Sweden's convergence programme 2020

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 submitted 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 submitted 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 2020 is based on the Spring Fiscal Policy Bill for 2020 (Govt Bill 2019/20:100). The Government presented the Bill to the Riksdag on 15 April 2020. The Parliamentary Committee on Finance was informed about the Convergence Programme on 21 April 2020. The Government adopted the Convergence Programme on 23 April 2020.

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.

General government net lending target

The purpose of having a governing target for general government net lending is to contribute to strengthening control of the long-term development of general government finances. The net lending target also makes clear the need to set priorities among 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 scope 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 for 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 0.33% (one third of a per cent) of GDP over an economic cycle and supplementing the budgetary policy framework with a debt anchor for general government consolidated gross debt. The Riksdag adopted the Government's proposal (Committee Report 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).

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

Expenditure ceiling and a stringent budgetary process

The expenditure ceiling covers central government primary expenditure, i.e. excluding interest expenditure, and expenditure in the old-age pension system. The 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 income are used for permanent increases in expenditure.

The expenditure ceiling is the overarching restriction on the budget process in terms of total expenditure. The principle is that expenditure ceiling levels decided by the Riksdag are not revised except to make technical adjustments. The Budget Act also requires the Government to take measures if there is risk of exceeding an expenditure ceiling adopted. The established practice is to also have a 'budgeting margin' of a certain size under the expenditure ceiling. This is primarily intended to act as a buffer if macroeconomic developments lead to expenditure growth not expected when the level of the expenditure ceiling was adopted.

A well-organised, stringent 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 core importance that the central government budget is transparent and comprehensive. The Government's proposed budget has to include all income and expenditure, as well as other payments that have an impact on the central government borrowing requirement (the "completeness principle"). Central government revenue and expenditure have also to be budgeted and reported gross under income headings and appropriations (the "gross principle"). This means that expenditure has to be reported on the expenditure side of the budget, while income has to be reported on the income side. A further main principle 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 outcomes of net income have to be corrected within three years unless there are exceptional reasons.

The Local Government Act requires municipalities and regions to have sound financial management in their operations. This means, for instance, 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 fulfil 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 EU, Sweden is also bound by the EU debt criterion, which states that general government consolidated gross debt must not exceed 60% of GDP. The fiscal policy framework has therefore been supplemented with a debt anchor for consolidated gross general government 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 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. The debt is measured as the outcome in the national accounts for the preceding year and according to the forecast for the present year or the budget year. In its communication the Government has to give an account of the cause of the deviation and how the Government intends to handle it.

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. It includes provisions that the general government deficit must not exceed 3% of GDP and that 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 measures. The level of MTO is decided by each Member State, but it must be compatible with a minimum level calculated by the EU Commission. Sweden's medium-term budgetary objective is -1% of potential GDP (see section 3.4).

The general escape clause in the Stability and Growth Pact has been activated on account of the economic situation resulting from the COVID-19 crisis. 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.

The Commission has still to present new structural balance assessments, which means that it is uncertain whether Sweden's medium-term budgetary objective will be considered to have been met for 2020. It also remains to be seen how any deficits in general government finances of more than 3% of GDP will be dealt with in general and whether any Excessive Deficit Procedures will be opened.

1.3 Monetary policy objective and monetary policy in Sweden

The Riksbank is responsible for monetary policy in Sweden. According to Chapter 9, Article 13 of the Instrument of Government, no other 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 this Act, the members of the Executive Board of the Riksbank may neither seek nor receive 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 is to support the objectives of general economic policy for the purpose of attaining sustainable growth and a high level of employment. This is achieved through the Riksbank, in addition to stabilising inflation around the inflation target, endeavouring to stabilise production and employment around paths that are sustainable in the long term. The Riksbank therefore conducts what is generally referred to as flexible inflation targeting. This does not mean that the Riksbank neglects the fact that the inflation target is the overriding objective.

It takes time for before monetary policy to have full impact on inflation and the real economy. Monetary policy is therefore guided by forecasts of economic developments. The Riksbank publishes its own assessment of the future path for the repo rate. However, this repo-rate path is a forecast, not a promise.

In connection with every monetary policy decision, the Executive Board makes an assessment of the repo-rate path needed, and any potential supplementary measures necessary, for monetary policy to be well-balanced. The 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 to the question of how quickly the Riksbank aims to bring the inflation rate back to 2% if it deviates from the target. A rapid return may in some situations have undesired effects on production and employment, while a slow return may weaken confidence in the inflation target. The Riksbank's general 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 the fact that inflation will not always be exactly 2% each month, a variation band is used that spans 1 to 3%, which captures around three quarters of the historical monthly outcomes of CPIF inflation. The Riksbank constantly strives for 2% inflation, regardless of whether inflation is initially inside or outside the variation band.

According to the Sveriges Riksbank Act, the Riksbank's tasks also include promoting a safe and efficient payments system Risks linked to developments in financial markets are taken into account in the monetary policy decisions. With regard to preventing an unbalanced development of asset prices and indebtness however, well-functioning regulation and effective supervision play a central role. Monetary policy only acts as a complement to these.

