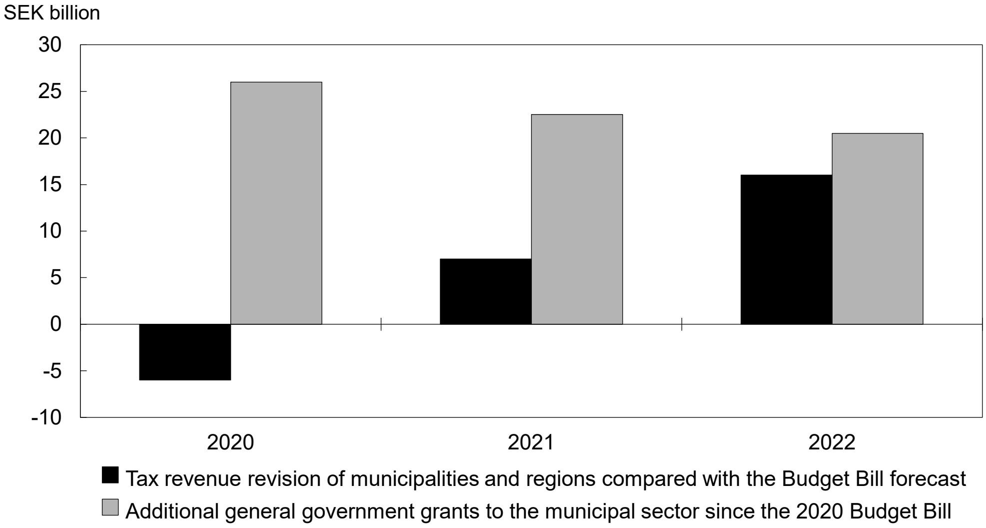
Measures to protect lives and health

A healthcare system that works is essential for the protection of people's lives and health and for providing security. Significant funds have therefore been made available to municipalities and regions for the additional costs that have arisen due to the pandemic, but also to support the regions' management of deferred healthcare. The additional funds include substantial resources for the regions to facilitate large-scale testing and contact tracing and to undertake the biggest vaccination campaign in Sweden's history. On 7 April 2022, approximately 85% of the Swedish population aged 12 or over had received two doses and 63% of the population aged 18 or over had received three doses. The Government is now proposing that additional funds be made available to ensure that everyone can have a fourth dose, as needed.

Funds have also been set aside to enhance care of the elderly and improve staff skills. As the pandemic has spread, temporary amendments have been made to the social security scheme. This includes compensation for deductions for waiting days in order to reduce the spread of infection, at-risk group compensation to protect at-risk groups and deferred requirements for a medical certificate to reduce the pressure on healthcare.

Overall, general government grants for the municipal sector have been increased. to a much greater extent than tax revenue has reduced compared with the pre-pandemic forecast. (see figure 1.4). It has been important for the Government to allow for safeguarding the welfare system and slowing down the downturn in the economy.

Figure 1.4 **Revision of tax revenues and additional general government grants since the 2020 Budget Bill**



Note: The figure compares the forecasts of local government tax revenue and general government grants in 2020, 2021 and 2022 given in the Budget Bill for 2020 (Govt Bill 2019/20:1) with the outcome for 2020 and forecast for 2021 and 2022 presented in this Bill. The bars thus show the extent to which the pre-pandemic forecasts of municipal tax revenue have been revised. The bars also show the Government's additional general government grants to the municipal sector since the 2020 Budget Bill. They do not include the SEK 2.5 billion Riksdag initiative in 2020 as this was not a Government initiative.

Sources: Statistics Sweden and own calculations.

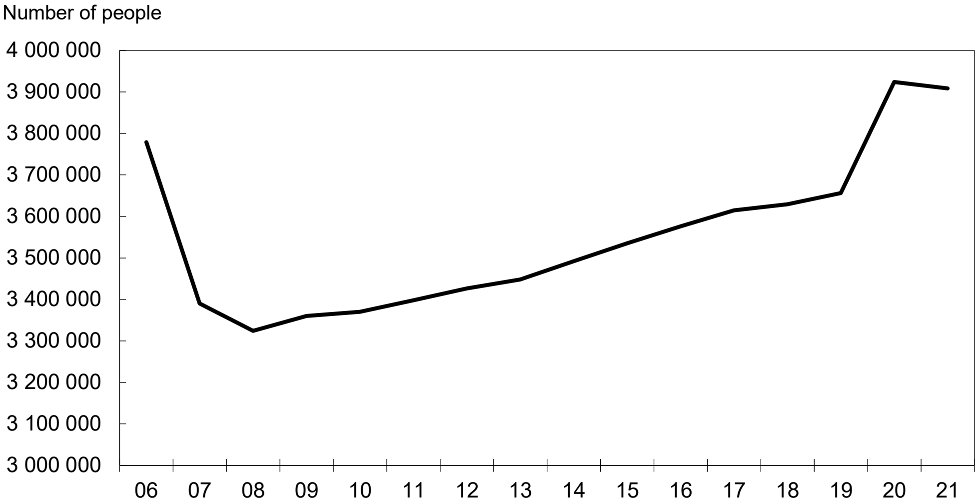
Measures to protect jobs and income

Restrictions due to the pandemic, and the behavioural changes they gave rise to, led to a sharp downturn in the economy. It has been extremely important to alleviate the financial consequences and save Swedish jobs and companies.

Fiscal policy has had a greater role to play than in previous crises. Without the Government's input, companies and workers would have had to bear a greater proportion of the costs of shutdown in the form of bankruptcy and unemployment. The Corona Commission's final report states that the Government's swift and strong measures helped to slow down the downturn in the economy and boost economic recovery (SOU 2022:10 p. 595).

The emergency measures have made a difference, but in a powerful, rapid downturn some loss of jobs is unavoidable. As a result, the Government has made temporary amendments to the unemployment insurance system, both to ensure it covers more workers and to give members greater financial support when unemployed. Since the start of the pandemic, over 250 000 more people have become members of unemployment benefit funds (see figure 1.5).

Figure 1.5 Membership of unemployment benefit funds



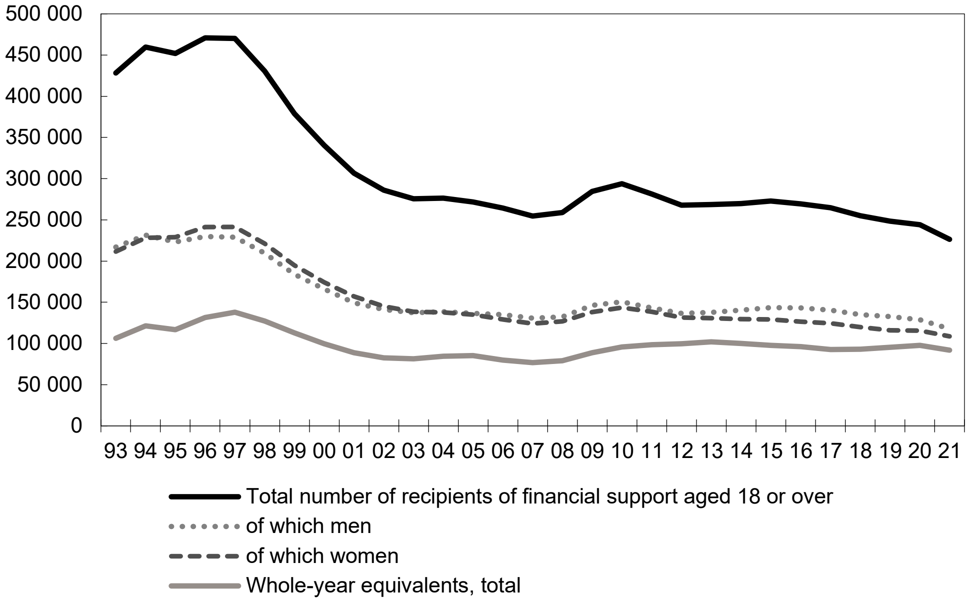
Note: The annual numbers shown relate to the month of December.

Source: The Swedish Unemployment Insurance Inspectorate.

The boost in unemployment compensation and support in the event of short-time working have been important for maintaining the level of household spending. The Government has taken action to protect jobs and provide greater security of income for those who have lost their jobs. 2020 and 2021 also saw a reduction in the number of people receiving financial support (see figure 1.6).

Figure 1.6 Recipients of financial support aged 18 or over

Number of people



Note: One whole-year equivalent represents one person who has received financial support for a whole year. Where two people have each received financial support for half a year, this is counted as one whole-year equivalent but two recipients.

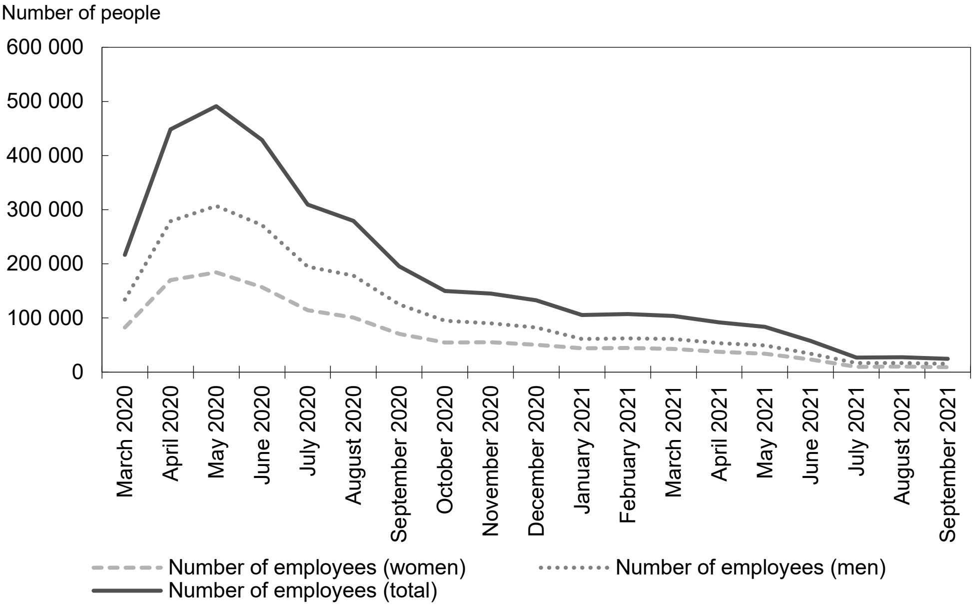
The numbers of recipients of support in 2021 are preliminary figures.

Sources: Statistics Sweden and the National Board of Health and Welfare.

The Government has also boosted sickness benefits and increased opportunities for transition. The Knowledge Boost has also been enhanced during the pandemic to provide more education and training places that better meet society's needs. Groups that find it difficult to get established in the labour market are thereby in a better position to gain qualifications for work. In order to support people in vulnerable circumstances, the housing allowance for families with children has been temporarily increased and additional resources have been allocated to civil society. Funds have also been given to organisations working with women, children and LGBTQI people subjected to violence and organisations working to combat violence in close relationships and honour-based violence and oppression.

The support measures have helped to maintain the level of employment. Employment in Sweden fell at the outset of the pandemic, but subsequently rose again, and is currently higher than in 2014 and amongst the highest in the EU. The short-time working system has been crucial to saving jobs. In total, approximately 600 000 individuals were furloughed during the crisis (see figure 1.7).

Figure 1.7 Number of employees furloughed

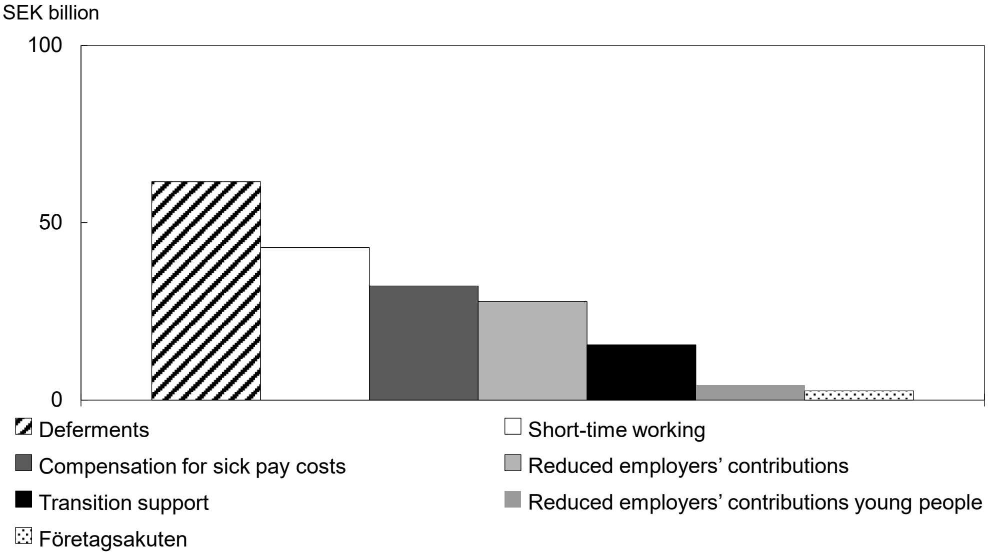


Note: The data are from 29 March 2022. The figures are preliminary and may change.

Source: Swedish Agency for Economic and Regional Growth.

Companies that have been impacted financially have been given various forms of support to help them survive the crisis and avoid redundancies (see figure 1.8). The measures have sought to reduce costs, strengthen liquidity and improve financing options. The funds have mainly been distributed on the basis of how seriously the companies have been affected financially, but some forms of support have been targeted at specific sectors, such as media, culture, sport, public transport, railways, and aviation and shipping. Companies have also received compensation for high sick pay costs. To facilitate companies' ability to finance export transactions, the Swedish Export Credit Agency's credit guarantee framework for export credit and the Swedish Export Credit Corporation's credit facility at the Swedish National Debt Office have been extended. There have also been temporary and advance tax reductions relating to jobs and companies. For example, the cost of employment has been reduced through a temporary lowering of employers' contributions, including for 19 to 23-year-olds. The reduction for 19 to 23-year-olds has been particularly important for companies in sectors that employ a lot of young people and that have been affected by restrictions and changes in behaviour due to the pandemic, for example the hospitality sector.

Figure 1.8 **Payments of certain forms of support, deferments granted and guarantees issued**



Note: Deferment means that traders are able to defer payment of deducted tax, employers' contributions and VAT and is thus a measure that increases liquidity. 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. The temporary general reduction in employers' contributions applied from March to June 2020. The reduction means that the employer paid 10.21% in employers' contributions instead of 31.42% for up to 30 employees per company and up to a wage bill of SEK 25 000 per employee and month. The temporary reduction in employers' contributions for young people applies to people aged 19 to 23 in the period from 1 January 2020 to 31 March 2023. The reduction means that the employer pays 19.73% in employers' contributions instead of 31.42% on remuneration of up to SEK 25 000 per month. From 1 June to 31 August 2021, contributions were further reduced to 10.21%.'Företagsakuten' was a guarantee programme whereby the Swedish National Debt Office issued credit guarantees mainly to small and medium-sized companies that had been impacted financially by the pandemic. All data is as at 31 December 2021.

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

The pandemic is entering a new phase

As of 1 April 2022, COVID-19 is no longer classified as a disease dangerous to society. The pandemic is therefore entering a new phase, but it remains important to track the spread of infection, get more people vaccinated and improve the healthcare system. At the same time, Sweden is having to face new challenges. The uncertain situation underlines the continuing need for a good level of preparedness.

Aggregate budgetary effects of Government policy in 2020–2025

Table 1.1 presents the budgetary effects of all proposals for and announcements of reforms and financing that the Government has submitted to and presented 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 Aggregate budgetary effects of Government policy 2020–2025 in in relation to the previous year

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

SEK billion unless otherwise stated.

