

## 2 Guidelines for economic and budget policy

### 2.1 Political starting points

Sweden is in the midst of economic winter, with low GDP growth and rising unemployment. Increased costs and elevated interest rates due to high inflation in previous years have stymied growth, driven up unemployment and put economic pressure on households, businesses and the welfare system.

Fighting inflation has thus been the Government's foremost economic policy priority. A combination of restrained fiscal policy, austere monetary policy and responsible wage negotiations is now yielding results. One indication of economic improvement is the recent substantial decrease in inflation. The inflation target is expected to be met this year, but it is necessary to remain persistent in fighting inflation. This applies particularly in light of the continuing high uncertainty internationally. Geopolitical turmoil and war in our neighbourhood can have effects such as driving up energy and shipping prices, which would bring the risk of inflation rising again. In this context, how the krona exchange rate will develop over time is another uncertainty factor.

As inflation continues to fall and the effects of the recession become increasingly tangible, the primary aim of the economic policy is to lay the foundations for recovery – higher growth and better welfare. Sweden will be built to be more prosperous again.

Sweden also needs to become a safer, more secure country. Due to the international security situation and domestic social problems, particularly serious organised crime, economic resources must be allocated towards rebuilding both defence and the judicial system. Safety and security also require a reliable welfare system. Health care is under considerable strain from high prices. At the same time, far too many pupils are unable to meet school learning requirements, in the wake of failed integration. Given the underlying strength of the Swedish economy, thanks in part to strong public finances, Sweden's prospects for managing the situation are good. However, this will require well-balanced economic policy priorities and a resurgence of growth. Only in this way can sufficient resources be created over time to meet existing needs.

As inflation stabilises at a low level, the Government intends to bolster economic recovery through reforms aimed at strengthening household purchasing power, reducing unemployment and increasing growth and investments – while maintaining low inflation. This will simultaneously enable effective climate transition, serving as the basis for Sweden's ability to rebuild wealthier and more secure in future.

### **A three-part plan to navigate the challenging economic situation**

#### **Fight inflation and support households and welfare**

The Government is pursuing a well-balanced fiscal policy that helps drive down inflation while evenly distributing the burden of high prices. This policy has been implemented through two restrained budgets, while those who have been hit hardest by price increases have been supported through measures such as an electricity subsidy, reduced tax on labour, pensions and fuel, and a temporary increase of the housing allowance for families with children. In addition, lowering the reduction obligation has made fuel cheaper, which particularly benefits those living in rural areas

who are dependent on day-to-day use of their cars. The single largest budget investments have gone to supporting welfare. The latest statistics show that the fight against inflation is well on its way to succeeding.

Sweden must continue to be a country with a reliable welfare system. The Government will not abandon health care, schools or social services to their fate. Although inflation is falling, high costs continue to cause major problems, including in municipalities and regions. The prospects for the regions' finances have worsened since last autumn, not least due to rising pension costs, with redundancy notices as a consequence. To compensate for the effects of inflation and avoid dismissals in health care, the Government proposes allocating additional funding to the regions. Additionally, further efforts are undertaken to structurally improve the health care system. The Government continues to work on re-establishing a strong school system that focuses on factual knowledge and basic abilities such as reading, writing and arithmetic. This will benefit everyone – especially the pupils who need school the most. The Government proposes allocating additional funding to the municipalities, aimed at maintaining the quality of teaching. However, the responsibility for financing health and social care and schools, and prioritising core activities lies primarily with the municipalities and regions.

The Government will not signal all clear before the danger has passed. The fight against inflation will only succeed once inflation has stabilised near its target. To arrive there, broad responsibility continues to rest with several actors, such as the Riksbank, the Government and the social partners. Continued vigilance will also be necessary after the inflation target has been reached. The economy continuously faces disruptions. Should inflation pick up again, fighting it will once again become a prioritised economic policy objective.

Household purchasing power has declined due to inflation but is expected to gradually recover as inflation falls. However, it will take time for it to recover to previous levels for all households (see box 2.1). For this reason, supporting recovery with the aim of restoring the purchasing power of all households is an important economic policy task going forward.