In some situations, as in the financial crisis 2008-2009, the repo rate and the repo-rate path may need to be supplemented with other measures to promote financial stability and ensure that monetary policy is effective.

The Riksbank endeavours to ensure that its communication is open, factual, comprehensible and up-to-date. This makes it easier for economic agents to make good economic decisions. It also makes it easier to evaluate monetary policy.

The Executive Board of the Riksbank usually holds five monetary policy meetings per year at which it decides on monetary policy. A monetary policy report is published in connection with these meetings. Approximately two weeks after every monetary policy meeting, the Riksbank publishes minutes from the meeting, in which it is possible to follow the discussion that led to the current decision and to see the arguments put forrward by the different executive board members.

The monetary policy decision is presented in a press release at a certain time in the morning on the day after the monetary policy meeting. The press release also states how the individual executive board members voted and provides the main motivation for any reservations entered. A press conference is 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 the euro is not under consideration.

Riksbank Committee of Inquiry

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 2016:114, terms of reference 2017:57, terms of reference 2017:100 and terms of reference 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 [Utvärdering av Riksbankens penningpolitik 2010–2015]* (Committee Report 2015/16:FiU41 The Riksbank Committee, which consisted of representatives of all the parties in the Riksdag (the Swedish Parliament) presented its final report *A new Sveriges Riksbank Act [En ny riksbankslag]* (SOU 2019:46) to the Government in November 2019. The following is a brief summary of the proposals presented by the Committee in the area of monetary policy.

The Committee notes that the tasks of the Riksbank as part of monetary policy consist of conducting monetary policy and 'exchange rate management', the latter if the Government has adopted a target for the exchange rate. The Sveriges Riksbank Act proposed by the Committee is compatible with both a floating and a fixed exchange rate.

The Committee proposes that low and stable inflation should be the objective of monetary policy. Without prejudicing the price stability objective, the Riksbank should contribute to balanced development of production and employment. The Committee gives its backing to the Riksbank's present specification, i.e. an inflation target measured according to CPIF with a target growth rate of 2% per year. The Committee proposes that, when required,, the Riksbank should make a submission to the Riksdag regarding changes to the specification of the price stability objective. The Riksdag should then choose to either approve or reject the Riksbank's proposal. The Committee's assessment is that it is not appropriate to include financial stability as a separate objective of monetary policy, and thereby take account of financial stability over and above the effects that go via inflation ant the real economy.

The Committee also proposes assigning the Riksbank a number of powers as part of monetary policy, which consists of various instruments and possible restrictions on the use of these instruments; examples include accepting deposits; offering credit in Swedish kronor or foreign currency in return for adequate collateral and setting the interest rate on these credits; issuing debt instruments in Swedish kronor; and buying government securities in the secondary market (but taking into account how these purchases affect the functioning of financial markets and the management of the central government debt); buying private securities if there are exceptional reasons; and implementing currency interventions (while taking account of the applicable exchange rate system).

The Committee proposes introducing a proportionality principle for decision-making by the Riksbank. The meaning of the proportionality principle is that a measure should be taken if the intended result is in reasonable proportion to the costs and risks that the measure leads to for the Riksbank's and central government finances.

Finally, the Committee proposes strengthening the institutional independence of the Riksbank by providing that the Riksbank will no longer be obliged to inform a government minister ahead of all important monetary policy decisions and only has to do so after these decisions.

A consultation has been held on the Committee's proposals and the ECB has been given the opportunity to state an opinion. Since the proposals involve amendments to the Instrument of Government which requires two decisions by the Riksdag and that a general election is held between the decisions, a new Sveriges Riksbank Act can enter into force in 2023 at the earliest.

1.4 The Government's economic policy

In spring 2020 theGovernment has proposed a large number of measures to combat the effects of the COVID-19 virus both in five additional government bills proposing amendments to the central government budget and in the Government Bill 'Spring Amending Budget for 2020'. Table 1.1 and table 1.2 set out the measures proposed by the Government in these bills. It has already been possible to take several of these measures thanks to broad consensus in the Riksdag about the seriousness of the situation. Both the measures proposed and the Spring Fiscal Policy Bill for 2020 build on a political agreement between the Swedish Social Democratic Party, the Centre Party, the Liberal Party and the Green Party.