	2020	2021	2022	2023	2024	2025
Change in ceiling-restricted expenditure	179.8	35.5	-4.0	-63.4	6.3	-9.3
Adjustment for differences between the accounting principles in the central government budget and the National Accounts	-8.6	1.8	1.3	-1.1	-1.2	1.1
of which, capital contributions to state-owned enterprises	*-9.1*	*7.9*	*1.4*	*0.0*	*0.0*	*0.0*
of which, infrastructure investments funded by borrowing[3]	*3.6*	*0.2*	*-1.3*	*-2.0*	*-0.9*	*1.1*
Total expenditure changes[2]	**171.2**	**37.3**	**-2.7**	**-64.4**	**5.1**	**-8.2**
Taxes, gross	-45.1	-2.2	-16.8	27.0	5.3	0.2
Indirect effects of taxes	8.8	-4.4	-0.9	-1.9	0.1	0.0
Other revenue reforms	1.4	-0.2	0.2	0.0	0.0	0.0
Total revenue changes, net[2]	**-34.9**	**-6.8**	**-17.5**	**25.1**	**5.4**	**0.2**
Changes in expenditure and revenue, impact on general government net lending[2, 4]	**-206.1**	**-44.1**	**-14.8**	**89.5**	**0.3**	**8.4**
Per cent of GDP	-4.1	-0.8	-0.3	1.5	0.0	0.1

Note: The amounts are rounded off and thus do not always sum to the total.

[1] The table includes the budgetary effects of measures proposed by the government in the Spring Amending Budget for 2022 (Govt Bill 2021/22:99) that the Riksdag will consider in June 2022.

[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 aggregate budgetary effect on the net lending, 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 security situation in Europe has drastically deteriorated. Russia's invasion of Ukraine is unprovoked, illegal and unjustifiable. This aggression is not only an attack on Ukraine but an attack on every country's right to determine its own future, and constitutes a threat to the European security order and international peace. The EU and Sweden have responded forcefully. The Government's measures cover three areas: support to Ukraine, sanctions against Russia and a stronger Sweden.

Sweden has provided both economic and humanitarian support to Ukraine. It has also provided support to Ukraine's armed forces in the form of financial contributions and defence materiel. Sweden has not done anything like this since the Soviet Union attacked Finland in 1939. Standing up for every nation's right to security and self-determination is self-evident. Supporting

Ukraine is also important for Sweden's security. The defence of Ukraine's borders is the defence of every country's borders. Taking historic decisions, Sweden and other EU Member States swiftly imposed sweeping sanctions against Russia and Russian central government officials. In these uncertain times, the Member States now stand stronger together.

The Ukrainian people have been hit hard by Russia's aggression and many of them, primarily women and children, have fled the country. Sweden will do its part to receive Ukrainian refugees. At the same time, the Swedish Government expects other countries to assume their responsibility, and the solidarity currently shown in the EU and Europe to continue. The situation in 2015, when Sweden assumed a disproportionate share of responsibility, will not be repeated. The reception of Ukrainian refugees will be more evenly distributed throughout the country. Substantially increased funding is being allocated for an orderly reception of refugees throughout Sweden. The aim is to ensure that those currently seeking protection gain access to the housing, education and health care they have a right to. The Government also proposes temporary support to the municipalities assuming responsibility for reception.

The deteriorated security situation in our neighbourhood underscores the importance of strengthening Sweden. Since 2014, backed by a broad political consensus, the Government has been implementing a substantial reinforcement of Sweden's total defence and is now stepping up the pace. The appropriations for military defence will be set at 2% of GDP as soon as practicable, i.e. when it is possible to effectively translate the increase into improved defence capabilities. The decision has been made to strengthen Sweden's military defence, and the Government is now presenting proposals to strengthen civil defence with the aim of strengthening defence capabilities in the short term.

The Swedish people have recently been impacted by rising prices, in particular for food, fuel and energy. No government can credibly promise to fully compensate for these price increases. However, to mitigate their effects, the Government has presented a package of measures including compensation for high electricity and fuel prices, and reduced fuel tax. To specifically protect households in weak financial situations, a temporary increase of the housing allowance for families with children will also be introduced. The economic trend also highlights the need to improve the finances of pensioners with a low national public pension. Prices of input goods for agriculture have also increased, and the deteriorated security situation underscores the importance of robust Swedish food production. The Government therefore proposes the introduction of temporary support to certain agricultural sectors, and a temporary tax reduction on diesel for agriculture, forestry and aquaculture.

The Government remains steadfast in its long-term efforts to address societal challenges and to make Sweden safe for all. A strong society is contingent on stable institutions and high levels of social trust. The Government is therefore taking measures to push back against violence and criminality and break segregation, create jobs throughout the country by driving the green transition, and take back democratic control over the welfare system.

The labour market situation has improved in 2021. Employment has increased and more people are in work now than before the pandemic. But to reduce segregation and move closer towards creating equitable conditions in which to grow up and live, and good life chances for all, more people need to be in work. Everyone who can work must work. The Government proposes that funds be allocated to the Swedish Public Employment Service to promote the introduction of entry agreements.

Sweden's dependence on fossil fuels is ultimately unsustainable in terms of both security policy and the environment. The Government now proposes additional measures to accelerate the green transition, including enhanced environmental compensation to strengthen the competitiveness of railways and stimulate the shift of freight from road to rail. The Government also proposes additional funds to maintain the high pace of electrification of the transport sector.

Everyone who works and builds Sweden must have secure social insurance and future pensions. The Government proposes a guarantee supplement to improve the financial situation of pensioners on the lowest income. This is especially important as prices rise.

Sweden's handling of the pandemic demonstrates that Sweden has the capacity to address major societal challenges. The Government's measures have contributed to reducing the spread of infection, saving lives and reducing the negative impacts on jobs and businesses The economic recovery has been swift and Sweden has navigated the economic crisis well compared with many other countries. The Government proposes that additional resources be allocated to secure Swedish health care and social services, and that additional funds be provided to ensure that everyone can receive a fourth dose of the vaccine, if necessary.

The past two years have been a significant challenge for Sweden and the Swedish people. Society now faces new challenges. In the current situation, it is also critical that the measures taken are well considered and sustainable over time. It is also important to ensure that they do not heavily impact those who are already socioeconomically disadvantaged. Sweden will meet these challenges with the same force and resolve with which the whole nation together met the pandemic.

Strengthening Sweden

Sweden will increase its defence capability and upgrade its 'Total Defence' capability at a faster pace. The appropriations for military defence will be set at two per cent of GDP as soon as practicable, i.e. when it is possible to effectively translate the increase into improved defence capabilities. New instructions have been drawn up for the Defence Commission, which require the Commission to consult on increases in the appropriation for military defence so as to achieve and then maintain a level of appropriation equivalent to 2% of GDP. The consultation is due to be completed in May 2022. The Government's position is that a broad-based parliamentary agreement will include funding of the investment in defence. The Government has also initiated cross-party consultation on security policy.

The appropriations for military defence have been increased in 2022 with the aim of enhancing defence capability in the short term. There are now also more options for entering into long-term commitments in respect of materiel orders

Civil defence and military defence are mutually reinforcing. Sweden's ability to manage a high level of preparedness and ultimately war needs to be widely strengthened. An important aspect of this is strengthening civil defence. The Government is therefore proposing measures to bolster civil defence capability during 2022. Measures include strengthening municipalities' work on emergency preparedness and civil defence, improving the preparedness of individuals, increasing the protection of the population by upgrading shelters and warning systems and boosting resilience and food security in the community.

The invasion of Ukraine has highlighted the importance of secure access to raw materials for Swedish businesses and a secure food supply. To help ensure access to raw materials of national significance to Sweden, the Government is proposing an authorisation to issue credit guarantees to safeguard access to raw materials a 'raw materials guarantee'. Prices of important agricultural inputs have also risen recently. The Government is therefore proposing temporary support, aimed at greenhouse growers and the pig and poultry sectors, and a temporary reduction in tax on diesel for agriculture, forestry and aquaculture.

As a result of Russia's invasion, the Government has presented a package of measures to address price increases such as in electricity, diesel and petrol. The package of measures includes a temporary reduction in fuel taxes of SEK 1.05 per litre. With the previously announced tax reduction of SEK 0.40 per litre, this would mean that, from 1 May to 30 September 2022, the price of petrol and diesel will be approximately SEK 1.80 lower, inclusive of VAT. The greenhouse gas reduction obligation and the GDP indexing of fuel taxes will be suspended during 2023. The package of measures includes a new compensatory payment for fuel costs for private individuals of up to SEK 1 500 per car owner. Following a Government proposal, a modified version of the compensatory payment for electricity costs will be extended for a further month for households in southern and central Sweden. In order to give households in difficult financial circumstances special protection against substantial price increases, it is proposed that a temporary additional payment be introduced for families with children that are currently entitled to housing allowance or will become entitled later in 2022 The additional payment, which it is proposed will be made from July to December 2022 inclusive, will be the equivalent of 25% of the preliminary housing allowance and will amount to a maximum of SEK 1 325 per month.

Break down segregation

Having a job and being able to earn your own living leads to participation in society. It is work that underpins our welfare system, and working relationships help to engender trust in other people, the future and society. Long-term unemployment needs to be countered, particularly in areas with socioeconomic challenges. It is important that the time before a person gets their first job in Sweden is as short as possible. In particular, more foreign-born women need to be in work. Support is available in the community, including education and training and labour market initiatives. But each individual bears responsibility for doing their best to find a job, acquiring a long-term means of earning a living and participating in society.

In the past decade, the extent to which newly arrived immigrants become established has gradually improved. The Government is working to introduce starter jobs in the first six months of 2022 so that more newly arrived immigrants and long-term unemployed people can get a job and get established in the labour market. To promote this initiative, the Government is proposing a special additional contribution to the Swedish Public Employment Service.

The Government is seeking to introduce an activity obligation for unemployed people receiving social security benefits. Individuals who are able to work must meet the same, clear requirements irrespective of the form of support they are receiving. This is an important signal to give. The aim is to break down isolation through meaningful full-time employment, contact with the labour market and social activities that help to improve health and facilitate integration. The Government will also investigate additional drivers to encourage people receiving social security benefits into work.

The Government is working to break down segregation through knowledge-based, cross-sector work over the long term. In addition to measures to get more people into work, the Government's reforms in this area include proposals that require municipalities to actively offer places to children who need preschool education for language development and to improve pupils' knowledge outcomes and increase equality in schools. A further aim is to bolster public services and reduce segregation in housing throughout the country. The Government has also made proposals that increase incentives to share parental benefits more equally, including for parents with low incomes. This may speed up establishment in the labour market, particularly for foreign-born women.

A secure energy supply for the future and more sustainable transport

Dependence on raw materials such as gas, oil and coal from Russia and higher energy prices entails security vulnerabilities and risks for energy intensive industries. Access to fossil-free electricity is also essential for a sustainable transition within industry, the transport sector and the rest of society. This requires continued, rapid expansion of cost-effective, renewable energy. The energy supply of the future requires new solutions if Sweden is to continue to have a robust electricity system with security of supply, low environmental impact and electricity at competitive prices. The Government has therefore produced a national strategy for electrification, which was agreed in February 2022. The strategy will help to bring about rapid, smart electrification that is socio-economically efficient. The electricity grid needs to increase its transmission capacity significantly to improve electricity supply, while lead times for investment in the electricity grid need to be shortened to meet the needs of industry. It is expected that the next few years will see continued and rapid expansion of wind power, and there will be greater incentives for municipalities to give permission for wind power installations.

The transport sector is responsible for almost a third of fossil emissions in Sweden, but is well placed to transition to fossil-free operation. The Government aims to put forward a new national plan for transport infrastructure for 2022–2033. As part of this, the Government will be making the biggest investment in the railways in modern times. To increase the pace of climate change adaptation, the Government also proposes increased environmental compensation for freight transport on the railways, with the aim of improving the competitiveness of the railways.

The Government is also stepping up the pace in its work on electrification of the transport sector. Charging infrastructure is being expanded, including through the Climate Leap, which has helped fund 65 000 charging stations across Sweden. The bonus malus system for vehicle tax will encourage the use of cars with lower carbon dioxide emissions. Climate premiums have been introduced to adapt heavy-duty vehicles. The electrification of the transport sector is proceeding at speed, and there have been more sales of cars entitled to the climate bonus than expected. In order to maintain the rapid pace of transition, the Government is proposing a further allocation of funds. To reduce emissions from work-related journeys, the Government has proposed that the current travel allowance be replaced with a tax reduction based on distance travelled and irrespective of the mode of travel, with the limits on distance in designated metropolitan municipalities greater than those in other areas.

Table 1.2 Proposals in the Spring Amending Budget for 2022 and measures already adopted to strengthen Sweden and support Ukraine

SEK billion

	2022
Strengthening of Sweden's total defence	
Strengthening of military defence[1, 2]	2.0
Strengthening of civil defence	0.8
Support to Ukraine and initiatives for orderly reception of refugees throughout Sweden	
Support to Ukraine[3]	1.1
Increased costs for housing and compensatory payments	9.8
Additional support to municipalities receiving large numbers of refugees	0.5
Funding to civil society organisations and other measures for orderly reception of refugees	0.2
Mitigate effects on Swedish households and businesses	
Extended and modified electricity price compensatory payments in southern and central Sweden[1]	0.9
Temporarily increased housing allowance for families with children	0.5
Support to agriculture[2]	0.7
Increased Swedish Export Credits Guarantee Board guarantee framework for raw material guarantees	
Break segregation, drive the green transition and take back control over the welfare system	
Promote introduction of entry agreements	0.1
Additional funds to the climate bonus	3.9
Increased environmental compensation for rail freight transport	0.7
Guarantee supplement for pensioners with low incomes[2]	4.2
Increased health care capacity and more hospital beds	0.5
Continued pandemic response	
Additional funds for vaccination	1.2
Increased costs for high sick pay costs	5.8
Increased costs for temporary parental benefit and pregnancy benefit	1.1
Other pandemic response measures	0.1
Other unavoidables	1.4
Total[4]	**35.4**

[1] Proposal in Govt Bill 'Additional amending budget for 2022 – Measures to strengthen the realm's military defence and compensatory payments to households for high electricity prices' (Govt Bill 2021/22:199).

[2] The strengthening of defence, the proposal on temporarily increased tax reduction on diesel for agriculture, forestry and aquaculture, and the guarantee supplement for pensioners are also expected to carry over in 2023, amounting to SEK 4.7 billion, SEK 0.4 billion and SEK 9.3 billion, respectively.

[3] Proposals in the committee initiative 'Amendments to the central government budget for 2022 – financial support and equipment to Ukraine' (Committee Report 2021/22.FiU40) and 'Amendments to the central government budget for 2022 – support to Ukraine with requested defence materiel' (Committee Report 2021/22:FiU46).

[4] The proposals in the Government Bill the Spring Amending Budget for 2022 total SEK 31.4 billion.

Source: Own calculations.

The Government's view of the Council's recommendations from 2021

Since the 2021 Semester was adapted to recovery work and the Recovery and Resilience Facility (RRF), in 2021 the European Commission only presented proposals for country-specific recommendations in the area of fiscal policy. On 18 June 2021 the Economic and Financial Affairs Council gave its backing to these country-specific recommendations. The formal council decision made the following recommendations concerning Sweden.

1. In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.

3. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy, and sustainability of health and social protection systems for all.

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 shares the assessment that it should retain its expansive fiscal stance during 2022, including the effects of the RRF. The Government also considers that it is important, when the economy so permits, to return general government net lending to the level that follows from the surplus target and ensure a sustainable level of debt. The Government shares the assessment that necessary measures should be taken to address the pandemic and increase resilience in health care and that the green and digital transition are central areas with continued investment needs.

