

# 1 Budget Statement

## 1.1 Policy positions and summary

### A challenging time lies ahead of us

Sweden finds itself in a challenging economic environment. High inflation and rising interest rates are putting pressure on households and businesses. The Swedish economy is expected to be in recession in 2023. At the same time, unemployment in Sweden is high compared to other European countries. This is especially true for foreign-born people who have been outside the labour market for a long time. The forecast for the Swedish economy is gloomy, and there are significant risks that this development could worsen. It is therefore important that Sweden's fiscal policy balances well the need to bring down the high inflation rate and the capacity to manage the downturn in the economy.

The fiscal framework must be upheld in order to ensure stability and predictability in economic policy. For too many years, the surplus target has not been achieved. It is therefore especially important that the budget is tailored to achieve the surplus target. The high inflation rate also prompts a restrained fiscal policy. It is important that fiscal policy does not counteract monetary policy in a situation where high inflation could become entrenched. High indebtedness makes households and businesses sensitive to interest rate hikes. If the high inflation rate persists, it will likely lead to interest rates rising to even higher levels over a long period of time. This risks deepening the recession.

In view of the economic situation and the high inflation rate, the Swedish Government is proposing a slight tightening bias in the budget.

Compliance with the fiscal framework will ensure that there is room for manoeuvre in the event of a deterioration in the economic situation. The Government tests all proposals for reform against the economic scope and the fiscal framework. Orderliness in public finances is a priority task.

Financial stability also needs to be safeguarded.

### Measures to support households, businesses and the welfare system

Even within the limits of a fiscal policy tailored to achieving the surplus target, there is scope for supporting Swedish households and businesses that are under pressure from high energy prices. The high energy prices are due to supply shocks in the global economy, which are driving up prices on a global level, and also to problems of domestic origin that have led to increased energy prices in Sweden. The reduction in nuclear power combined with inadequate expansion of the transmission capacity between northern and southern Sweden has driven up electricity prices in Sweden and made southern Sweden more sensitive to European price levels. Taxes and other domestic regulations, such as the level of the greenhouse gas reduction mandate, have driven up transport costs in Sweden relative to other EU countries.

The Government cannot and should not compensate consumers for all of the price increases currently occurring. However, particularly vulnerable groups should be given special consideration. The Government intends to reform the taxes or other rules that

have contributed to the increase in Swedish cost levels, especially when it comes to transport costs. At the same time, the Government will promote electrification and the use of fossil-free fuels. Other instruments for reducing emissions from the transport sector will be investigated. The Government also intends to ensure that a short-term, high-cost protection scheme is put in place, where the congestion revenue that has been paid by Sweden's electricity consumers is returned to them.

In order to mitigate the high prices leading to cutbacks in municipal activities, particularly in the areas of health, education and social care, and impacting employment in the welfare sector, the Government is proposing increased funding to the municipalities and regions. Strengthening the general government grants to municipalities and regions will provide better opportunities for dealing with the effects of high inflation and a weaker business cycle.

## **Strengthen the conditions for jobs and growth**

Economic policy needs to focus again on structural reforms that result in higher employment and productivity in the long term. The work-first principle (*Arbetslinjen*) needs to be re-established. Sweden has comparatively high unemployment and it is likely to rise as a result of weaker demand in the Swedish economy. More persistent inflation could lead to a tightening of monetary policy, which in turn risks leading to even weaker economic development and even higher unemployment.

To counteract a higher rate of unemployment, the Government intends to propose reforms in at least three areas in the coming years. Firstly, it needs to be more worthwhile to work and gain qualifications. During the Government's electoral period, there will be tax cuts for primarily low- and middle-income earners to increase incentives to work and thereby increase the number of hours worked in the economy. Secondly, a major reform of benefits should be implemented that aims to improve the chances of getting people into a job, thereby pushing back social exclusion. A benefit ceiling will be introduced; transparent and adapted activity requirements will be imposed on those on income support; and the possibility of participation in activities that contribute to the community. Thirdly, transition possibilities need to be strengthened. The student finance scheme for transition and retraining (*omställningsstudiestödet*) that has recently been introduced is central in this work. In addition, in this Bill the Government also proposes strengthening adult education to combat unemployment. Providing more job opportunities is a fundamental question of equity and is crucial to breaking the cycle of social exclusion, increasing security, and strengthening welfare.