Table 1.1 Measures in additional amending budgets in spring 2020 and proposals in the Spring Amending Budget for 2020

SEK million

Measures and proposals	2020	Budget[1]
The spread of infection must be limited		
Targeted funding for health and social care	3 000	AAB2, SAB
Disease carrier benefit	500	AAB2
Individual benefit for sick pay standard deduction	1 700	AAB2
Increased COVID-19 testing	1 000	AAB5
Removal of medical certificate from day 8	350	AAB2
Removal of performance requirement for waiting list billions		SAB
Higher credit facility for National Board of Health and Welfare for preparedness investments		AAB2, AAB5
Funding to Swedish Civil Contingencies Agency for information measures	75	AAB2
Funding to Swedish Research Council for initiative in virus and pandemic research	100	SAB
Other items	221	AAB2, SAB
The consequences for Swedish jobs and companies will be pushed back		
Reduced costs for companies		
Reduction of employers' social security contributions (gross)	30 500	AAB4
Reduction of social security contributions of self-employed persons (gross)	2 180	AAB4
Short-term layoffs	19 500	AAB2, SAB
Rebate for fixed rent costs in vulnerable industries	5 000	ESB5
Suspended sick pay responsibility for employers	6 500	AAB2
Support to sole traders in the event of illness	150	AAB2, SAB
Liquidity reinforcement measures		
Higher allocation to tax allocation reserve	-1 540[2]	AAB4
Deferred payment of taxes and contributions	171	AAB2
VAT deferral for full-year reporters		AAB4
Other items	24	AAB2
State credits and loans		
State credit guarantees for loans to companies		AAB3
Increased and expanded credit facility, Swedish Export Credit Corporation (SEK)		SAB
Increased guarantee framework, Swedish Export Credit Agency (EKN)		SAB
Capital injection ALMI	3 000	SAB
Credit guarantees for airlines		AAB1
Other impacts		
Support for sport and culture	1 000	ESB5
Support for local journalism	200	SAB
Security and transition for people who become unemployed		
Employment must be safeguarded		
Funding to Arbetsförmedlingen (Swedish Public Employment Service)	330	SAB
Summer jobs for young people	180	SAB

Measures and proposals	2020	Budget[1]
Green jobs	150	SAB
More programme measures	1 870	SAB
Extended period in new start jobs	50	SAB
The unemployment safety net is reinforced		
Shorter membership condition in unemployment insurance	331	ESB5
Higher ceiling for income-related benefit	3 466	AAB5
Higher ceiling for basic-rate benefit	610	AAB5
Suspension of unemployment insurance fund qualifying days	397	ESB5
Relaxation of work condition in unemployment insurance	427	ESB5
Simplified conditions for unemployment insurance for sole traders		AAB5
Processing cases at unemployment insurance funds	100	SAB
Opportunities for education and training must be strengthened		
Summer courses	177	SAB
More students in higher education	154	SAB
Foundation year at higher education institutions	277	SAB
Distance education initiatives in several forms of education	95	SAB
Regional vocational adult education	700	SAB
Expansion of folk high schools	76	SAB
Investment in vocational adult education	369	SAB
Suspended income ceiling	1 000	ESB5
Other items	35	SAB
Continued fight against societal problems		
Higher general grant to local government sector	20 000	SAB
Extended biogas support	120	SAB
Solar cells, higher authorisation[3]		SAB
National Board of Institutional Care	250	SAB
Migration Courts	180	SAB
Other reinforcement of the judicial system	120	SAB
Legal counsel	800	SAB
Support for vulnerable children and women and children subjected to violence	100	ESB5
Other unavoidable items	736	SAB
Total	**106 731**	
of which SAB	49 204	
Adjustment for impact on public finances	-11 596	
Total impact on public finances	**95 135**	

[1] AAB1: Additional Amending Budget for 2020 – Credit guarantees for airlines due to SARS-CoV-2 (Govt Bill 2019/20:136). AAB2: Additional Amending Budget for 2020 – Measures in response to COVID-19 virus (Govt Bill 2019/20:132). AAB3: Additional Amending Budget for 2020 – Credit guarantees for loans to companies (Govt Bill 2019/20:142). AAB4: Additional Amending Budget for 2020 – Further measures in the area of taxation in response to COVID-19 virus (Govt Bill 2019:20:151). AAB5: Additional Amending Budget for 2020 – Further Measures on account of the Coronavirus (Govt Bill 2019/20:146). SAB: Spring Amending Budget for 2020 (Govt Bill 2019/20:99).

[2] The possibility of making higher allocations to tax allocation reserves also affects tax revenue for 2019. The impact on public finances for 2019 is negative and amounts to SEK -9 billion.

[3] The authorisation framework is increased by SEK 200 million for 2020, which is estimated to increase expenditure by SEK 100 million per year in 2021 and 2022.

Source: Own calculations.

Table 1.2 Scope of certain measures in additional amending budgets in spring 2020 and proposals in the Spring Amending Budget for 2020

SEK million

Measures and proposals

Guarantees	Increase
State credit guarantees for loans to companies	100 000
Increased and expanded credit facility, Swedish Export Credit Corporation (SEK)	75 000
Increased guarantee framework, Swedish Export Credit Agency (EKN)	50 000
Credit guarantees for airlines	5 000
Total	**230 000**

Liquidity reinforcement	Maximum amount
Deferred payment of taxes and contributions	315 000
VAT deferral for full-year reporters	7 000
Higher allocation to tax allocation reserve	13 000
Total	**335 000**

Source: Own calculations.