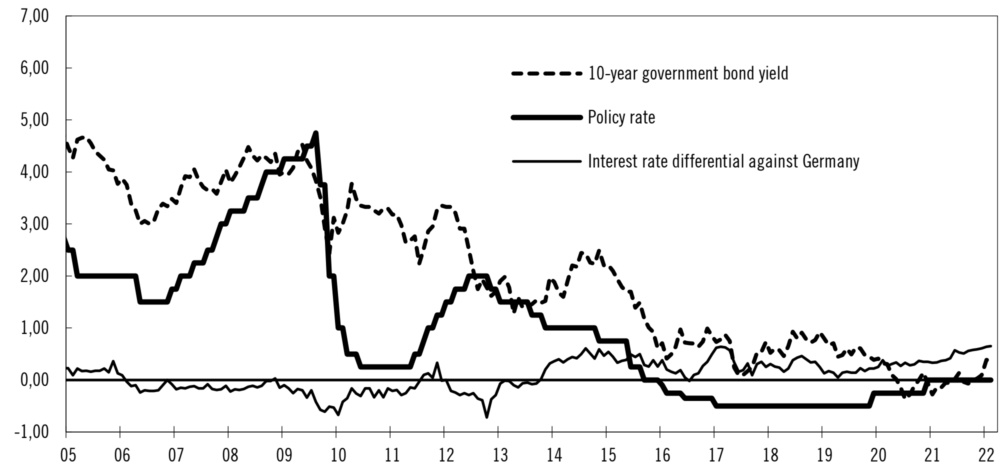
The Council's recommendations are considered further in the Sweden's National Reform Programme 2022.

1.5 Monetary policy and financial economy

The Riksbank reduced 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 per cent and in December 2019 the repo rate was raised again, to 0%. In addition to keeping the repo rate low, the Riksbank has also carried out a comprehensive government bond purchase programme. To alleviate the effects of the spread of COVID-19, the Riksbank took additional measures in spring 2020. The Riksbank then increased purchases of assets to also include – in addition to government securities – local government securities, covered bonds and bonds issued by non-financial companies so as to support the supply of credit in the economy. The measures have gradually been ended as the effects of the pandemic on the economy have decreased. In the first quarter of 2022 the Riksbank's purchases of securities have focused on compensating for maturing securities and keeping its total holding constant. Government bond yields fell back in spring 2020 in conjunction with the spread of COVID-19. In the autumn of the same year, however, growth and inflation expectations increased in the US, in particular, due to an expansionary fiscal and monetary policy, which contributed to a renewed rise in government bond yields (see figure 1.9). Prospects of more lasting inflationary pressure got several central banks, headed by the US Federal Reserve, to alter their communication and their actions in a tighter direction at the close of 2021. Expectations of higher policy rates have made government bond yields rise further both in Sweden and internationally in early 2022.

Figure 1.9 **Interest rates in Sweden**

Per cent

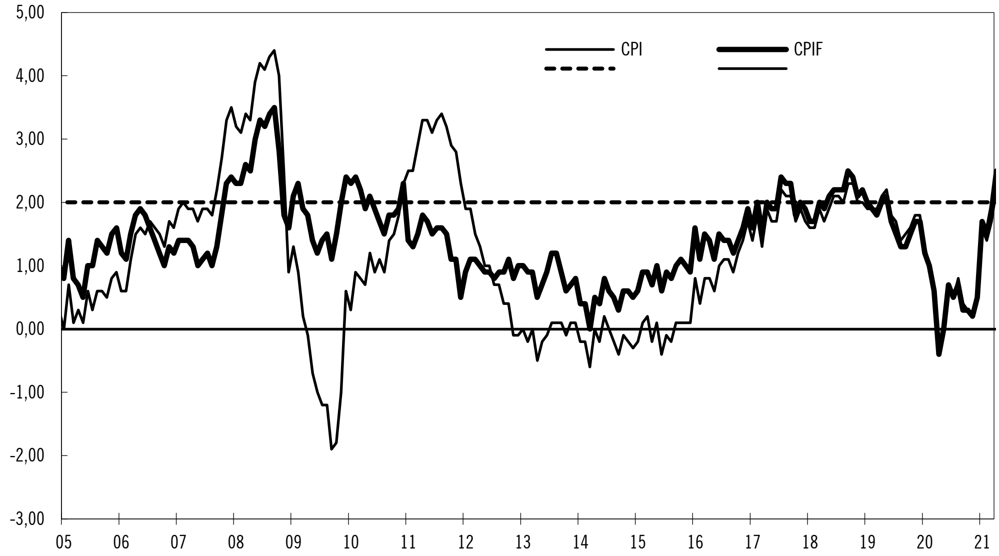


Sources: Riksbank and Macrobond.

Inflation, measured as the consumer price index with a fixed mortgage interest rate (CPIF), increased comparatively quickly in 2021 (see figure 1.10). Energy prices, which contributed to weak inflation in 2020. Increased clearly, particularly in the second half of 2021 and made a large contribution to inflation. Inflation has increased further at the start of 2022 and is now clearly above the Riksbank's inflation target of 2%. However, long-term inflation expectations are still anchored around the Riksbank's inflation target.

Figure 1.10 Inflation measured as CPI and CPIF

Annual percentage change



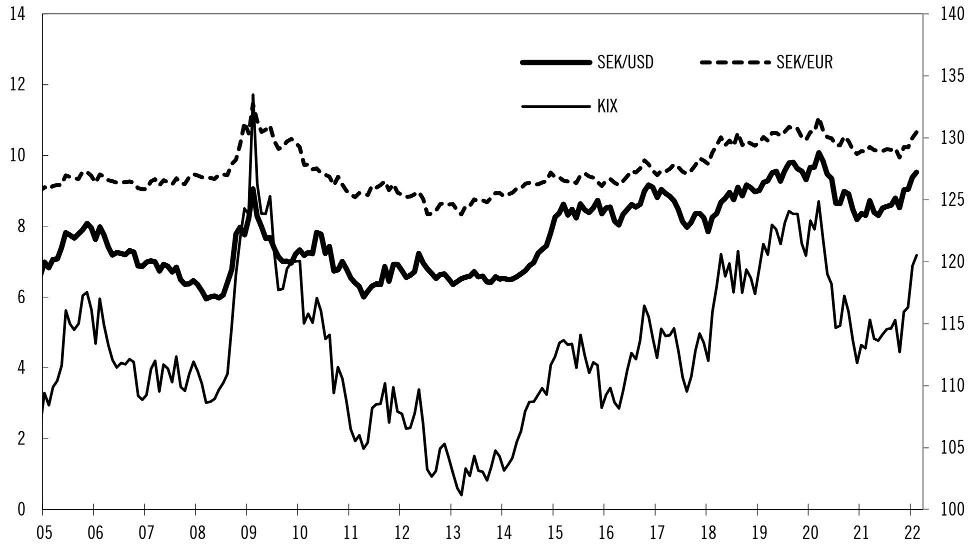
Note: The dashed line shows the Riksbank's inflation target.

Source: Statistics Sweden.

Figure 1.11 shows the development of the Swedish krona against the euro and the US dollar since 1992, along with the trade-weighted KIX exchange rate index. The krona weakened at the start of the epidemic, but strengthened on a broad front in the course of 2020. The krona exchange rate tends to weaken in periods of unrest, when market participants turn to larger currencies that are regarded as safer. Despite continued high transmission of infection, the willingness to take risks in financial markets recovered rapidly after the initial reaction to the pandemic in spring 2020, and the strong performance of stock markets is a clear example of this. The high willingness to take risks provided support for the Swedish krona, which strengthened against most other currencies in 2020 and 2021. Concern about war started to have a negative impact on the krona at the end of 2021, and the krona weakened further after the Russian invasion began at the end of February 2022. In addition to a lower willingness to take risks, the weakening of the krona can also be explained, in part, by the monetary policy pursued.

Figure 1.11 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 world economy grew rapidly in 2021, mainly due to extensive vaccination and an expansionary economic policy. In both the euro area and the US, GDP has reached a higher level than before the pandemic. At the end of 2021 and the start of 2022 growth entered a calmer phase when the spread of infection rose again. However, the effects of this wave of transmission were relatively short-lived.

Looking ahead, growth prospects internationally appear relatively good, but are assumed to dampen after the rapid recovery in 2021. Moreover, the effects of Russia's invasion of Ukraine are assumed to dampen growth, chiefly in Europe. As resource utilisation in the economy increases, growth in the global economic is expected to continue to slow in 2023. The uncertainties are, however, very great and closely linked to the development of Russia's invasion of Ukraine and its consequences.

In several European countries Russian gas accounts for a substantial share of total energy use. Moreover, the countries in the Baltic region have relatively extensive trade with Russia, as does Finland. Russia and Ukraine produce a quarter of the world's wheat, Ukraine is also a major corn exporter and Russia exports very large quantities of fertilisers. Economic developments in the euro area are therefore mainly judged to be affected by higher costs for electricity and vehicle fuel as well as foodstuffs. Greater unrest in financial markets is also expected to restrain the propensity to consume and invest. Disturbances in production chains resulting from sanctions and boycotts are also expected to restrain growth, as are disturbances in the transport sector. These effects are assumed to be countered to some extent by a more expansive fiscal policy in the euro area than in previous assessments, partly due to increased refugee reception from Ukraine and increased defence expenditure. At the same time, households have high savings, making increased consumption, especially of services. possible when restrictions are lifted. However, household purchasing power is assumed to be dampened by high inflation.

In both the US and China growth is expected to be subdued in the future. In the US, where inflation is particularly high, a tightening of monetary policy and a strained labour market contribute to dampening economic growth. In the US, fiscal policy is also expected to be clearly tighter looking ahead, after having been highly expansionary during the pandemic. In China growth is expected to shift down to a slower pace in 2022 as a result of poorer performance in the property sector, lower international demand and greater spread of infection at the start of the year.

Inflation has risen clearly in both the euro area and the US. In the euro area it is mainly energy prices that have risen, but food prices have also risen. In the US the upturn is broad, with clear price increases for several goods and services in the consumption basket. Inflation expectations have risen both in the euro area and in the US, but the long-term inflation expectations are still consistent with inflation targets. Global inflation is expected to slow in 2023, mainly owing to a lower contribution from energy prices. Inflation will also be dampened by the expectation that central banks will adjust their monetary policy.

2.2 The Swedish economy

The Swedish economy has come through the pandemic well. Growth increased in the second half of 2021 and GDP is now above the level predicted before the pandemic. GDP grew by around 5% in 2021. However, growth slowed down in late 2021 and early 2022 due to greater transmission of infection, restrictions and behavioural change. Sickness absence was also high, subduing household consumption. At the same time, manufacturing continues to be affected by delivery problems and supply disturbances, which are reflected in weak industrial production and slower exports at the start of 2022.

The Swedish economy is also affected by Russia's invasion of Ukraine, but the effects are very uncertain and are judged to be lower than for Europe as a whole. The economic consequences are expected to affect several stages including through high energy and food prices, disturbances in global value chains and great financial uncertainty that is assessed as dampening the propensity both to consume and to invest. Disturbances in the production and delivery of these goods are assumed to lead to higher import prices and, further on, higher food prices in Sweden. Energy consumption is less dependent on Russian gas in Sweden than in other European countries, but Swedish energy prices are, nonetheless, greatly affected by the European market. Rising energy prices and food prices are expected to hold back household consumption. Sweden's direct trade with Russia and Ukraine is small, but lower growth in Europe, in particular, also affects Sweden's foreign trade. Fiscal policy contributes to maintaining general government consumption and investment, and thereby GDP growth in Sweden.

GDP growth is judged to increase in the second and third quarters of 2022, but the strong growth rates after the pandemic are judged to be over, and the Swedish economy is expected to enter a calmer growth phase. This assessment is supported by forward indicators, such as the economic tendency Indicator and the purchasing managers index. A further dampening of growth is expected in 2023. A pent-up consumption need, high savings and favourable performance of the labour market indicate relatively rapid growth of household consumption in 2022. Investment is expected to increase at roughly the same average rate in 2022, but to slow in 2023 as demand slackens. Exports and imports are assessed as growing at a relatively rapid pace in 2022 and then slowing in 2023. Net exports are expected to be slightly negative in 2022, but weakly positive in 2023. The economic situation is expected to virtually be in balance in 2022 and 2023 (see table 2.1).

Table 2.1 Key indicators

Annual percentage change, unless otherwise stated

	2021	2022	2023	2024	2025
GDP	4.8	3.1	1.6	1.6	1.7
GDP gap[1]	-0.9	0.3	0.3	0.0	0.0
Employment[2]	1.1	2.1	1.0	0.4	0.6
Employment rate[3]	67.3	68.7	69.2	69.3	69.4
Hours worked[4]	2.3	2.3	1.5	0.3	0.6
Productivity, business sector[4, 5]	2.4	1.5	-0.2	1.2	1.0
Unemployment rate[6]	8.8	7.6	7.0	7.0	7.0
Wages[7]	2.7	2.6	3.1	3.1	3.1
CPI[8]	2.2	4.8	2.5	2.7	2.4

[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.

Labour market

The situation in the labour market improved in the second half of 2021. The employment rate increased among both women and men, at the same time as there was a distinct fall in unemployment. The labour force participation rate is still at a high level. Even though there has been a clear decrease in the total number of persons registered at the Swedish Public Employment Service, the number of long-term unemployed remains at high levels. The number of persons registered for 24 months or more increased throughout 2021.

The employment rate is expected to rise in 2022 and 2023. The labour force participation rate is also expected to remain at historically high levels in both 2022 and 2023. As the employment rate rises, unemployment will continue to decrease. A large number of Ukrainian citizens are expected to come to Sweden in 2022 when the Temporary Protection Directive is activated. Since these individuals are not entered in the population register, the effects on labour market statistics are assumed to be limited. The aggregate effect on employment growth and unemployment is expected to be marginal.

Inflation and wages

Inflation, measured as the consumer price index with a fixed interest rate (CPIF), increased comparatively quickly in 2021. Energy prices, which contributed to weak inflation in 2020, increased clearly, particularly in the second half of 2021 and made a large contribution to inflation. Inflation is expected to be higher in 2022. The outcome during the start of the year points to higher prices of goods, including food prices. Moreover, Russia's invasion of Ukraine and the international sanctions have driven up energy prices, as well as the prices of other commodities, such as wheat and corn. In addition to this, global supply chain disruptions and a weak krona are expected to push inflation up. Overall, this is assessed as resulting in CPIF inflation of 4.6% in 2022. Even though core inflation, i.e. CPIF excluding energy prices, is also expected to be above the inflation target in 2022, long-term inflation expectations are well in line with the Riksbank's inflation target of 2%. In 2023 inflation is expected to fall back towards 2%.

According to preliminary figures from the short-term wage statistics, the rate of wage growth moved up slightly in 2021, after having been historically low in 2020. The trend in both 2020 and 2021 should be viewed in the light of the postponement of the round of collective bargaining in 2020, which resulted in several months without wage increases under collective agreements for many employees in 2020. At the end of 2021 and the start of 2022 the rate of wage growth was judged to have slowed as a result of the collective bargaining agreements reached in 2020.

The rate of wage growth is judged to be marginally lower in 2022 than in 2021. When new collective bargaining agreements are signed in 2023, the expectation is that the Swedish economy will be in a better situation, unemployment will be lower and inflation will be higher than in 2020. Along with a better economic situation internationally, too, this is expected to contribute to a higher rate of wage growth in 2023. However, real wages, i.e. the nominal rate of wage growth according to the short-term wage statistics corrected for the consumer price index (CPI), are expected to be negative in 2022 and to also be lower than their historical average in 2023 on account of high inflation.

The Riksbank is expected to start increasing its policyrate in 2022

Prospects of more lasting inflationary pressure have led several central banks to start tightening monetary policy earlier than assumed. The Federal Reserve has already begun to increase its key interest rates and further increases are expected in 2022. The ECB and the Riksbank are now expected to already begin raising their policy rates in the second half of 2022.