To enable more people to find work, more businesses need to start up and grow in Sweden. The Government wants to provide a basis for higher growth by significantly improving the conditions for competition, investment, innovation, research and entrepreneurship. This Bill takes an initial step by promoting investments in research and development. The Government will also appoint a productivity commission, which will analyse the main obstacles to increased productivity in the Swedish economy, and submit proposals for how productivity can be improved. Work will begin to systematically reduce the administrative costs of businesses.

## **Additional demanding tasks lie ahead of us**

In addition to dealing with the challenging economic situation, Sweden faces other demanding tasks.

Safety has become the great issue of freedom of our time. Organised crime is a threat to the system, and damages the confidence and trust on which Swedish society rests.

The Government will now launch the largest offensive against organised crime in Swedish history. Tougher penalties for individual offences are essential, but not enough. The Government intends to undertake a complete overhaul of Sweden's criminal legislation. Making individuals feel safer and more secure, and making society more resilient to organised crime, will mean imposing higher demands for results on the law enforcement authorities. The Swedish Police Authority is to grow towards a target of officers per capita at least equivalent to the EU average. The entire Swedish judicial system needs to be strengthened and brought closer to the people. Equally important is prevention; to give all children an honest chance, and to detect warning signs early.

Sweden's military defence capabilities will be strengthened. Sweden's defence, including civil defence, will be provided with better opportunities to defend our country, to uphold Sweden's territorial integrity, and to protect the interests of the nation, contributing to security and stability in our neighbourhood in line with Sweden's solidarity-based security policy. Sweden will become a member of NATO and fulfil its obligations regarding the size of its defence expenditure. No question is more central to Europe's security than that of Ukraine being able to defend itself against Russia's invasion. Therefore, Sweden should provide as much support as possible to war-torn Ukraine – politically, economically and in terms of security – including the transfer of more advanced weapons systems to Ukraine.

Immigration to Sweden has been unsustainable, and a paradigm shift is now taking place in Swedish migration policy. The right of asylum will be maintained through the binding international rules that Sweden has undertaken to follow. The starting point will be that protection will be offered temporarily to those fleeing conflict or crisis in Sweden's neighbourhood. Sweden's legislation governing asylum seeker reception will be adapted to ensure that it is not more generous than is required of any Member State under EU law.

Health care queues are to be shortened, quality improved, freedom of choice safeguarded, and access to health and medical services increased. The Government is prioritising new, targeted investments to expand treatment capacity, improve the health of women and older people, and increase central government's responsibility through a national health care referral centre among other things. Care for the elderly is to be strengthened during the Government's electoral period. The Government will also preserve the plurality of health care providers, increasing freedom of choice and stimulating the development of new ways of working and improving accessibility. This benefits patients and care users as well as staff.

The school's focus on knowledge will be re-established. There need to be better opportunities and more time for teachers to focus on teaching and the school's knowledge mission. Teachers will also be given better opportunities and more tools for dealing with disorderly conduct in schools. There will be initiatives to increase the number of special needs teachers, strengthen summer school, and improve access to new, high-quality teaching and learning materials.

Sweden will pursue an effective and ambitious energy, climate and environmental policy. The Government is committed to ensuring that policy in these areas is sustainable and cost-effective in the long term. Policy will be based on the most effective reforms for assuring a robust and fossil-free electricity supply throughout the country. Funds are allocated to enable large-scale carbon capture and storage (e.g. via BECCS), which will help to reduce net greenhouse gas emissions. The conditions for industry to develop and invest in new technologies that reduce its emissions will be improved.

Conditions for residing, working and living throughout the whole of Sweden will be strengthened, and the costs of commuting will be reduced. The expansion and maintenance of critical infrastructure, such as the establishment of broadband and road maintenance, will be intensified. The competitiveness of Swedish food production will be strengthened while retaining Sweden's high standards of animal welfare.

The uncertain economic situation entails a significant risk of the recession becoming deeper than forecast in this Bill. The energy crisis could worsen for example, which risks adversely affecting the Swedish economy leading to a weaker trend in the labour market. Falling tax revenue in the municipalities could also place the welfare system under severe pressure. Sweden's strong economic policy institutions are an asset in troubled times. Sweden's fiscal framework and an independent central bank – together with responsible social partners – will be important for Sweden being able to cope with the difficult economic times that lie ahead of us. Given the uncertainty and great risks that prevail, the Government is prepared, if necessary, to take further measures to safeguard Sweden's economy and protect households and businesses.