Table 1.3 presents the budgetary impacts of all proposals for and announcements of reforms and financing that the Government has submitted and given an account of 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 1.3 Combined budgetary impacts of Government policy 2019–2023 in relation to the previous year

Changes in expenditure and revenue in relation to measures and funding previously adopted and announced and those now proposed and announced.[1] Budgetary impact on general net lending. SEK billions

	2019	2020	2021	2022	2023
Expenditure changes[2]					
Change in ceiling-limited expenditure	11,9	88,9	-51,8	-2,8	-3,3
Adjustment for differences between the accounting principles in the central government budget and the National Accounts	4,4	-1,2	4,1	-1,2	-0,3
of which, infrastructure investments funded by borrowing[3]	3,2	3,6	1,7	-1,6	-2,5
Total expenditure changes	**16,3**	**87,7**	**-47,7**	**-4,0**	**-3,6**
Revenue changes[2]					
Taxes, gross	-27,5	-36,7	27,1	6,2	0,0
Indirect impact of taxes	0,5	8,9	-6,3	-0,8	0,0
Other revenue reforms	-0,1	0,8	0,6	0,1	0,0
Total revenue changes, net	**-27,1**	**-27**	**21,4**	**5,4**	**0,0**
Changes in expenditure and revenue, impact on general government net lending[2,4]	**-43,3**	**-114,7**	**69,1**	**9,4**	**3,6**
Per cent of GDP	-0,9	-2,4	1,3	0,2	0,1

Note: The amounts are rounded off and thus do not always agree with the total.
[1] Table 1.3 includes budgetary effects of measures proposed by the government in SAB Spring Amending Budget for 2020 (Govt Bill 2019/20:99) that the Parliament is to process in June 2020.
[2] For expenditure reforms, a minus sign reflects a decrease in an appropriation or the cessation or reduction in scope of temporary programmes. For revenue reforms, a minus sign reflects a decrease in tax revenues. For the combined budgetary effects of expenditure and revenue reforms, a minus sign indicates a weakening in general government finances compared with the preceding year.
[3] This item shows the change in net borrowing for road and rail needs. Net borrowing consists of the difference between new borrowing and amortisation.
[4] Excluding the indirect impact of expenditure reforms on the revenue side.

Source: Own calculations.

The Government's further reform ambitions

The whole of Sweden is now coming together in the fight against the COVID-19 virus. The pandemic is a serious threat to human life and health, and serious economic consequences will follow in its wake. All necessary measures and resources must be used to limit the spread of the infection. The impact on companies, jobs and the economy must be pushed back. The virus outbreak and its consequences must be addressed through cooperation and shared responsibility, both in and between countries.

At present there is great uncertainty about how quickly the virus is spreading, and on what scale, as well as about the seriousness of its impact on the economy. The situation can change very quickly. Thanks to strong public finances, Sweden is well placed to take the measures required.

The spread of the virus must be limited

Everyone working in health care and communicable disease control must have the tools and resources needed to manage and limit the spread of the virus.

Through their responsibility for health and social care, the regions and municipalities have a crucial role in the fight against the virus outbreak. The local government sector is being given additional funding, both targeted and general, to deal with the immediate additional costs resulting from the outbreak. The performance requirements in the 'waiting list billions' [*kömiljarderna*] for health care are being removed temporarily. Funds are being set aside to rapidly increase the number of tests.

Government agencies participating in action to limit the outbreak must have the resources they need. The Public Health Agency of Sweden, the National Board of Health and Welfare and the Swedish Medical Products Agency have therefore had their appropriations increased. The National Board of Health and Welfare's credit facility for preparedness investments is being increased to enable the Board to buy testing, personal protection and intensive care equipment and other products.

The risk of health care overload decreases the more the spread of the virus can be limited. The sick pay standard deduction and the medical certificate requirement during a sick pay period have been removed temporarily and the resources for disease carrier benefit have been increased. The Government also proposes increased funds for the Swedish Research Council to finance more research intended to combat the virus and prevent future pandemics.

To increase public awareness about the virus outbreak, the Government has commissioned the Swedish Civil Contingencies Agency, working jointly with other relevant agencies, to rapidly produce national information material and to spread this information to as many people as possible.

Several restrictions have been introduced to limit the spread of the infection. Non-essential travel to Sweden and public gatherings and events for more than 50 participants have been banned. In restaurants and bars only table service is permitted. To protect older people the Government has also imposed a ban on visits to all care homes for older people in Sweden. It is also important that everyone takes responsibility for their own health and that of other people.

Impact on Swedish jobs and businesses must be pushed back

The economic impact of the COVID-19 virus is hitting the business sector very hard. Many business owners are experiencing great uncertainty and do not know whether their business will survive or what will happen to their employees. To support viable businesses and reduce the number of jobs lost, the Government has presented several crisis packages containing measures to reduce costs, strengthen liquidity and improve access to financing.

A system of support for short-term layoffs has been introduced to relieve companies of pay costs. The aim is for more companies to survive and fewer employees to lose their jobs. A temporary reduction of employers' social security contributions and the general payroll contribution for the first 30 employees for four months is in place. The social security contributions of self-employed persons have also been reduced. Central government will temporarily cover employers' sick pay costs, and sole traders with an F-tax card will be compensated through sickness benefit in days 1 to 14 of their sickness period.