2.3 Potential macroeconomic imbalances

The Commission noted in its Alert Mechanism Report from November 2021 that the pandemic meant that the previous trend of decreasing macroeconomic balances in the EU was broken. Many of the existing imbalances have worsened, at the same time as the risk of new imbalances has increased. In order to ensure favourable economic development in the long term, it is important, in the first place, to take measures that prevent macroeconomic imbalances from occurring 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 then has an adverse impact on the economy as a whole.

The Macroeconomic Imbalance Procedure

The EU Macroeconomic Imbalance Procedure (MIP) is part of the European Semester and economic policy coordination in the EU. The procedure began when the European Commission published the Alert Mechanism Report 2022 in November 2021. 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 as were assessed in the previous review cycle to have imbalances or excessive imbalances. As regards Sweden, the Alert Mechanism Report states that the MIP indicators showed high private sector debt and a rapid increase in youth unemployment. The reports from the in-depth reviews will be part of the country reports published in spring 2022, along with the European Commission's assessment of the stability and convergence programmes.

As part of the European Semester, the Commission also submits proposal for measures to address these imbalances, known as country-specific recommendations. 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 assessed to have 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, especially a risk to macroeconomic stability since households with high loans may reinforce a downturn in the economy if many of them choose to draw down their consumption so as to be able to pay their loans or increase their savings. A number of measures have been taken in recent years in order to strengthen the resilience of the financial system and reduce the risks associated with household debt. The measures taken have had effect. They have meant that the households affected by the measures buy cheaper homes, borrow less and amortise more than they would otherwise have done. Information about measures in this area is also given in Sweden's National Reform Programme 2022. The rate of increase of household debt slowed for several years up until the pandemic. In 2021, households' loan debts as a share of disposable income did not increase as fast as in the previous year.

Youth unemployment

Measures have been taken to press back long-term and youth unemployment. They include measures in the central government budget for 2022 to combat unemployment, both among young people and among people who already had a weak link to the labour market before the pandemic. The single most important factor for getting a job is an upper secondary qualification. Since 2017 anyone who does not have an upper secondary qualification is entitled to study in municipal adult education, and to make municipalities better able to offer vocationally oriented upper secondary programmes for shortage occupations, additional resources are provided for regional vocationally oriented programmes and for bridging programmes, in which the programme is combined with Swedish for immigrants or Swedish as a second language. The central government budget for 2022 provides additional resources for more places at folk high schools and in labour market training.

Youth unemployment in Sweden is higher than the EU average. However, a majority, more than 60%, of unemployed young people in Sweden are full-time students looking for work in addition to their studies. The number of young people (aged 15–24 years) not in employment, education or training ('NEET') decreased gradually in 2009–2019 and fell clearly back to historically low levels in 2021. As a share of the population, NEET is lowest in the EU.

3. General government finances

3.1 Accounting policies

This section presents the forecast for general government finances given in the Spring Fiscal Policy Bill for 2022 (Govt Bill 2021/22:100). The reporting of general government revenue and expenditure is based on the European System of Accounts (ESA 2010). 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 general government activities are recorded on expenditure side, as a deduction item among general government consumption expenditure, while these revenues are recorded on the revenue side in national statistics 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 ESA 2010 (and EDP. I.e. the excessive deficit procedure) 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

	2021	2022	2023	2024	2025
Spring Fiscal Policy Bill					
Revenue	49.0	48.3	48.3	48.0	48.0
Expenditure	49.2	48.8	47.6	47.2	46.6
Net lending	-0.2	-0.5	0.7	0.8	1.4
ESA 2010					
Revenue	49.8	49.1	48.9	48.5	48.3
Expenditure	50.1	49.6	48.2	47.7	46.9
Net lending	-0.2	-0.5	0.7	0.8	1.4

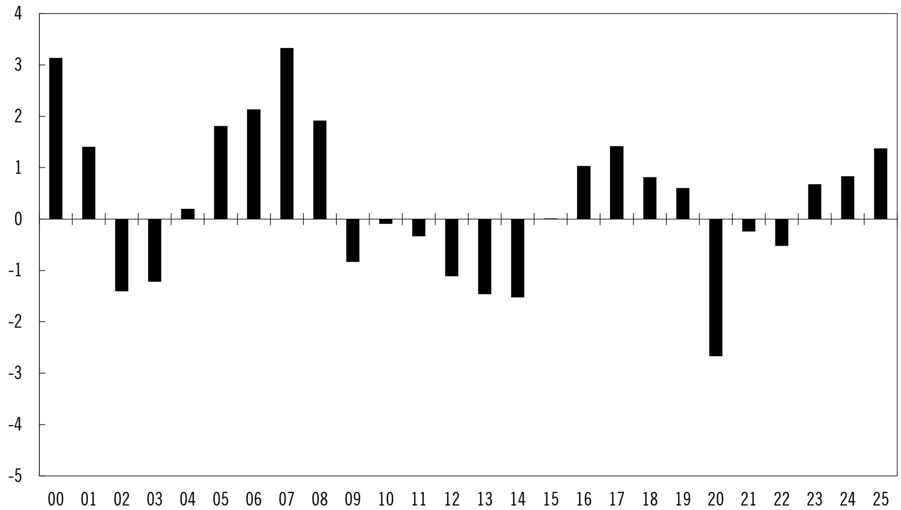
Sources: Statistics Sweden and own calculations.

3.2 Development of general government finances

Public sector 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 2000–2025

Per cent of GDP



Sources: Statistics Sweden and own calculations.

The sharp economic downturn that followed the pandemic, and the measures taken to address the weakening of the economy, meant that general government finances weakened severely in 2020. The rapid recovery of economic growth meant that the deficit in general government finances decreased in 2021. As a result of measures previously adopted and announced in the Spring Fiscal Policy Bill for 2022, a slightly larger deficit than in 2021 is expected in 2022. As of 2023 general government finances are estimated to strengthen, largely as a result of the ending of the temporary measures and since the active fiscal policy announced only covers the years after 2022 to a smaller extent (see figure 3.1 and table 3.2).

Table 3.2 General government finances

Per cent of GDP unless otherwise stated

	SEK billion 2021	2021	2022	2023	2024	2025
Revenue	**2 637**	**49.0**	**48.3**	**48.3**	**48.0**	**48.0**
Taxes and charges	2 317	43.0	42.0	42.4	42.3	42.1
Household direct taxes	681	12.7	12.0	12.0	11.9	11.7
Corporate direct taxes	172	3.2	3.2	3.2	3.2	3.1
Employers' contributions	284	5.3	5.2	5.2	5.2	5.2
Indirect taxes	1 178	21.9	21.6	21.9	22.0	22.0
Income from capital	70	1.3	1.8	1.4	1.3	1.4
Other revenue	250	4.6	4.5	4.5	4.4	4.4
Expenditure	**2 650**	**49.2**	**48.8**	**47.6**	**47.2**	**46.6**
Transfers[1]	964	17.9	17.6	16.7	16.5	16.3
Final consumption expenditure	1 411	26.2	25.9	25.5	25.3	24.8
Gross fixed capital formation	253	4.7	4.8	4.8	4.9	5.0
Interest expenditure	21	0.4	0.5	0.5	0.5	0.5
Net lending	**-13**	**-0.2**	**-0.5**	**0.7**	**0.8**	**1.4**
Primary balance	-1	0.0	-0.2	1.0	1.2	1.8
Consolidated gross debt	**1 974**	**36.7**	**33.5**	**30.7**	**28.9**	**26.4**
Net wealth	**1 654**	**30.7**	**30.4**	**32.0**	**33.2**	**34.2**

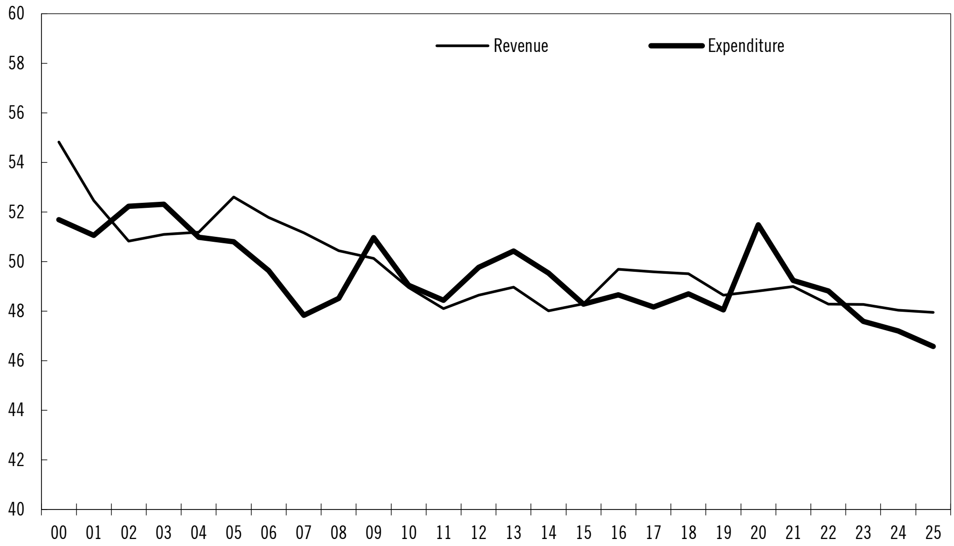
[1] Including unallocated expenses.

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 along with the fall in revenue. In 2021 almost all tax bases grew rapidly compared with 2020. This resulted in revenue growing proportionately with economic growth, while expenditure decreased relatively quickly instead.

Figure 3.2 **General government revenue and expenditure 2000–2025**

Per cent of GDP



Sources: Statistics Sweden and own calculations.

For the period 2023–2025 the main factor behind the strengthening of general government finances is weak expenditure growth. It is mainly central government expenditure that decreases as a share of GDP during the period (see figure 3.2 and table 3.3)

Table 3.3 **Net lending and the central government budget balance**

Per cent of GDP

	2021	2022	2023	2024	2025
General government net lending	**-0.2**	**-0.5**	**0.7**	**0.8**	**1.4**
Central government	-0.9	-0.6	0.9	1.0	1.4
Old-age pensions system	0.1	0.2	0.3	0.3	0.4
Local government sector	0.6	-0.1	-0.5	-0.5	-0.4
Central government budget balance	1.4	1.5	2.0	1.2	1.6
Central government debt	21.3	18.3	15.7	14.0	11.8

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 government bonds held by the AP funds (the Swedish National Pension Funds).

Before Sweden's accession to the EU on 1 January 1995, the consolidated gross debt amounted to more than SEK 1 200 billion, corresponding to around 70% of GDP. Since then its nominal value has increased by around SEK 750 million, and was just over SEK 1 974 billion, or 36.7% of GDP, at the end of 2021. The gross debt is estimated to decrease in 2022, despite the deficit in general government finances, due to the Riksbank's amortisation of foreign currency loans. The Riksbank's amortisation, as such, results in a decrease of the Debt Office's borrowing requirement by around SEK 60 billion per year in 2021–2023. For 2023–2025 the expected reinforcement of public finances results in a further decrease in the gross debt.

General government financial wealth is increasing gradually

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 revenue in the form of interest and dividends, mainly attributable to the old-age pension system, exceeds its interest expenditure. The 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.

General government net financial wealth is expected to increase throughout the forecast period 2022–2025. However, the increase is weaker than GDP growth in 2022. After that, increases in the value of financial assets in combination with the gradual reinforcement of central government finances lead to more rapid growth of net financial wealth.

3.4 General government net lending objective

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 significant deveation may be due to several circumstances and is not to 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 surplus target is an average of a third one 1% of GDP over an economic cycle. Formulating the objective for net lending as an average over an economic cycle, instead of as an annual target, is justified for reasons of stabilisation policy. If the target was 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 thus 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 assess when an economic cycle begins and ends, as well as the specific cyclical position of the economy.

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 forward-looking 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 the present year and the following year is used to assess achievement of the surplus target from a forward-looking perspective.

The spread of COVID-19 has resulted in higher direct costs e.g. for health care, tracing, testing and vaccination, which has weakened the structural balance. The pandemic has also resulted in needs of major fiscal policy measures to moderate the acute economic effects for households and businesses. This has resulted in net lending being judged to significant deviate from the target level set for the surplus target. However, the structural balance is expected to strengthen this year. The structural balance for 2022 is judged to be -0.4% of potential GDP, which is lower than the level of the surplus target (see table 3.4). The need for fiscal policy support to moderate the economic effects of the pandemic is expected to decrease in 2022. However, international expert bodies such as the European Commission, the IMF, and

OECD stress the importance of not withdrawing stimulus measures too quickly, given the deep recession that has followed after the pandemic. Added to this are the risks linked to the Russian invasion of Ukraine. The development of the geopolitical and security policy situation has resulted in further needs of fiscal policy measures. The measures have mainly been targeted at addressing increases in electricity prices.

The present forecast, which is based on reforms adopted or announced, indicates structural balance above the target level in 2023. In general, it is very difficult to forecast the development of the economy, and the increase in economic and geopolitical uncertainty resulting from the Russian invasion of Ukraine, as well as from the pandemic, means that the forecast is unusually uncertain. The development of the geopolitical and security policy situation in the coming years may also need to be dealt with through further fiscal policy action in areas including defence and migration. So, in the future, fiscal policy may need to be adapted to an economic situation that differs from the forecast in this Bill.

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

Per cent of GDP unless otherwise stated

	2021	2022	2023	2024	2025
Net lending	**-0.2**	**-0.5**	**0.7**	**0.8**	**1.4**
Retrospective eight-year average	-0.1				
Structural balance[1]	-0.2	-0.4	0.5	0.9	1.5

[1] Percentage of potential GDP.

Sources: Statistics Sweden and own calculations.

Retrospective eight-year average

The average of net lending for 2014–2021 is also judged to be under the target level.

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

On 20 March 2020 the general escape clause of the Stability and Growth Pact was activated. This clause facilitates the coordination of budgetary policies in times of severe economic downturn and permits a temporary departure from the adjustment path towards the medium-term budgetary objective provided that this does not endanger fiscal sustainability in the medium term. The general escape clause does not mean the suspension of ongoing procedures of the Stability and Growth Pact. However, it allows Member States to make a departure from the budgetary requirements that would normally apply, at the same time as the Commission and the Council are able to undertake the necessary policy coordination measures within the framework of the Pact.

Sweden's medium-term budgetary objective (MTO) is that the structural balance should not fall below -1% of potential GDP. The European Commission latest forecast, published in November 2021, estimated the structural balance in Sweden at 0.2% of potential GDP in 2021, with an increase to 0.6% in 2022 (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 mitigate the effects of the spread of COVID-19 etc.

Table 3.5 Structural balance, European Commission

Per cent of GDP

	2021	2022	2023
Structural balance	**0.2**	**0.6**	**1.3**
Medium term budgetary objective (MTO)	-1.0	-1.0	-1.0

Source: European Commission's forecast (November 2021).