### **Re-institute the work-first principle**

Due to the recession, an additional 40 000 people are expected to become unemployed this year. Those outside the labour market will find it even more difficult to find work. This should be addressed first and foremost by training and education initiatives to better equip jobseekers. At the same time, the labour market's structural problems need to be remedied. In particular, this is about reinforcing the motivating factors behind work and self-sufficiency. The Government is therefore continuing its efforts to re-institute the work-first principle in Sweden.

In the Budget Bill for 2024 (Govt Bill 2023/24:1), important steps were taken through reduced tax on labour – primarily for low and medium incomes – and pensions. Provided that there is economic scope, the Government intends to present additional proposals during the electoral period to lower the tax on labour so as to enhance the motivating factors that get people into jobs and education. Unemployment insurance is being reformed with a clearer phasing out aimed at providing a stronger incentive to return to work. It is also being strengthened by raising the ceiling and covering more people. In addition, the Government has appointed an inquiry chair to investigate how to design and implement a benefits ceiling model to ensure that it is always more worthwhile to work than to live on benefits (Terms of Reference 2023:70). With the aim of countering social exclusion, increasing the rate of self-support and improving incentive structures, the Government intends to review the large-family supplement.

For more successful integration, activity requirements will also increase for those who are able to work but living on income support. Stronger incentives to work – and to take the jobs that are available, wherever they are available – are needed. The Government also intends to heighten Swedish welfare qualification requirements for non-citizens. It is important to upgrade the value of citizenship, and make it desirable to those who wish to live and work in Sweden.

The work-first principle also involves creating more pathways to jobs. The Government's proposals include measures to strengthen the teaching in Swedish for Immigrants while at the same time placing greater demands on those studying. To stress the individual responsibility to learn Swedish, the Government intends to propose that the general right to take part in Swedish for Immigrants be limited to three years. Moreover, the Government has ensured that labour market entry agreements will be in place so as to improve the prospects of newly arrived immigrants in the labour market. The Government also intends to facilitate the administration of student finance for transition and retraining by simplifying the rules. These changes will result in shorter lead times and processes that are more automated, without changing the fundamental purpose of the reform or expanding the target group for the support. The Spring Amending Budget Bill for 2024 (Govt Bill 2024/24:99) also includes an investment in summer jobs. Additional proposals include increasing the number of places in adult education and the government grant to municipalities, with the aim of granting individuals with temporary protection, such as people from Ukraine, access to municipal adult education in Swedish for Immigrants. The Government further proposes setting aside funds to improve living conditions and opportunities for people forced to flee the war in Ukraine who have been granted a residence permit with temporary protection to establish themselves in the labour market.

Having a high percentage of individuals who work and are self-sufficient is a prerequisite for Sweden's collectively funded welfare. In light of this, the Government has developed a self-support metric. This metric will be monitored over time with the aim of measuring the percentage of working-age individuals who are self-sufficient, primarily through work. The distributional policy report (Annex 2) includes a detailed description of the metric. An increased employment rate has contributed to an increase in the percentage of self-sufficient individuals over the past decade. The percentage of self-sufficient individuals is higher among men than women, and higher among those born in Sweden than those born abroad.

### **Structural reforms for stronger growth**

A growing economy is needed to satisfy the investment and resource needs that lie ahead of us, particularly in areas such as defence, the judicial system and infrastructure. High growth rates and good productivity development over time have been key factors in making Sweden one of the world's wealthiest countries. Like many other countries in the West, however, Sweden has had lower GDP growth per capita since the financial crisis than in the previous decade. Not all causes of this trend are known, but a decrease in productivity-increasing investments and in the share of individuals in the working age population are two of them. Sweden's strong population growth due to high asylum and family member immigration rates also had a negative impact on GDP growth per capita during the 2010s. It is time to shift the focus back to economic development with measures that increase productivity and improve long-term growth.