The possibilities of deferring payments of taxes and contributions has also increased and temporary changes have been made to the rules for sole traders' allocations to tax allocation reserves. To facilitate lending to small- and medium-sized enterprises, in particular, the banks have been given the possibility of advancing loans with the support of government credit guarantees. Almi Företagspartner will receive a capital injection to increase its lending to small- and medium-sized enterprises. Increases are proposed in the Swedish Export Credit Corporation's credit facility and the Swedish Export Credit Agency's guarantee framework. The Government has also created conditions for credit guarantees to airlines.

To mitigate the negative impact on vulnerable sectors such as durable consumer goods, hotels and restaurants, rent support has been introduced, with the Government covering half of the rent rebate up to a maximum of 25% of the rent. The Government is also proposing additional funding to support cultural activities throughout the country and is providing the Swedish Sports Confederation with funds to distribute to sports associations in Sweden.

Security and transition for people who become unemployed

Despite the extensive measures that have been taken to support viable companies, many people are going to lose their jobs. In view of the present economic situation several temporary changes have been made to unemployment insurance to make it easier to qualify for benefit and to ensure that this insurance provides greater financial security for people who do become unemployed. In addition, measures are proposed to provide good transitioning possibilities.

More funding is proposed for Arbetsförmedlingen *[Swedish public employment service]* to deal with higher unemployment and ensure equivalent service levels throughout the country. For the Government considers it is important that Arbetsförmedlingen is given the ability to deal with the situation. Funds are also being provided to enable more people to participate in measures leading to jobs, such as labour market training, including distance training; 'extra jobs' [*extratjänster*, which is a form of subsidised employment]; and support and matching services. The period for which extra jobs, introductory jobs or new start jobs can be held is being extended temporarily.

Sweden's main competitive advantages include an innovative and knowledge-intensive business sector and a high capacity to transition to new jobs when old ones disappear. To enable more people to enhance their skills or transition to a new occupation, the Government proposes that more places be provided at universities and other higher education institutions, higher vocational education, vocational adult education and folk high schools. In 2020 central government will be fully responsible for the financing of regional vocational adult education.

Students should not have to run the risk of being unable to support themselves if their instruction is cancelled. The government has therefore decided that, in these cases, students will be able to retain study support granted. To ensure that students who choose to do work part-time, in health care for instance, will not have their student aid reduced, the income ceiling has been removed temporarily.

The Government will also monitor how the economic impact of the pandemic affects companies' competitiveness, the possibilities of living and working everywhere in Sweden, different groups in society and economic equality between women and men.

Continued fight against societal problems

Looking beyond the ongoing pandemic, unemployment, climate change, the growing needs in welfare provision, the gap between urban and rural areas, shortcomings in integration, learning outcomes in schools and crime are societal problems that must be addressed through further reforms.

The crisis may have serious consequences for Sweden over a long period. As soon as the spread of the infection permits, economic policy will be aimed at supporting a rapid recovery.

Sweden aims to be the world's first fossil-free welfare nation. Sweden will continue to take a leading role at both national and international level in implementing the Paris Agreement and the 2030 Agenda. The Government proposes an expansion of support for the installation of solar cells to enable more people to be granted that support. The Government also proposes investment in green jobs and a reinforcement of support for the production of biogas.

Our universal and tax-financed welfare system supports a high level of labour force participation, contributes to social equity and gender equality, and paves the way for improved life chances for everyone. Regions and municipalities are being given additional general reinforcements of their resources to cope with their strained economic situation. The Government proposes providing SEK 20 billion of fresh funding in 2020, of which SEK 12.5 billion is permanent additional funding for the local government sector. These additional resources will contribute to good access to health care, schools, social care and public transport of high quality.

The causes of crime will be addressed organised crime will be broken. The Government therefore proposes strengthening the judicial system by providing additional funding for bodies including the Swedish Prison and Probation Service, the National Board of Forensic Medicine, the National Board of Institutional Care and the Courts of Sweden, including the migration courts. Additional funding is also proposed for the Swedish Security Service, the Swedish Data Protection Authority and the Swedish Customs.

The virus outbreak can exacerbate the situation of people subjected to domestic violence or to honour-related violence and oppression. Funding is therefore being provided for organisations working with children in vulnerable situations and organisations working with women and children subjected to violence.

In troubled times it is even more important that the institutions of society stand up for free journalism, the rule of law and human rights. The Government is providing permanent additional funding for state support for the media.

Alongside the management of the acute crisis, work on reforms will continue in accordance with the policy agreement between the Social Democratic Party, the Centre Party, the Liberal Party and the Green Party.