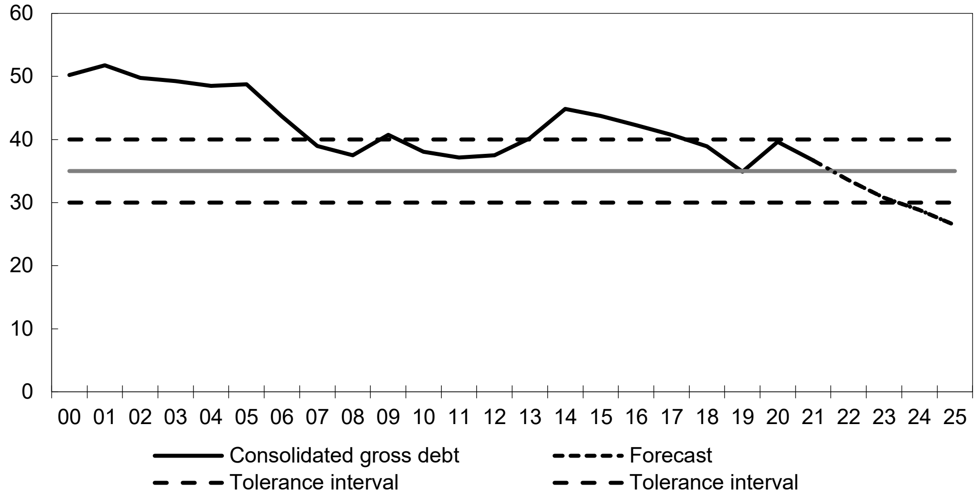
3.5 Monitoring of the debt anchor

The fiscal policy framework requires the Government to give an account each year in the spring fiscal policy bill of the development of consolidated gross general government debt. If this debt differs from the debt anchor, i.e. If this debt deviates from the debt anchor, i.e. 35% of GDP, by more than 5% of GDP, according to the outcome of the national accounts for the previous year or according to the forecasts for the present year or the subsequent budget year in the spring fiscal policy bill, the Government has to present a communication to the Riksdag at the same time as the spring fiscal policy bill is presented. In that communication the Government has to give an account of the cause of the deviation and how the Government intends to handle it.

The gross debt as a proportion of GDP is expected to be within the debt anchor's tolerance interval (see figure 3.3). One important reason, in addition to economic developments, behind the decrease of the debt ratio as of 2021 is that this was when the Riksbank started a transition to wholly self-financed foreign exchange reserves after previously having financed part of its foreign exchange reserves through the National Debt Office. The transition is taking 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 only includes the fiscal policy adopted or announced up until this program, the gross debt is expected to decrease and to be just over 30% of GDP in 2023.

Figure 3.3 Consolidated gross debt

Proportion of GDP



Source: 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 present forecast for expenditure subject to the ceiling in 2023 means that this expenditure will exceed the expenditure ceiling adopted by the Riksdag by SEK 7 billion. When there is a risk of an approved expenditure ceiling being exceeded, the Budget Act requires the Government to take measures that are within its powers or to propose necessary measures to the Riksdag. Given the uncertain international situation, the Government has chosen nor to take or propose such measures at this time. However, the Government has started work to be able revert in the Budget Bill for 2023 with proposals to limit expenditure. According to the present forecast, the budgeting margin for 2024 is less than the Government's guideline for the minimum size of the budgeting margin, which means that the scope for ceiling-limited expenditure in 2024 is very limited.

In the Spring Fiscal Policy Bill for 2022 the Government makes an first assessment of the level of the expenditure ceiling for 2025. The Swedish Budget Act requires the Government to propose a level of the expenditure ceiling for the third year ahead in the Budget Bill. The Government will, in line with the Budget Bill, present a proposal for the 2025 expenditure ceiling in the Budget Bill for 2023.

The budgeting margin under the expenditure ceiling is estimated at SEK 41 billion for 2022. The estimated budgeting margins for 2023, 2024 and 2025 are SEK -7 billion, SEK 20 billion and SEK 130 billion (see table 3.6).

Table 3.6 Expenditure ceiling 2022–2025

SEK billion, unless otherwise stated

	2022	2023	2024	2025
Expenditure ceiling	1 634	1 539	1 595	1 720
Per cent of GDP	28.5	25.9	26.0	27.0
Ceiling-limited expenditure	1 593	1 546	1 575	1 590
Per cent of GDP	27.7	26.0	25.6	25.0
Budgeting margin	41	-7	20	130
Per cent of GDP	0.7	-0.1	0.3	2.0

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

Source: Own calculations.

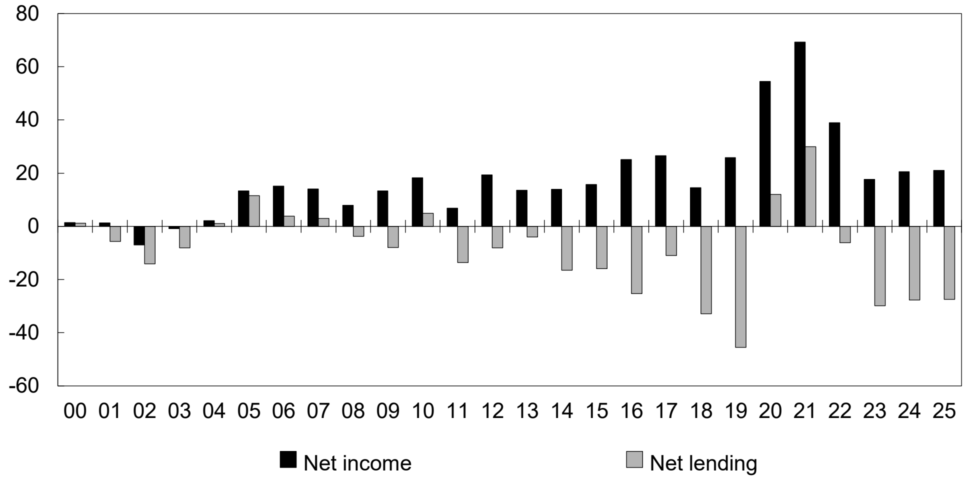
3.7 Monitoring the requirement of sound financial management in the local government sector and the local government balanced budget requirement

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 attain 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. 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 figure 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 2021 the local government sector reported net income after financial items of SEK 69 billion (see figure 3.4). This historically high level of net income is mainly explained by a rapid increase in revenue due to additional government grants at the same time as tax revenue grew relatively quickly. The Government's forecast assumes that the local government sector's net income after financial items will be SEK 39 billion in 2022 and SEK 18–21 billion in 2023–2025.

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 to central government of the commitment has to be charged, unless otherwise decided by the Riksdag . The expected costs of loans and guarantees consist of the expected losses and administrative costs associated with the commitment. 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.

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 for some other reason. The fees for such guarantees are usually stipulated directly in law and can 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 2021 the central government guarantee portfolio amounted to SEK 2 413 billion. The largest commitments were the deposit insurance scheme (SEK 1 917 billion) followed by credit guarantees (SEK 291 billion) and guarantees for capital injections (SEK 198 billion).

Table 3.7 Central government guarantee commitments and pledges, 31 December 2021

SEK billion

	Commercial guarantees	Pledges[3]
Deposit insurance scheme[1]	**1 917**	
Investor compensation scheme[2]		
Credit guarantees	**291**	**31**
Of which		
Export credit guarantees[3]	266	30
Credit guarantees in ODA	0	
Independent guarantees	6	0
Infrastructure	10	0
Housing loans	4	
International commitments	3	
Guarantees to businesses	1	
Other items	0	
Guarantees for capital injections	**198**	
Of which		
Capital cover guarantees	7	
Subscription guarantees	0	
Callable capital	183	
Guarantee to the European Union for SURE	8	
Pension guarantees[4]	**7**	
Total	**2 413**	**31**

[1] The commitment to the deposit insurance scheme is as on 31 December 2020.
[2] The size of the central government commitment for the investor compensation scheme cannot be stated.
[3] Refers to restricted pledges.
[4] The commitment for pension guarantees is as on 31 December 2020.

Source: Swedish National Debt Office.

Expected losses in central government guarantee portfolio

As regards 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 (reported as guarantee assets in table 3.8).

Table 3.8 Comparison between provisions for expected costs and assets in the guarantee operations as on 31 December 2021 (excluding the deposit insurance scheme, investor compensation scheme and guarantee capital)

SEK billion

Authority	Guarantee commitment	Provisions for expected costs	Guarantee assets
Swedish National Debt Office	20	1	1
Swedish Export Credits Guarantee Board	266	11	38
Swedish International Development Cooperation Agency	8	0	3
Swedish National Board of Housing, Building and Planning	4	0	2
Total	**298**	**12**	**44**

Source: Swedish National Debt Office.

Annual analysis of risk of large losses

The Swedish National Debt Office is tasked with 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 for Study Support, Sida (Swedish International Development Cooperation Agency), the Swedish National Board of Housing, Building and Planning and the other agencies concerned. The term large losses is defined by the National Debt Office as losses of at least SEK 20 billion in the coming five years. The risk of large losses in the regular portfolio is judged to remain low. The risk of large losses linked to the deposit insurance scheme is assessed as moderate.

4. Alternative scenarios and comparison with Sweden's Convergence Programme 2021

4.1 Alternative scenarios

Russia's invasion of Ukraine has an impact on the Swedish economy. There is great uncertainty about the scale of that impact. Two alternative scenarios illustrate what the impact can be on the Swedish economy if the effects of the deterioration of the geopolitical situation differ from those assumed in the forecast.

Scenario 1 assumes that the effects of the deterioration of the geopolitical situation will be more extensive and longer-lasting than in the forecast. The general unrest among businesses and households is assumed to be greater, leading to lower growth of investment and consumption, both in Sweden and internationally. Less international demand results in weaker export growth in this scenario. Overall, Swedish GDP growth is lower in 2022 and 2023 than in the forecast (see table 4.1). Resource utilisation decreases and the Swedish economy goes into recession. Unemployment rises. At the same time, ever greater limitations in the supply of energy and other raw materials contribute to greater rises in inflation than in the forecast. Higher costs in refinement chains also contribute to this development. Higher inflation leads to higher revenue from value added tax, but the decline in GDP growth contributes to total general government income being lower initially in this alternative scenario. Higher inflation and higher unemployment contribute to higher expenditure. Overall, general government net lending deteriorates in this alternative scenario compared with in the forecast. This scenario assumes a recovery of the Swedish economy in 2024 and 2025, resulting in stronger net lending.

Scenario 2 assumes that the deterioration of the geopolitical situation leads to smaller effects on the Swedish economy. Households and businesses are driven by greater confidence about economic developments, resulting in higher growth of consumption and investment both in Sweden and internationally. The higher economic activity internationally results in higher export growth. Overall, GDP growth is higher in 2022 and 2023 than in the forecast. Moreover, the price rise in energy and raw materials is smaller, leading to a lower increase in inflation in 2022. General government income in 2022 is lower temporarily due to lower inflation resulting in lower growth in current prices. In subsequent years income is higher at the same time as expenditure is lower. In all, net lending in 2023–2025 is higher in this scenario than in the forecast.

Table 4.1 Alternative scenarios

Percentage change unless otherwise stated The forecast according to the main scenario is shown in bold for each variable on the basis of previously adopted and announced reforms and reforms now proposed and announced.[1]

	2022	2023	2024	2025
GDP[2]	**3.1**	**1.8**	**1.6**	**1.9**
Scenario 1: Lower growth and recession	1.3	0.2	3.2	3.5
Scenario 2: Higher growth	3.2	2.2	1.6	1.7
GDP-gap[3]	**0.3**	**0.3**	**0.0**	**0.0**
Scenario 1: Lower growth and recession	-1.3	-3.0	-1.7	-0.1
Scenario 2: Higher growth	0.5	0.9	0.6	0.3
Unemployment[4]	**7.6**	**7.0**	**7.0**	**7.0**
Scenario 1: Lower growth and recession	8.2	8.6	8.6	7.6
Scenario 2: Higher growth	7.3	6.7	6.7	6.9
CPIF[5]	**4.6**	**1.8**	**2.0**	**2.0**
Scenario 1: Lower growth and recession	6.6	3.8	2.5	2.0
Scenario 2: Higher growth	3.6	1.8	2.0	2.0
Net lending[6]	**-0.5**	**0.7**	**0.8**	**1.4**
Scenario 1: Lower growth and recession	-0.7	0.0	0.3	1.2
Scenario 2: Higher growth	-0.6	0.8	1.0	1.5

[1] The alternative scenarios also take account of supplementary monetary policy measures.
[2] Calendar-adjusted data.
[3] Difference between actual and potential GDP in per cent of potential GDP.
[4] Annual average in per cent.
[5] CPI with fixed interest rate.
[6] Per cent of GDP.

Sources: Statistics Sweden and own calculations.

4.2 Comparison with the 2021 Convergence Programme

The Swedish economy recovered more rapidly after the pandemic, and GDP growth was stronger than implied in the forecast in the 2021 Convergence Programme (see table 4.2). When the recovery phase is over, growth slackens, and this contributes to the downward revision of the growth rate in 2022. Growth also slowed down at the end of 2021 and the beginning of 2022, partly due to greater spread of infection. Moreover, Russia's invasion of Ukraine creates great uncertainty with, for example, high volatility in stock markets, high energy and raw material prices and continued disturbances in global value chains. The effects of the invasion are assumed to slow growth. In an overall assessment, GDP growth is expected to increase in the second and third quarters of 2022, but the strong growth rates linked to the recovery phase are considered to be over, and the Swedish economy is expected to enter a calmer growth phase. GDP is judged to rise by 3.1% in 2022 and 1.6% in 2023.

Table 4.2 Comparison with the 2021 Convergence Programme

Annual percentage change in volume and per cent of GDP. Outcome 2021, forecast 2022–2025.

	2021	2022	2023	2024	2025
GDP, percentage change in volume					
Convergence Programme 2021	3.2	3.8	1.9	1.6	–
Convergence Programme 2022	4.8	3.1	1.6	1.6	1.7
Difference, percentage points	1.6	-0.7	-0.3	0.0	–
General government net lending, per cent of GDP					
Convergence Programme 2021	-4.5	-1.0	0.5	1.0	–
Convergence Programme 2022	-0.2	-0.5	0.7	0.8	1.4
Difference, percentage points	4.3	0.4	0.1	-0.1	–
Consolidated gross debt, per cent of GDP					
Convergence Programme 2021	39.9	37.0	33.7	31.4	–
Convergence Programme 2022	36.7	33.5	30.7	28.9	26.4
Difference, percentage points	-3.3	-3.5	-3.0	-2.5	–

Note: The amounts are rounded off and therefore do not always sum to the total.

Sources: Statistics Sweden and own calculations.

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, that fiscal policy is unsustainable, so that action to make it sustainable can be taken as early as possible.

Fiscal policy is judged to be long-term sustainable. The weakening of general government net lending in 2020–2022 is temporary and does not jeopardise the long-term sustainability of fiscal policy.

General government finances are greatly affected by demographic trends. 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 will be a challenge in the future.

5.1 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.

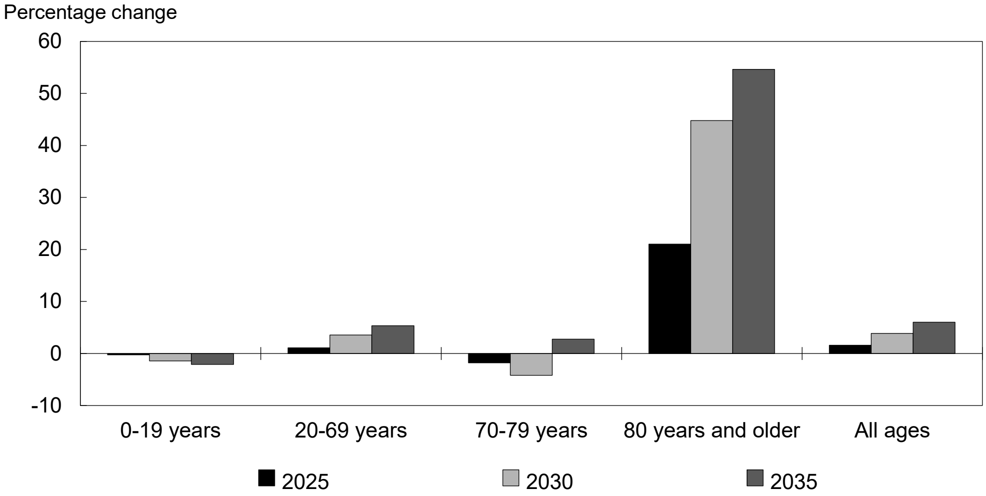
The analysis in this section is based on fiscal policy being unchanged and disregards the fact that, in reality, it is is constantly being adapted to cope with quantitative targets and restrictions like the surplus target and the expenditure ceiling. If fiscal policy is instead adapted so that general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

5.2 Long-term challenges for fiscal policy

Sweden's population is expected to increase by around 6%, or almost 630 000 people, by 2035 according to Statistics Sweden's population projection from April 2021, compared with the size of the population at the end of 2021 (see figure 5.1). The population, which was then about 10.5 million, is estimated at around 11.1 million in 2035. The increase consists, in almost equal parts, of persons of working age (20–69 years) and persons who are 70 or older; the increases are around 345 000 and around 335 000 respectively. In percentage terms, the share taken by persons aged 80 and older increases much faster than the other groups. The number of children and young people (0–19 years) is instead expected to decrease by around 50 000 by 2035.