This Bill is based on an agreement between the Sweden Democrats, the Moderate Party, the Christian Democrats, and the Liberal Party.

**Table 1.1 Table of reforms**

SEK billions

	2023	2024	2025
<i>A stronger economy with more people in work</i>			
Temporarily reduced tax on petrol and diesel	6.73	6.86	6.86
Extension of housing allowance supplement	0.52		
Tax cut for people over 65 years of age in work	0.77	0.77	0.77
Strengthened adult vocational education ( <i>yrkesvux</i> ) and more work experience placements	0.45		
Maintain the current level of unemployment insurance	5.82	6.35	6.64
A higher commuting deduction	1.81	1.81	1.81
Increased funds for completion of European Spallation Source	0.36	0.57	0.53
Increased R&D deductions	0.10	0.20	0.20
<i>Increased security and equity</i>			
Increased funding for the Swedish Police	0.90	1.21	1.17
Strengthened judicial system	0.31	0.46	0.66
Increased funds to Swedish Security Service	0.16	0.30	0.36
Preventive initiatives	0.91	1.02	0.59
Better opportunities for recovering proceeds of crime	0.06	0.12	0.12
Greater possibilities for covert and preventive coercive measures		0.27	0.27
Increased capacity in the Swedish Prison and Probation Service			1.16
Stricter rules for parole			1.20
<i>A reliable welfare system</i>			
Better textbooks	0.69	0.56	0.56
Greater access to special needs teachers, special needs education initiatives and special classes	0.60	0.90	1.00
Timeout and behavioural intervention schools	0.05	0.10	0.10
Social services teams	0.08	0.25	0.25

	2023	2024	2025
More treatment places and strengthened health care	2.00	0.50	2.00
Obstetrics care	0.20	1.50	1.50
Extension of sickness allowance exemption due to deferred treatment	0.21		
Support for combating ill health and loneliness in older people	0.30	0.30	0.30
Sport and recreational activities card for children ( <i>Fritidskort</i> )	0.05	0.73	0.79
Increased government grants to municipalities and regions	6.00	6.00	6.00
<i>A stronger national defence and foreign affairs policy</i>			
A stronger national defence	4.26	8.77	9.09
Strengthening of the Swedish Coast Guard	0.03	0.27	0.25
Civil defence	0.91	1.28	1.39
A more cost-effective aid policy	-7.29	-9.51	-12.72
<i>A new effective and ambitious energy and climate policy</i>			
Preparations for new nuclear power plants	0.08	0.15	0.15
Abolished waste incineration tax	0.41	0.45	0.47
Abolished carbon tax in combined heat and power (CHP) plants and heating plants within the EU ETS	0.10	0.10	0.10
Increased subsidy rate for solar cells	0.28	0.28	0.28
Support for energy efficiency in single-family dwellings	0.38	0.40	0.40
Abolished tax relief for data centres	-0.14	-0.28	-0.28
International climate investments	0.06	0.10	0.10
The Industrial Leap	0.60	0.60	0.60
Expanded charging infrastructure and workplace charging stations	0.54	1.61	1.12
Abolished climate bonus	2.99	-2.97	-2.97
Better aquatic environment	0.25	0.25	0.25
Restoration of wetlands	0.20	0.20	0.20
Remediation of contaminated sites	0.34	0.34	0.34
<i>Life for the whole country</i>			
Broadband expansion	0.60	0.60	0.60
Increased road maintenance	1.00		
Temporary tax cut on diesel in agriculture, forestry and aquaculture	0.38		
Strengthened rural health care	0.30	0.30	0.30
Investment in new infrastructure	1.00		
<i>A sustainable migration and integration policy</i>			
Reduced number of quote refugees	-0.39	-0.94	-1.28
Increased funding to Swedish Migration Agency and the Migration Courts	0.57	0.35	0.14
<i>Better control of government expenditure</i>			
Improved population registration through a new census	0.08	0.17	0.17
<i>Other reforms and inevitabilities</i>			
	3.82	6.58	4.50
<b>Effect on general government finances</b>	<b>40.43</b>	<b>39.88</b>	<b>38.03</b>

Source: Own calculations

**Table 1.2 Electricity subsidy for businesses**

SEK billions

	2023
Targeted electricity subsidy for electricity-intensive businesses	2.40

Measure initially financed by Svenska kraftnet's congestion revenue, does not impact public finances.

Source: Own calculations.