The Government's view of the Council's recommendations from 2019

The Council adopted country-specific recommendations to the Member States on 9 July 2019. The formal Council Decision recommends that Sweden take the following action in 2019 and 2020:

1. Address risks related to high household debt by gradually reducing the tax deductibility of mortgage interest payments or increasing recurrent property taxes. Stimulate investment in residential construction where shortages are most pressing, in particular by removing structural obstacles to construction. Improve the efficiency of the housing market, including by introducing more flexibility in rental prices and revising the design of the capital gains tax.

2. Focus investment-related economic policy on education and skills, maintaining investment in sustainable transport to upgrade the different transport modes, in particular railways, and research and innovation, taking into account regional disparities.

3. Ensure effective supervision and the enforcement of the anti-money-laundering framework.

The Government welcomes the reviews conducted within the framework of the European Semester. The Government shares the assessment that household indebtedness poses a risk to macroeconomic stability. The high indebtedness and the functioning of the housing market are important challenges and the Government has taken action to address these challenges. The Government also shares the Council's assessment that education, infrastructure and research are important areas with continuing investment needs and has also taken major initiatives in these areas. Combating money laundering is a very important issue for the Government, which has also taken a number of measures to further strengthen legislation in the area and sharpen supervision. The Council's recommendations are considered further in chapter 3 of the National Reform Programme.

1.5 Monetary policy and financial economy

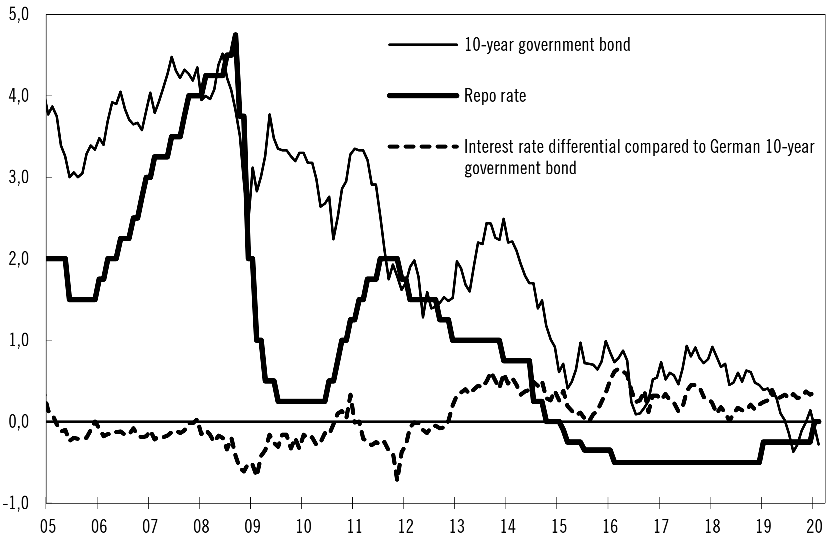
The Riksbank reduced the repo rate in stages between December 2011 and February 2016, from 2% to the historically low level of -0.50%. In December 2018 the Riksbank raised the repo rate to -0,25% and in December 2019 the repo rate was raised again to 0%. In addition to keeping the repo rate low, the

Riksbank has also carried out a comprehensive government bond purchase programme. In early 2020 several central banks, including the Riksbank, tried to counter the economic consequences of the COVID-19 pandemic. The Riksbank has therefore, for example, increased the number of purchases of assets, such as government securities, covered bonds and bonds issued by non-financial companies, to support the supply of credit to the economy.

The development of government bond yields in 2019 was characterised by elevated uncertainty concerning the trade relations between the US and China and by uncertainty around the exit of the UK from the EU. Lower inflation expectations and a more expansionary monetary policy globally led to falls in government bond yields both in other countries and in Sweden (see chart 1.1). At the end of 2019, however, confidence on financial markets rose and government bond yields increased. But, in connection with the virus outbreak in early 2020, lower growth and inflation expectations and a more expansionary monetary policy have contributed to sharp falls in government bond yields.

Chart 1.1 Interest rates in Sweden

Per cent

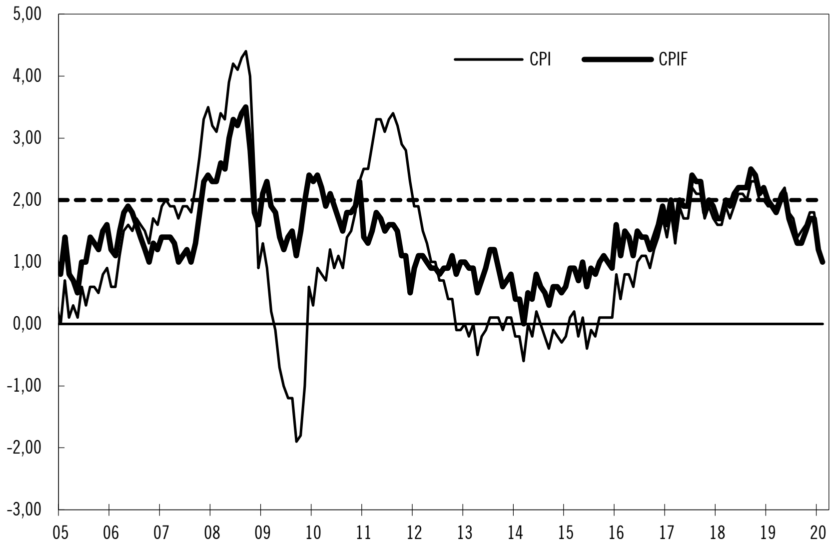


Sources: The Riksbank and Macrobond.