Statistics Sweden makes a more extensive analysis of future population growth every third year, most recently in 2021. In the intervening years only follow-ups and minor revisions are carried out. Compared with the projection from 2020, population growth until 2035 has been revised downwards by around 220 000 in the latest projection. This is due to downward revisions of assumptions concerning both fertility and immigration.

Figure 5.1 Population changes compared with 2021



Source: Statistics Sweden.

5.3 A scenario for long-term development

The projection of general government revenue and expenditure presented here, which extends up to and including 2110, is based on Statistics Sweden's population forecast from April 2021.

For tax-financed services it is assumed that the standard is unchanged, expressed as resource input per user. For example, in the future, a 90-year-old is estimated to receive 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. i.e. compensation per person entitled to compensation, in all transfer systems apart from the pension system is assumed to increase in line with average income. For the pension system, a special calculation is carried out based on its rules. This calculation includes the effect of the changes in the age limits in the pension and tax systems proposed in Government Bill Adjusted age limits in the pension system and surrounding systems (Govt Bill 2021/22:181). The proposed changes link age limits in the old-age pension system, the tax system and other social security systems to a benchmark age that increases with life expectancy at the age of 65. Apart from these changes, present tax rules are assumed to be unchanged.

The projection focuses on the general government commitment as a whole, and the general government sector (central government, the regions and the municipalities as well as 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 instead be viewed as an impact analysis whose purpose is to describe the effect on general government finances of the assumptions made.

The share of the population of working age in employment continues to increase

The share of the population aged 15–74 years in employment has increased steadily over the past ten years, apart from 2020. The projection assumes that the labour force participation rate, the unemployment rate and average working hours are unchanged for people of different ages with different backgrounds, with the exception of adjustments due to the above-mentioned 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 years in employment also increases in the long term on account of the reform of the pension system. At the same time, the share of older people increases, as does the share of people born abroad in the working-age population. These are two groups that have a lower than average employment rate. Overall, however, the share of employed persons in the working age population is judged to rise weakly in the long term.

On average, the number in employment and the number of hours worked increase by around 0.5% and per year between 2020 and 2035, and by around 0.3% per year in the period thereafter. One reason why employment increases faster 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 health care and care of older people. More older people means that the need for care of older people and persons with disabilities is estimated to increase by around 14% between 2021 and 2030, and by a further approx. 7% between 2030 and 2035. The demand for services that cannot be consumed individually, such as the judicial system, public administration and defence, is assumed to rise in pace with the total population and to be around 6 per cent higher in 2035 than in 2021. If the supply of welfare services is to be maintained at its present level, demographic developments mean that, overall, the tax-financed production of these services needs to increase by around 9% until and including 2035, which is an increase of just over 0.5% per year on average. This can be compared with the average actual growth rate in 2000–2021, when production increased by just over 1% per year, on average. So, during this period the supply of welfare services increased much faster than justified by demographic developments.

When the general government sector grows, the number employed also needs to increase. If the number of employees in the general government sector is to keep pace with the number of people using tax-financed services, the need for personnel increases by around 8 000–10 000 per year until and including 2035, which means a total increase of around 130 000 persons between 2021 and 2035. The need for personnel is greater in the local government sector than in central government especially in care of older people and persons with disabilities, but also in health care.

Despite continued growth, general government net lending and debt develop in a sustainable way.

Between 2025 and 2035 demographic developments mean that general government consumption is estimated to decrease slightly as a share of GDP (see table 5.1). Even though expenditure for social care of older people and persons with disabilities and for health care increases at more or less the same rate as GDP, expenditure for schools and child care increases slightly slower than GDP. The primary balance slightly improves as a share of GDP in these years (see figure 5.2), doing so mainly in central government, which bears the overall responsibility for financing welfare provision. After 2025 primary expenditure decreases slightly until 2035, and is then more or less stable as a share of GDP. General government investment expenditure also decreases as a share of GDP between 2025 and 2035, and at a slightly slower rate in the succeeding years. One explanation of this is that the price of general government investment goods is judged to increase more slowly than the general level of prices in the economy. General government transfers fall initially from a relatively high level in 2021, and in the long term they increase slightly faster than GDP in current prices.

The most important tax bases are largely steered by the performance of the labour market. Primary income decreases slightly as a share of GDP between 2021 and 2025, and then grows at more or less the same rate as GDP.

Table 5.1 Primary general government expenditure with no behavioural change

Per cent of GDP

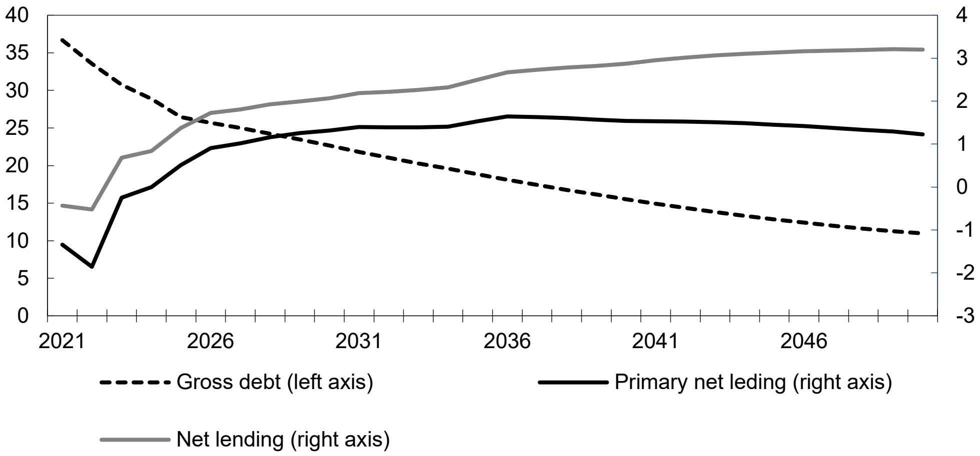
	2021	2025	2035	2060
Primary expenditure	**48.8**	**46.0**	**45.2**	**45.4**
General government consumption	26.2	24.8	24.6	24.4
Investment	4.7	5.0	4.5	4.2
Transfers	17.8	16.2	16.1	16.8
Of which to households	*13.4*	*12.5*	*12.4*	*13.0*
Primary income	**47.4**	**46.6**	**46.8**	**46.4**

Sources: Statistics Sweden and own calculations.

Following an initial deterioration, the primary balance improves distinctly up to 2025, and then continues to increase as a share of GDP until around 2035, before falling slightly in the succeeding years (see figure 5.2). The reason for the 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 at that time. This means that more people are 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 general government is positive, i.e, financial receivables are greater than liabilities, net lending is greater than the primary balance, and is slightly above the present level of the surplus target in all years as of 2023. The high level of lending contributes to consolidated gross debt decreasing from around 37% of GDP in 2021 to just over 26% of GDP in 2025 and around 23% of GDP in 2030. After 2030 the debt ratio continues to decrease throughout 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 in 2023 for the general government debt to develop in a desirable way. The S1 indicator is a measure of the size of the change in fiscal policy needed in 2023 for the general government consolidated gross debt (Maastricht debt) to correspond to 60% of GDP in 2035. Since the gross debt corresponded to around 37% 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 2023 for general government net debt as a proportion of GDP to stabilise in the very long run.

S1 amounts to -4.4% of GDP 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, instead, a calculation is made of the adjustment in lending required in 2023 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 -1,7.

The value of S2 is -1.2. Strictly interpreted, this means that net lending can be permanently weakened by 1.2% of GDP in 2023, without net debt becoming unstable over the very long term. Fiscal policy is therefore also sustainable when assessed in this way.

The indicators have improved since the previous assessment.

In the Swedish Convergence Programme for 2021, S1 was calculated as -3.1 and S2 as -0.2. The reason why the S1 indicator has improved, i.e. now has a larger negative value, is that, in the starting year, general government consolidated gross debt is lower than in the previous projection.

Other assessments of the sustainability of fiscal policy

Both the National Institute of Economic Research (NIER) and the European Commission have published assessments of the long-term sustainability of Swedish fiscal policy (see Fiscal Sustainability Report 2022, NIER, February 2022 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, even though the pandemic has meant a considerable burden on general government finances. This assessment is based on the population getting healthier over time and continuing to work at higher ages. If this is not the case, general government finances are not assessed as being long-term sustainable.

The European 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	-4.4	-1.2
National Institute of Economic Research (February 2022)		0.8
European Commission (February 2021)	-3.1	2.9

Note: The indicator values are not directly comparable since they are calculated on the basis of 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 S1 is -4.4% of GDP and S2 is -1.2% of GDP.

The weakening of general government net lending in 2020–2022 is temporary and is not assessed to jeopardise the long-term sustainability of fiscal policy.

6. Quality of general government finances

6.1 Expenditure

The consideration of total expenditure and income is not sufficient to assess the structure of general government finances. For this reason, revenue 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 developments 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.

Expenditure as a share of GDP (the expenditure ratio) was relatively stable at just under 50% of GDP from 2015 until and including 2019. However, the severe recession, and the measures implemented by the Government in 2020, in conjunction with the spread of COVID-19, resulted in a rapid increase in expenditure as a share of GDP. Expenditure increased for economic affairs and the business sector in particular (see table 6.1 and table 6.2). Expenditure for health care also increased during the pandemic. Otherwise, it was mainly expenditure for education that increased in the period 2010–2020. 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 6.1 General government expenditure by purpose, 2010-2020

Per cent of GDP

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Change 2010–2020
General public services	7.5	7.7	7.7	7.8	7.5	7.0	6.7	6.8	7.1	6.9	7.0	-0.4
Interest payments	1.3	1.4	1.2	1.0	0.8	0.7	0.6	0.6	0.6	0.6	0.5	-0.8
Other	6.2	6.3	6.6	6.8	6.6	6.3	6.0	6.2	6.4	6.3	6.6	0.4
Defence	1.5	1.4	1.4	1.4	1.3	1.2	1.2	1.2	1.2	1.2	1.3	-0.2
Public order and safety	1.3	1.3	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.4	0.1
Economic affairs	4.5	4.4	4.5	4.4	4.3	4.2	4.2	4.2	4.3	4.4	5.8	1.3
Environmental protection	0.4	0.4	0.5	0.5	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.1
Housing and community amenities	0.7	0.7	0.7	0.6	0.6	0.6	0.5	0.6	0.7	0.7	0.7	0.0
Health	6.7	6.7	6.8	6.9	6.9	6.8	6.9	6.8	7.0	7.0	7.4	0.7
Recreation, culture and religion	1.1	1.1	1.1	1.3	1.3	1.3	1.3	1.2	1.3	1.3	1.4	0.3
Education	6.4	6.3	6.4	6.5	6.5	6.4	6.6	6.7	6.9	6.9	7.2	0.8
Social protection	20.3	19.6	20.4	21.0	20.5	20.1	20.6	20.0	19.6	19.0	19.8	-0.5
Total expenditure	**50.4**	**49.8**	**51.0**	**51.6**	**50.7**	**49.3**	**49.7**	**49.2**	**49.8**	**49.1**	**52.6**	**2.1**
Excluding interest	49.2	48.4	49.8	50.6	49.9	48.6	49.1	48.6	49.2	48.5	52.1	2.9

Sources: Statistics Sweden and own calculations.

Table 6.2 General government expenditure by purpose

Per cent of total expenditure

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Change 2010–2020
General public services	14.8	15.5	15.2	15.1	14.7	14.3	13.5	13.8	14.2	14.0	13.4	-1.4
Interest payments	2.5	2.8	2.3	2.0	1.6	1.4	1.3	1.2	1.3	1.2	0.9	-1.6
Other	12.3	12.7	12.9	13.2	13.1	12.8	12.2	12.6	12.9	12.9	12.5	0.2
Defence	3.0	2.9	2.7	2.8	2.5	2.4	2.4	2.4	2.4	2.5	2.5	-0.5
Public order and safety	2.7	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.7	2.7	0.0
Economic affairs	8.9	8.9	8.9	8.4	8.6	8.5	8.5	8.5	8.7	9.0	11.0	2.1
Environmental protection	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	0.2
Housing and community amenities	1.4	1.4	1.4	1.1	1.2	1.2	1.1	1.1	1.4	1.4	1.3	0.0
Health	13.2	13.5	13.4	13.4	13.6	13.8	13.8	13.9	14.0	14.2	14.0	0.8
Recreation, culture and religion	2.2	2.2	2.1	2.5	2.6	2.6	2.6	2.5	2.5	2.6	2.7	0.5
Education	12.7	12.7	12.6	12.5	12.8	13.0	13.3	13.6	13.8	14.1	13.6	0.9
Social protection	40.3	39.4	40.0	40.6	40.5	40.8	41.3	40.6	39.2	38.6	37.7	-2.5
Total expenditure	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	
Excluding interest	97.5	97.2	97.7	98.0	98.4	98.6	98.7	98.8	98.7	98.8	99.1	1.6

Sources: Statistics Sweden and own calculations.

6.2 Revenue

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 2014 and 2025, the tax ratio is expected to be largely unchanged, 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 42.1%. This is due both to previously adopted changes in regulations and to the measures the Government has taken on account of the spread of COVID-19. At the end of the forecast period the tax ratio is expected to rise slightly, to 42.3 per cent.

As a share of GDP, revenue from tax on labour is expected to fall by 0.7 percentage points in the period 2014–2025. 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 this 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, chiefly temporary reductions of employers' and sole traders' social security contributions and greater tax reductions 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 2014–2025. But the share is expected to vary more during the period. In 2015–2017 the share was unusually high, and this can be explained by temporarily higher revenue from tax on corporate profits and tax on households' income from capital. In 2020 revenue from tax on capital had decrease slightly due to the outbreak of the COVID-19, which mainly affected company profits. In 2021 revenue from tax on capital increased again as a share of GDP, which was mainly due to record-high capital income for households after strong development of the stock and housing markets. There is expected to be a slight decrease as a share of GDP in the forecast period.

Revenue from the taxes on consumption is estimated to rise slightly overall as a share of GDP between 2014 and 2025. Revenue from value added tax is expected to increase as a share of GDP, while revenue from excise duties is expected to decrease as a share of GDP in the period. The increase in revenue from value added tax as a share of GDP is partly explained by the sharp increase in housing investments. These are investments largely 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. In contrast, revenue from excise duties is decreasing continuously as a proportion of GDP This is because the use of certain products subject to excise duty decreases over time, a part of excise duties is not indexed by inflation and various kinds of energy are being used more efficiently in transport, heating and production.

Revenue from tax arrears and other taxes is expected to decrease by 0.1 percentage points as a share of GDP between 2014 and 2025, but its share varies slightly more during the period. Revenue from tax arrears and other taxes is affected by factors including temporary respites granted to businesses and collection losses.