To build a stronger and wealthier Sweden, the Government's growth agenda will focus on investments in infrastructure, climate transition, research, energy production,

rules simplification and skills supply. The Government intends to present a research and innovation bill focused on excellence, internationalisation and innovation. Moreover, the Government intends to present an infrastructure bill and develop a strategy for new industrialisation and society transformation in northern Sweden. A productivity commission that surveys obstacles to, and opportunities for, strengthening economic productivity has been appointed (Terms of Reference 2023:53). The commission will present an interim report on its assignment in May 2024, followed by a final report in 2025. To create better conditions for Swedish companies to grow, they need relief from bureaucracy and administration. Permit-issuing processes must be shorter, more efficient and more predictable. The Government has decided to establish a simplification council at the Swedish Agency for Economic and Regional Growth and an implementation council will be appointed. The Government will continue to work to reduce the regulatory burden and administrative costs for companies, and take measures to streamline and accelerate processing by government agencies.

Tax policy is a key part of economic policy. Tax revenues must finance public expenditures in a robust and legally compliant way while creating good conditions for high employment and growth rates. In section 5.5, the Government presents its proposal for tax policy guidelines.

The Government has appointed an inquiry to examine how to heavily stimulate and increase voluntary repatriation by other means (Terms of Reference 2023:151). The inquiry has been tasked with drafting proposals on which levels of economic incentives and support are socioeconomically justifiable to encourage repatriation, and how Swedish government agencies can better assist with practical preparations for those who may come into consideration for repatriation. The inquiry will report on its results by 1 August 2024.

To secure access to the right skills and improve competitiveness, everything from strengthened basic abilities such as reading, writing and arithmetic, to trained engineers is needed. The Government has therefore set aside funds for this in this year's budget. The tax rules should be formulated so as to improve Sweden's prospects of competing for international key skills and to promote research and development. Important steps in this process are expanding tax relief for experts and re-examining the research and development deduction and expert tax rules. To improve conditions for the smallest businesses and other actors with small operations, the Government intends to propose an increased turnover threshold for value added tax starting on 1 January 2025.

In the climate policy action plan (Govt Communication 2023/24:59), the Government observed that climate change can only be solved in a growing economy that is characterised by increased competitiveness, enhanced preparedness and resilience. Swedish businesses have been ahead of the curve in identifying opportunities to benefit from the changes taking place globally. Through political decisions, it is possible to create frameworks that support climate transition. The most important conditions are a secure and cost-effective supply of fossil-free energy, effective permit-issuing processes and access to relevant expertise. Stable, fossil-free electricity is essential not only for growth, but also for climate transition in industry and electrification of the transport sector. Efforts to establish new nuclear power plants in Sweden continue.

In the short term, higher interest rates are having a very negative impact on housing construction. The Government has therefore taken short-term measures to support the construction sector, including through the proposal to temporarily raise the ceiling on the tax credit for building repairs, maintenance and improvement. In the long

term, construction is being structurally impacted by access to buildable land, regulatory frameworks and actions taken by the municipalities. The Government is therefore working on reforms to increase access to buildable land, improve the use of existing buildings and eliminate other structural obstacles in the housing market.

Countries with strong public finances are able to prioritise growth investments even in difficult times. Sweden has a low national debt and strong public finances, which provides leeway for additional investments for higher growth. It is therefore essential to maintain order in central government finances.

## **Measures to bolster the economy and enhance safety and security**

In the Spring Fiscal Policy Bill, the Government describes its policy direction for the medium and long term. No new reforms are proposed for ordinary cases in the Bill. The Government will instead incorporate them into the Budget Bill, in which its proposals for the central government budget for the coming years will be presented in the autumn. Should changes occur during a budget year that could not be foreseen in connection with the Budget Bill, the Government will present proposals for amendments to the central government budget for the current budget year. As a rule, this should take place in connection with the Spring Fiscal Policy Bill (Spring Amending Budget) or the Budget Bill (Autumn Amending Budget).

Together with this Bill, the Government presents the Spring Amending Budget Bill for 2024 to the Riksdag. The Bill includes measures for the following:

- Navigating Sweden through the recession and shoring up the welfare system
- Law enforcement and improved safety and security
- Stronger defence and crisis preparedness