Inflation measured as CPIF has shown a negative trend since 2018 (see chart 1.2). Its decline is largely explained by the fall in energy prices, which previously had a strong positive contribution. Inflation has continued to slow at the start of 2020, and this can mainly be explained by lower electricity prices in the wake of an unusually mild winter with a great deal of precipitation and wind. At the beginning of 2020, CPIF inflation was lower than the Riksbank's inflation target of 2%. CPI inflation, which includes the rate of changes in mortgage interest rates, has also shown a negative trend since 2018 and was low at the start of 2020.

Chart 1.2 Inflation measured as CPI and CPIF

Annual percentage change



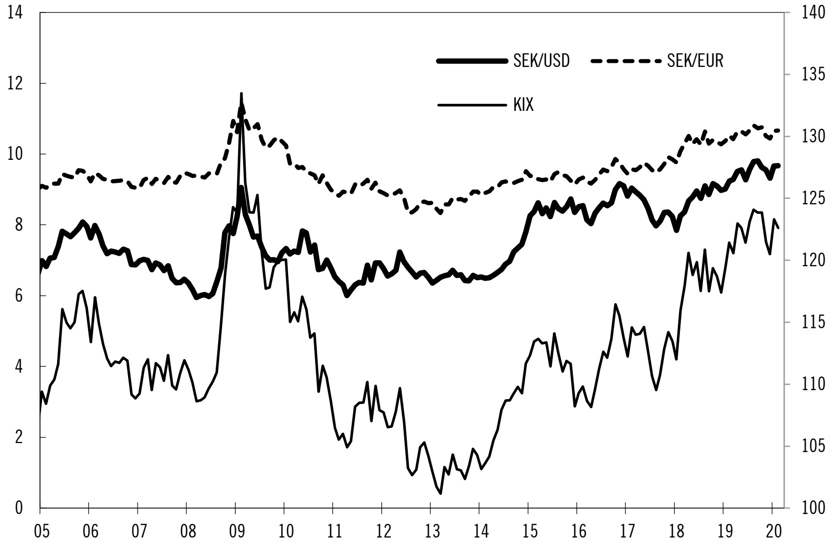
Note: The dashed line shows the Riksbank's inflation target.

Source: Statistics Sweden.

Sweden has had a floating exchange rate since November 1992. Chart 1.3 shows the development of the Swedish krona against the euro and the US dollar since 2005, along with the trade-weighted KIX exchange rate index. The krona has weakened against many currencies since 2014, which is explained to some extent by monetary policy. At the end of 2019, however, the krona strengthened when the Riksbank raised the repo rate, but it has continued to weaken in early 2020 in conjunction with the rise in uncertainty on financial markets resulting from the virus outbreak.

Chart 1.3 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: The Riksbank.

2. Macroeconomic developments

2.1 International economy

The outbreak of the COVID-19 virus is expected to have very major consequences for the global economy. The negative economic effects of the outbreak have already made a clear impact and economic activity has fallen sharply in many countries.

Far-reaching measures have been taken around the world to contain the infection. Workplaces, schools and universities have been closed. Bans on public meetings and on travel have been introduced. Some countries have also introduced curfews. The measures are expected to have very major consequences on the global economy. The demand for services has fallen sharply, primarily in the entertainment and visitor industry. Production volumes also decrease when factories and other businesses are closed on account of restrictions imposed, sickness absence and the non-arrival of deliveries of input goods The reaction of financial markets to this development has been strong and has included major falls on global stock exchanges. The uncertain situation is expected to dampen the will to invest and consume. World trade, which had, before the outbreak of the virus, already displayed its weakest growth since the financial crisis in 2008 and 2009, is expected to decrease.

A pandemic of the kind that is now in progress has never happened before in the present-day globally integrated economy, and it is therefore particularly difficult to assess the scale of the economic consequences it may bring. There are several uncertainties. Some are epidemiological and concern questions about how quickly and to what extent the virus spreads. Others concern what measures to contain infection are going to be taken and how extensive and lasting they will be. There is also uncertainty about how effective the fiscal and monetary policy measures now being taken are and how quickly the economy will recover when the spread of the infection eventually abates. Forecasts are based on the assumption that the infection will spread widely in Europe, the US and Asia. In addition, the measures introduced to stop the spread of the infection will mainly be in place in the first half of 2020.

The negative economic consequences on account of restrictions and behavioural changes intended to reduce the spread of infection are already apparent around the world. Real time indicators and the monthly statistics published show unambiguously that economic activity has fallen sharply recently. The purchasing managers index for the euro area fell in March 2020 to the lowest level ever measured, and the number of new applications for unemployment benefits in the US was rising at a record rate at the end of March.