Table 6.3 Tax revenue, by tax types

Per cent of GDP

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Change 2014–2025
Tax on labour	24.9	24.6	25.8	25.8	25.7	25.1	25.1	24.7	23.9	24.2	24.3	24.2	-0.7
Direct taxes	13.3	13.1	13.8	13.7	13.6	13.1	13.4	12.8	12.3	12.3	12.3	12.3	-1.0
Indirect taxes	11.6	11.5	12.0	12.1	12.1	12.0	11.7	11.8	11.6	11.9	11.9	11.9	0.3
Tax on capital	5.0	5.7	5.6	5.7	5.4	5.6	5.4	6.3	5.9	5.9	5.8	5.6	0.6
Households	1.2	1.6	1.7	1.7	1.4	1.4	1.3	2.0	1.6	1.6	1.4	1.3	0.1
Corporate income	2.4	2.8	2.6	2.7	2.8	3.0	3.0	3.0	3.0	2.9	2.9	2.9	0.4
Tax on consumption	12.0	12.0	12.3	12.2	12.2	12.0	12.2	12.3	12.1	12.2	12.2	12.2	0.2
VAT	8.9	8.9	9.2	9.2	9.2	9.1	9.4	9.5	9.5	9.5	9.6	9.7	0.8
Excises duties	3.1	3.0	3.1	3.0	2.9	2.8	2.8	2.7	2.6	2.6	2.6	2.5	-0.5
Arrears and other taxes	0.3	0.3	0.5	0.4	0.5	0.2	0.2	-0.1	0.2	0.2	0.2	0.2	-0.1
Total tax revenue	**42.2**	**42.6**	**44.1**	**44.1**	**43.8**	**42.8**	**42.9**	**43.2**	**42.1**	**42.5**	**42.4**	**42.3**	**0.1**

Sources: Statistics Sweden and own calculations.

Table 6.4 Tax revenue, by tax types

Per cent of total tax revenue

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Change 2014–2025
Tax on labour	59.0	57.8	58.4	58.6	58.8	58.5	58.4	57.1	56.7	57.0	57.2	57.3	-1.7
Direct taxes	31.5	30.7	31.2	31.2	31.1	30.5	31.2	29.7	29.3	29.0	29.1	29.2	-2.3
Indirect taxes	27.5	27.1	27.2	27.4	27.7	28.0	27.2	27.4	27.4	28.0	28.1	28.1	0.6
Tax on capital	11.9	13.5	12.6	12.9	12.4	13.0	12.7	14.6	14.1	13.9	13.6	13.2	1.4
Households	2.8	3.8	3.8	3.9	3.3	3.2	3.1	4.7	3.9	3.7	3.3	3.0	0.2
Corporate income	5.7	6.6	5.9	6.2	6.3	7.1	7.0	7.1	7.0	6.9	6.9	6.8	1.0
Tax on consumption	28.4	28.1	27.9	27.6	27.8	27.9	28.5	28.5	28.8	28.6	28.7	28.9	0.5
VAT	21.1	21.0	20.9	20.9	21.1	21.3	21.9	22.1	22.6	22.4	22.6	22.9	1.8
Excises duties	7.3	7.1	7.0	6.7	6.6	6.6	6.6	6.4	6.2	6.2	6.1	6.0	-1.3
Arrears and other taxes	0.7	0.6	1.1	0.9	1.1	0.5	0.4	-0.2	0.4	0.5	0.5	0.6	-0.2
Total tax revenue	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	

Sources: Statistics Sweden and own calculations.

Appendix A – Technical assumptions

This appendix gives a more detailed account of the methods applied in the calculation of general government finances in the period 2025–2110.

Demographic assumptions

The calculation is based on Statistics Sweden's population forecast from April 2021, shown in table A.1.

Table A.1 Demographic assumptions

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

	2021	2030	2040	2050	2060	2070	2080
Birth rate	1.63	1.73	1.74	1.75	1.79	1.82	1.82
Average life expectancy, women	84.6	85.7	86.8	87.8	88.9	89.8	90.7
Average life expectancy, men	81.2	82.9	84.3	85.5	86.7	87.7	88.7
Net migration, thousands	33	36	37	35	33	32	32

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 as the absenteeism rate, rate of sickness and activity compensation, average hours worked, employment rate and unemployment rate are constant within each 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 age limits proposed in Government Bill Adjusted age limits in the pension system and surrounding systems (Govt Bill 2021/22:281) that link age limits in the old-age pension system, the tax system and other social security 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 that is restraining growth in the 2020s 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 2 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 output 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. Gross fixed capital formation totals 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 wage 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 pay

It is assumed that the Riksbank will pursue a monetary policy that makes inflation 2 percent 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 pay. Hourly wages in the general government sector are assumed to rise in line with private sector wages.

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 changes in value. Dividends are assumed to be 3% 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 as a simplification 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

	2021	2030	2040	2050	2060	2070	2080
Percentage change							
Population, 15–74 years	0.2	0.5	0.1	0.2	0.3	0.2	0.3
Labour force, 15–74 years	1.4	0.4	0.2	0.2	0.2	0.9	0.2
Number employed, 15–74 years	1.1	0.4	0.2	0.2	0.2	0.9	0.2
Hours worked	2.4	0.4	0.3	0.2	0.2	0.8	0.2
Business sector productivity	2.4	1.7	2.0	2.0	2.0	2.0	2.0
GDP, fixed prices	4.8	1.8	2.0	1.9	1.9	2.6	2.0
GDP per capita	4.3	1.4	1.5	1.5	1.6	2.3	1.7
GDP productivity	2.3	1.4	1.7	1.7	1.8	1.8	1.8
GDP deflator	3.0	2.1	2.5	2.4	2.3	2.2	2.3
CPI, annual average	2.2	2.3	2.0	2.0	2.0	2.0	2.0
Hourly wages	3.3	3.5	4.3	4.3	4.2	4.1	4.2
Per cent							
Real interest rate	-1.4	0.7	2.9	2.9	2.7	3.1	2.8
Employment rate, 15–74 years	67.3	69.2	69.5	70.0	69.4	71.2	70.8
ILO unemployment rate, 15–74 years	8.8	6.8	6.9	6.8	6.8	6.7	6.6

Sources: Statistics Sweden and own calculations.

General government income

The calculations of general government revenue 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

	2021	2030	2040	2050	2060	2070	2080
Taxes and charges	42.7	42.4	42.4	42.4	42.7	42.5	42.8
Household direct taxes and charges							
Proportion of GDP	12.5	11.7	11.8	12.0	12.2	12.2	12.4
Implicit tax rate of direct taxes	23.6	22.8	22.8	22.9	22.9	23.0	23.0
Tax base for direct taxes as a proportion of GDP	52.9	51.5	51.9	52.4	53.1	53.1	53.9
Implicit tax rate of charges	6.6	6.7	6.7	6.7	6.7	6.7	6.7
Tax base for charges as a proportion of GDP	39.8	39.5	40.0	40.4	40.7	40.9	41.2
Corporate direct taxes							
Proportion of GDP	2.9	3.1	3.1	3.1	3.1	3.1	3.1
Implicit tax rate	9.7	9.9	9.9	9.9	9.9	9.9	9.9
Tax base as a proportion of GDP	29.6	31.6	31.7	31.7	31.5	31.7	31.5
Indirect taxes[1]							
Proportion of GDP	12.6	13.1	12.8	12.5	12.6	12.2	12.3
Implicit tax rate	28.8	27.4	26.6	25.9	25.6	25.4	25.1
Tax base as a proportion of GDP	43.8	48.0	48.2	48.3	49.0	48.1	48.9
Social security contributions from employers and the self-employed[2]							
Proportion of GDP	14.4	14.4	14.6	14.7	14.8	14.9	15.0
Implicit tax rate	36.1	36.5	36.5	36.5	36.5	36.5	36.5
Tax base as a proportion of GDP	39.8	39.5	40.0	40.4	40.7	40.9	41.2

[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 has 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 2025. 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

	2021	2030	2040	2050	2060	2070	2080
Total consumption	**26.2**	**24.7**	**24.5**	**24.4**	**24.4**	**23.8**	**23.9**
Child care	1.7	1.5	1.5	1.6	1.5	1.5	1.5
Education	5.2	4.9	4.6	4.5	4.5	4.2	4.2
Health care	6.6	6.2	6.1	6.0	5.9	5.7	5.7
Care of older people	4.9	5.3	5.6	5.8	6.0	6.0	6.4
Other activities	7.8	6.8	6.7	6.6	6.5	6.3	6.2

Sources: Statistics Sweden and own calculations.

Transfers

The calculations assume a certain guarantee of standards in the general government transfer payment systems (see table A.5). Some transfers have rules and regulations that automatically increase expenditure in line with earnings. This applies, for instance, to pensions, which are uprated in line with the income index, and also partly to transfers compensating for income loss, such as health and parental insurance. In the calculation, pensions are projected in accordance with the current rules. Other transfers 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 transfers that would take place if the estimate were only based on a price projection.

Table A.5 General government transfers

Per cent of GDP

	2021	2030	2040	2050	2060	2070	2080
Total transfers	**17.8**	**16.1**	**16.2**	**16.4**	**16.8**	**16.5**	**17.1**
Transfers to households	13.4	12.3	12.4	12.6	13.0	12.7	13.3
Old age	7.4	7.2	7.2	7.3	7.6	7.3	7.8
Ill health	2.1	1.9	2.0	2.0	2.1	2.1	2.1
Children/studies	1.9	1.7	1.7	1.8	1.8	1.8	1.8
Labour market	0.8	0.5	0.5	0.5	0.5	0.5	0.5
Other	1.2	1.0	1.0	1.0	1.0	1.0	1.0
Transfers to businesses and the rest of the world	4.4	3.8	3.8	3.8	3.8	3.8	3.8

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

	2021	2030	2040	2050	2060	2070	2080
Revenue	**6.4**	**6.6**	**7.0**	**7.4**	**7.7**	**7.9**	**8.1**
Charges	5.8	5.8	5.9	6.1	6.1	6.1	6.2
Interest, dividends, etc.	0.6	0.8	1.1	1.3	1.6	1.7	1.9
Expenditure	**6.3**	**5.9**	**5.8**	**5.8**	**6.1**	**5.8**	**6.1**
Pensions	6.1	5.7	5.6	5.6	5.9	5.6	5.9
Other	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net lending	**0.1**	**0.7**	**1.2**	**1.6**	**1.6**	**2.1**	**2.0**
Net financial assets	**37.8**	**31.5**	**32.1**	**37.4**	**44.1**	**47.7**	**54.2**

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

	2021	2030	2040	2050	2060	2070	2080
Total expenditure	49.1	46.4	46.2	46.0	46.1	45.0	45.3
Age-related[1]	34.4	33.0	32.7	32.7	33.0	32.1	32.8
Pensions[2]	7.4	7.1	7.0	7.0	7.4	7.1	7.6
Guarantee pensions	0.3	0.2	0.3	0.3	0.4	0.4	0.4
Old-age pensions	6.1	5.7	5.6	5.6	5.9	5.6	5.9
Other pensions (disability and survivor)	0.4	0.5	0.3	0.3	0.4	0.4	0.5
General government occupational pensions	0.6	0.6	0.7	0.7	0.8	0.7	0.8
Health care	6.6	6.2	6.1	6.0	5.9	5.7	5.7
Care of older people and care services for disabled people	4.9	5.3	5.6	5.8	6.0	6.0	6.4
Child care	1.7	1.5	1.5	1.6	1.5	1.5	1.5
Education	5.2	4.9	4.6	4.5	4.5	4.2	4.2
Unemployment benefit	0.8	0.5	0.5	0.5	0.5	0.5	0.5
Other age-related expenditure	7.9	7.6	7.5	7.4	7.3	7.0	7.0
Interest expenditure	0.2	0.7	0.8	0.6	0.5	0.3	0.1
Total revenue	48.7	48.5	49.1	49.2	49.6	49.4	49.9
of which income from capital	1.3	1.7	2.5	2.9	3.3	3.6	3.9
of which from the pensions system	0.6	0.8	1.1	1.3	1.6	1.7	1.9
Assumptions							
Labour productivity growth, GDP level	2.3	1.4	1.7	1.7	1.8	1.8	1.8
GDP growth	4.8	1.8	2.0	1.9	1.9	2.0	2.0
Unemployment rate	8.8	6.8	6.9	6.8	6.8	6.7	6.6
Population aged 65+ as a proportion of the total population	20.2	21.9	23.4	23.8	25.5	25.7	26.6

[1] Age-related expenditure includes child care. 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 2022 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 B.2).

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

Index 2019=100, unless otherwise stated

	2019	2021	2030	2040	2050	2060	2070
Population, 15–74 years							
EPC	100.0	100.9	107.1	113.9	118.2	123.0	125.4
Convergence programme	100.0	100.5	104.1	107.5	109.6	113.4	115.0
Employed							
EPC, 15–74 years	100.0	101.3	107.5	113.7	118.7	121.0	125.1
Convergence programme, 15–74 years	100.0	99.7	106.5	110.5	113.6	116.4	121.2
Hours							
EPC	100.0	101.3	107.3	113.5	118.5	120.8	124.9
Convergence programme	100.0	99.1	106.1	110.2	113.2	115.7	120.9
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	7.0	8.8	6.8	6.9	6.8	6.8	6.7
Labour productivity							
EPC	100.0	102.5	115.0	132.5	154.1	179.5	208.9
Convergence programme	100.0	102.6	114.2	134.5	159.1	189.1	225.7
Potential GDP							
EPC	100.0	103.9	123.4	150.4	182.6	216.7	260.9
Convergence programme	100.0	101.7	121.5	148.2	180.1	218.7	272.9
Potential GDP per capita							
EPC	100.0	101.7	111.9	127.9	146.9	166.5	192.4
Convergence programme	100.0	100.5	112.9	135.0	157.5	184.6	222.6

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 2021. That assessment takes account of actual developments in recent years, which means that the population increases slightly more slowly than in the EPC calculation in the next few years. This is because population growth has been revised downwards from previous projections. The EPC thus assumes a stronger increase both in the number of persons employed and in the number of hours worked. Productivity growth is slightly slower in the Convergence Programme than in the EPC's calculation up until 2030, and then increases faster in the Convergence Programme than according to the EPC. This means that both GDP and per capita GDP in the long term are higher in in this Convergence Programme than in the EPC calculations.

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

Proportion of GDP

	Change 2019–2035			Change 2019–2070		
	CP	EPC	CP-EPC	CP	EPC	CP-EPC
Pensions	-0.4	-0.7	0.4	-0.3	-0.8	0.4
Health care	-0.2	0.3	-0.5	-0.6	0.7	-1.2
Care of older people and care services for disabled people	0.6	0.8	-0.2	1.2	1.7	-0.5
Education/Unemployment benefit	-0.5	0.3	-0.8	-1.0	0.4	-1.4
Total	**-0.4**	**0.7**	**-1.0**	**-0.7**	**2.1**	**-2.7**

Note: CP = convergence programme. Child care is not included in this synthesis.

Sources: European Commission and own calculations.

Appendix C – Tables

Table C.1a Macroeconomic prospects

Annual percentage change

	SEK billion 2021	2021	2022	2023	2024	2025
Real GDP	5 227	4.8	3.1	1.6	1.6	1.7
Nominal GDP	5 381	7.9	6.7	3.5	3.4	3.6
Components of real GDP						
Private consumption expenditure	2 314	5.8	3.8	2.8	2.3	3.2
Government consumption expenditure	1 370	2.8	1.5	-0.8	-0.1	-0.8
Gross fixed capital formation	1 311	6.1	3.4	1.3	1.8	1.5
Exports of goods and services	2 390	7.5	4.8	2.6	2.9	2.3
Imports of goods and services	2 180	9.4	5.5	2.4	2.8	2.4
Contributions to real GDP growth						
Final domestic demand		4.8	2.9	1.4	1.4	1.6
Changes in inventories and net acquisition of valuables		0.4	0.2	0.0	0.0	0.0
External balance of goods and services		-0.4	-0.1	0.2	0.2	0.1

Sources: Statistics Sweden and own calculations.

Table C.1b Price developments

Annual percentage change

	Level 2021	2021	2022	2023	2024	2025
GDP deflator	103	3.0	3.5	1.9	1.8	1.9
Private consumption deflator	102	1.9	4.6	1.8	2.0	2.0
HICP[1]	111	2.7	4.6	1.5	1.8	1.8
Public consumption deflator	103	3.0	3.8	3.0	2.4	2.6
Investment deflator	104	3.6	3.0	1.5	1.5	1.5
Export price deflator (goods and services)	104	4.2	4.9	1.0	1.0	1.0
Import price deflator (goods and services)	103	3.4	5.9	1.3	1.3	1.2

Note: All deflators are indices. 2020=100.
[1] Index, 2015=100.

Sources: Statistics Sweden and own calculations.

Table C.1c Labour market developments

Annual percentage change unless otherwise stated

	Level 2021	2021	2022	2023	2024	2025
Employment, persons[1]	5 125	1.3	1.8	1.0	0.4	0.6
Employment, hours worked[2]	817 856	2.6	2.3	0.9	0.2	0.0
Unemployment rate (%)[3]	489	8.8	7.6	7.0	7.0	7.0
Labour productivity, persons[4]	905	3.6	1.3	0.5	1.2	1.1
Labour productivity, hours worked[5]	630	2.4	1.5	-0.2	1.2	1.0
Compensation of employees[6]	2 570	6.1	-0.4	4.6	3.3	3.5
Compensation per employee[7]	501 572	4.8	-2.1	3.6	2.9	2.9

[1] Occupied population, national accounts definition. Level in thousands.
[2] National accounts definition. Level in tens of 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

	2021	2022	2023	2024	2025
Net lending/borrowing vis-a-vis the rest of the world	5.6	4.6	4.9	5.1	5.0
of which					
Balance on goods and services	4.4	3.8	3.8	3.7	3.6
Balance of primary incomes and transfers	1.1	0.8	1.1	1.3	1.4
Capital account	0.1	0.0	0.0	0.0	0.0
Private sector net lending/borrowing	5.8	5.2	4.2	4.2	3.6
General government net lending/borrowing	-0.2	-0.5	0.7	0.8	1.4

Sources: Statistics Sweden and own calculations.

Table C.2a General government budgetary prospects

Per cent of GDP, unless otherwise stated

	SEK billion 2021	2021	2022	2023	2024	2025
Net lending by sub-sector						
General government	-13	-0.2	-0.5	0.7	0.8	1.4
Central government	-50	-0.9	-0.6	0.9	1.0	1.4
Local government	30	0.6	-0.1	-0.5	-0.5	-0.4
Old-age pensions system	7	0.1	0.2	0.3	0.3	0.4
General government						
Total revenue	2 681	49.8	49.1	48.9	48.5	48.3
Total expenditure	2 694	50.1	49.6	48.2	47.7	46.9
Net lending	-13	-0.2	-0.5	0.7	0.8	1.4
Interest expenditure	12	0.2	0.3	0.3	0.3	0.4
Primary balance	-1	0.0	-0.2	1.0	1.2	1.8
One-off and other temporary measures	0	0.0	0.0	0.0	0.0	0.0
Selected components of revenue						
Total taxes	2 162	40.2	39.3	39.7	39.6	39.4
Taxes on production and imports	1 170	21.7	21.6	21.9	22.0	22.0
Current taxes on income, wealth. etc.	992	18.4	17.7	17.7	17.6	17.4
Capital taxes	0	0.0	0.0	0.0	0.0	0.0
Social contributions	181	3.4	3.3	3.3	3.3	3.3
Property income	77	1.4	1.9	1.5	1.4	1.5
Other	262	4.9	4.5	4.4	4.2	4.1
Total revenue	2 681	49.8	49.1	48.9	48.5	48.3
Taxes and charges, incl. tax to the EU	2 343	43.5	42.1	42.5	42.4	42.3
Selected components of expenditure						
Compensation of employees + intermediate consumption	1 123	20.9	20.3	19.9	19.6	19.2
Compensation of employees	682	12.7	12.4	12.2	12.0	11.7
Intermediate consumption	441	8.2	7.9	7.7	7.6	7.5
Social payments	848	15.8	15.4	15.1	15.0	14.8
of which Unemployment benefits	44	0.8	0.7	0.5	0.5	0.5
Social transfers in kind supplied via market producers	194	3.6	3.6	3.6	3.5	3.5
Social transfers other than in kind	654	12.2	11.8	11.6	11.5	11.3
Interest expenditure	12	0.2	0.3	0.3	0.3	0.4
Subsidies	117	2.2	1.8	1.6	1.6	1.5
Gross fixed capital formation	253	4.7	4.8	4.8	4.9	5.0
Capital transfers	21	0.4	1.7	1.1	1.0	1.0
Other	320	5.9	5.3	5.3	5.2	5.1
Total expenditure	2 694	50.1	49.6	48.2	47.7	46.9
Government consumption (nominal)	1 411	26.2	25.9	25.5	25.3	24.8

Sources: Statistics Sweden and own calculations.

Table C.2b Revenue and expenditure forecasts

Per cent of GDP unless otherwise stated

	SEK billion 2021	2021	2022	2023	2024	2025
Total revenue	2 681	49.8	49.1	48.9	48.5	48.3
Total expenditure	2 694	50.1	49.6	48.2	47.7	46.9

Sources: Statistics Sweden and own calculations.

Table C.2c Table C.2c Expenditure to be excluded from the calculation of the expenditure benchmark

Per cent of GDP if not otherwise stated

	SEK billion 2021	2021	2022	2023	2024	2025
Expenditure directly funded via the EU budget	10	0.2	0.2	0.2	0.1	0.1
Of which investment	5	0.1	0.1	0.1	0.0	0.0
Cyclical expenditure due to higher unemployment[1]	-2	0.0	0.1	0.1	0.0	0.0
Effects of discretionary measures in the area of taxation	-2	0.0	-0.3	0.5	0.1	0.0
Revenue increases mandated by law	–	–	–	–	–	–

[1] Change in comparison with preceding year.

Sources: Statistics Sweden and own calculations.

Table C.3 General government expenditure by function

Per cent of GDP

	COFOG code	2020
General public services	1	7.0
Defence	2	1.3
Public order and safety	3	1.4
Economic affairs	4	5.8
Environmental protection	5	0.5
Housing and community amenities	6	0.7
Health	7	7.4
Recreation, culture and religion	8	1.4
Education	9	7.2
Social protection	10	19.8
Total expenditure		52.6

Source: Statistics Sweden and own calculations.

Table C.4 General government debt developments

Per cent of GDP

	2021	2022	2023	2024	2025
Gross debt	36.7	33.5	30.7	28.9	26.4
Change in gross debt ratio	-3.0	-3.1	-2.8	-1.9	-2.4
Contribution to changes in gross debt					
Primary balance	0.0	0.2	-1.0	-1.2	-1.8
Interest expenditure	0.2	0.3	0.3	0.3	0.4
Stock-flow adjustment	-0.3	-1.4	-1.0	0.0	0.0
of which					
Differences between cash and accruals	-0.5	-0.7	0.2	0.0	-0.1
Privatisation proceeds	0.0	-0.1	-0.1	-0.1	-0.1
Valuation effects and others	0.2	-0.6	-1.2	0.1	0.1
Nominal GDP change	-2.9	-2.3	-1.1	-1.0	-1.0
Implicit interest rate on gross debt	0.6	0.9	1.0	1.2	1.4

Sources: Statistics Sweden and own calculations.

Table C.5 Cyclical developments

Per cent of GDP unless otherwise stated

	2021	2022	2023	2024	2025
Real GDP growth (%)	4.8	3.1	1.6	1.6	1.7
General government net lending	-0.2	-0.5	0.7	0.8	1.4
Interest expenditure	0.4	0.5	0.5	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	1.8	1.9	1.9	1.9
Output gap	-0.9	0.3	0.3	0.0	0.0
Cyclical budgetary component	-0.1	-0.1	0.2	-0.1	-0.2
Cyclically-adjusted balance	-0.2	-0.4	0.5	0.9	1.5
Cyclically-adjusted primary balance	0.2	0.0	0.9	1.4	2.1
Structural balance	-0.2	-0.4	0.5	0.9	1.5

Sources: Statistics Sweden and own calculations.

Table C.6 Divergence from previous update

	2021	2022	2023	2024	2025
Real GDP growth (%)					
Previous update	3.2	3.8	1.9	1.6	–
Current update	4.8	3.1	1.6	1.6	1.7
Difference	1.6	-0.7	-0.3	0.0	–
General government net lending (% of GDP)					
Previous update	-4.5	-1.0	0.5	1.0	–
Current update	-0.2	-0.5	0.7	0.8	1.4
Difference	4.3	0.4	0.1	-0.1	-
General government gross debt (% of GDP)					
Previous update	39.9	37.0	33.7	31.4	–
Current update	36.7	33.5	30.7	28.9	26.4
Difference	-3.3	-3.5	-3.0	-2.5	–

Sources: Statistics Sweden and own calculations.

Table C.7 Long-term sustainability of public finances

Per cent of GDP

	2021	2030	2040	2050	2060	2070	2080
Total expenditure	**49.1**	**46.4**	**46.2**	**46.0**	**46.1**	**45.0**	**45.3**
of which							
Age-related expenditure	34.4	33.0	32.7	32.7	33.0	32.1	32.8
of which							
Pension expenditure	7.4	7.1	7.0	7.0	7.4	7.1	7.6
of which							
Social security pension	0.3	0.2	0.3	0.3	0.4	0.4	0.4
Old-age and early pensions	6.1	5.7	5.6	5.6	5.9	5.6	5.9
Other pensions (disability and survivor)	0.4	0.5	0.3	0.3	0.4	0.4	0.5
Occupational pensions (if in general government)	0.6	0.6	0.7	0.7	0.8	0.7	0.8
Health care	6.6	6.2	6.1	6.0	5.9	5.7	5.7
Long-term care	4.9	5.3	5.6	5.8	6.0	6.0	6.4
Educational expenditure	5.2	4.9	4.6	4.5	4.5	4.2	4.2
Other age-related expenditures	7.9	7.6	7.5	7.4	7.3	7.0	7.0
Interest expenditure	0.2	0.7	0.8	0.6	0.5	0.3	0.1
Total revenue	**48.7**	**48.5**	**49.1**	**49.2**	**49.6**	**49.4**	**49.9**
of which							
Property income	1.3	1.7	2.5	2.9	3.3	3.6	3.9
of which							
From pensions contributions (or social contributions if appropriate)	0.6	0.8	1.1	1.3	1.6	1.7	1.9
Pension reserve fund assets	37.8	31.5	32.1	37.4	44.1	47.7	54.2
of which							
Consolidated public pension fund assets (assets other than government liabilities)	38.8	31.3	30.8	35.4	41.7	44.7	50.7
Assumptions							
Labour productivity	2.4	1.7	2.0	2.0	2.0	2.0	2.0
Real GDP growth	4.8	1.8	2.0	1.9	1.9	2.6	2.0
Unemployment rate	8.8	6.8	6.9	6.8	6.8	6.7	6.6
Population aged 65+ over total population	20.2	21.9	23.4	23.8	25.5	25.7	26.6

Note: The amounts are rounded off and therefore do not always sum to the total.

Sources: Statistics Sweden and own calculations.

Table C.7a Contingent liabilities

Per cent of GDP

	2021
Public guarantees	**44.8**

Sources: Statistics Sweden and own calculations.

Table C.8 Basic assumptions

Annual average unless otherwise stated

	2021	2022	2023	2024	2025
Short-term interest rate (annual average)[1]	-0.2	0.1	0.6	0.8	0.8
Long-term interest rate (annual average)[2]	0.3	0.8	1.1	1.3	1.6
USD/EUR exchange rate (annual average)	1.2	1.1	1.1	1.2	1.2
Nominal effective exchange rate vis-á-vis the euro[3]	10.1	10.4	10.3	10.2	10.0
World. GDP growth[4]	5.9	3.5	3.4	3.6	3.6
EU GDP growth[4]	5.3	3.0	2.2	2.0	1.5
Growth of relevant foreign markets[4]	8.5	5.5	3.5	3.5	3.2
World import volumes, excluding EU	-	-	-	-	-
Oil prices (Brent USD/barrel, annual average)	71	99	88	82	78

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

Sources: Statistics Sweden and own calculations.

Table C.9 Government guarantees - Measures adopted in 2021

Measures on account of COVID-19, per cent of GDP

Measure	Date of Riksdag decision	Guarantee limit	Outstanding commitments
Credit guarantees for businesses ('Företagsakuten')	February	1.0	0.0
Sum total		1.0	0.0

Source: Swedish National Debt Office.

Table C.10 Measures taken since outbreak of the pandemic

SEK billion

	2020	2021		2022			Total 2020–2022
		Of which 2021 Budget Bill	Of which Amending Budget	Of which 2021 Budget Bill	Of which budget adopted for 2022	Of which Amending Budget	
More resources for welfare services and reduced spread of infection							
General government grants to municipalities and regions	21	10	13	5	3	13	64
Compensation for additional costs in health care and social care	10		11				21
Postponed care and COVID care		4	2	4	2		12
Testing and tracing etc.	8	2	18		2	8	38
Fast and safe vaccination			11		6	4	20
Securer care for older people		4		4			8
Sick pay standard deduction, sickness certificate, risk groups and disease carrier benefit, etc.	7	1	4		0	2	13
Other additional funding for health care, schools and social services	1	4	1	4	9	0	19
Crisis support to save Swedish businesses and jobs							
Short-time working	35		8			2	45
Reduced employers' and sole traders' contributions. gross	33						33
Transition support, turnover-based support, etc.	6	4	12			4	26
Sick pay responsibility, rent support, etc.	16	4	12			13	44
Sport, culture, media support	5	2	5	1	2	3	17
Security and transition for people who become unemployed							
Reinforced unemployment benefit	5	6	1	5			17
Active labour market policy and more places in education and training	7	8	6	7	5	0	34
Other security and transition measures	1	0	1	0			2
Reforms to move Sweden forward							
Faster climate transition	3	9	2	4	8		26
Getting more people into work		24	3	21	8		56
Growth throughout the country		5	0	5	5	8	23
Sweden a secure country for all		3	0	4	4		12
Reinforcement of household finances		11		13	14		38
Other measures	4	5	5	8	7	2	30
Total	**161**	**105**	**114**	**85**	**75**	**58**	**599**

Source: Own calculations.

Table C.11 Revenue from RRF grants

Proportion of GDP

	2020	2021	2022	2023	2024	2025	2026
RRF grants as included in the revenue projections	0.01	0.20	0.17	0.13	0.05	0.03	0.00
Cash disbursements of RRF grants from EU	0.00	0.00	0.19	0.12	0.16	0.04	0.05

Source: Own calculations.

Table C.12 RRF support

Per cent of GDP

	2020	2021	2022	2023	2024	2025	2026
Compensation of employees D.1							
Intermediate consumption P.2	0.00	0.04	0.04	0.03	0.01	0.01	
Social security benefits D.62+D.632	0.00	0.03	0.03	0.02	0.01	0.01	
Interest D.41							
Subsidies D.3	0.00	0.01	0.01	0.01	0.00	0.00	
Current transfers D.7	0.01	0.05	0.02	0.01	0.00	0.00	
Total current expenditure	**0.01**	**0.13**	**0.10**	**0.08**	**0.03**	**0.02**	**–**
Gross fixed capital formation P.51g	0.00	0.01	0.01	0.01	0.01	0.00	
Capital transfers D.9	0.00	0.05	0.05	0.05	0.02	0.01	
Total capital expenditure	**0.00**	**0.07**	**0.06**	**0.05**	**0.02**	**0.01**	**–**

Note: The amounts are rounded off and therefore do not always sum to the total.

Source: Own calculations.

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