After a sharp fall in the first half of 2020, the global economy is expected to recover gradually as of the second half of 2020 and to then gradually continue to rise in 2021 as economic activity slowly returns to normal. But it is expected to take time for production to recover to its pre-downturn levels. Resource utilisation internationally is expected to be lower than normal in both 2020 and 2021.

2.2 The Swedish economy

Economic activity in Sweden is expected to decrease strongly in 2020 as a result of the virus outbreak (see table 2.1). Domestic demand is expected to be severely affected by the restrictions and behavioural changes intended to reduce the spread of infection in Sweden. At the same time, Sweden's export-oriented industries are being hit hard by the global demand shock. Production in Sweden is also being affected more directly by closures, higher absences and disturbances in global value chains. Moreover, unrest in financial markets has increased and stock exchanges have fallen sharply.

Table 2.1 Key indicators

Annual percentage change, unless otherwise stated

	2019	2020	2021	2022	2023
GDP	1.2	-4.0	3.5	3.4	3.1
GDP gap[1]	0.8	-5.2	-3.6	-1.9	-0.4
Employment[2]	0.7	-1.6	0.6	1.2	2.2
Employment rate[3]	68.3	66.9	67.0	67.5	68.7
Hours worked[4]	-0.3	-2.4	1.5	1.1	2.1
Productivity, business sector[4,5]	1.9	-2.1	1.9	2.7	1.2
Unemployment rate[6]	6.8	9.0	9.0	8.4	7.0
Wages[7]	2.6	2.2	2.4	2.6	2.8
CPI[8]	1.8	0.5	1.2	1.3	1.8

[1] The difference between actual and potential GDP as a percentage of potential GDP.
[2] Persons, 15–74 years.
[3] Age group 15–74 years. Percentage of the population.
[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.

In an overall assessment, demand for Swedish goods and services is expected to decrease sharply in the first half of 2020 and to then recover gradually. Resource utilisation is expected to be much lower than normal, and the Swedish economy is expected to be in recession in both 2020 and 2021.

The sudden drop in demand as a result of the virus outbreak is expected to have major effects on the Swedish labour market. Employment is expected to fall sharply in 2020 as many companies are being forced to terminate staff. However the Government’s measures are assessed as mitigating this. The industries judged to be hardest hit by the drop in demand, based on information about redundancy notices, include the hotel and restaurant industry and retailing. A large share of the personnel in these industries have fixed-term contracts, which is expected to contribute to the large fall in employment.

On account of falls in demand and stoppages of production, many people are expected to become unemployed in 2020 and unemployment is expected to rise rapidly. This applies to both women and men. Indicators confirm the rapid rise in unemployment. For instance the number of redundancy notices reported to Arbetsförmedlingen in March 2020 was the highest figure ever measured. The risk of becoming unemployed is particularly high among the groups of people who already have a weak attachment to the labour market, on account of a fixed-term contract for instance. Examples include people born abroad and people who do not have an upper secondary education.

Since demand in the Swedish economy is expected to rise in the second half of 2020, the labour market is also expected to show something of a recovery. However, this recovery is expected to come with a certain lag since it can, for instance, take time for companies re-employ staff.

Resource utilisation decreases sharply in 2020 on account of the virus outbreak. It had already begun to decrease before the outbreak. The Swedish economy is judged to be in a severe recession on 2020, which will become milder but continue in 2021. This is reflected in a negative GDP gap, i.e. the percentage difference between actual and potential GDP.

On account of the rising uncertainty brought about by the virus outbreak, the round of collective bargaining has been postponed until autumn 2020 and existing collective agreements have been extended. There is uncertainty about how this will affect the rate of wage growth in 2020.

In a situation in which resource utilisation is judged to be much lower than normal, unemployment is rising and productivity growth is weak, wages are expected to grow at a slightly lower pace in 2020 and 2021 than in previous years.

Inflation measured as CPIF is expected to be low, especially in 2020. Forward prices of electricity and crude oil indicate that energy prices will have a restraining effect on inflation in 2020. Low resource utilisation, both in Sweden and internationally, is expected to slow inflation.

In an overall assessment, CPIF inflation is expected to slow considerably in 2020 and be below the Riksbank's inflation target of 2% in both 2020 and 2021. CPI-measured inflation is also expected to be low in 2020 and 2021.

2.3 Potential macroeconomic imbalances

The emergence of macroeconomic imbalances in, for instance, the form of persistent differences in competitiveness has created severe problems for many countries in the wake of the financial crisis. To ensure a favourable economic development in the long term, it is important, in the first place, to implement 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 occur. 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 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 2020 in December 2019. This report contained a preliminary economic analysis of the Member States, including a scoreboard with indicators in areas that might constitute macroeconomic imbalances. For Sweden, the Macroeconomic Imbalance Procedure for 2020 indicated that high private debt and high house prices were potential imbalances.

In February 2020, in connection with the publication of the annual country reports, the Commission published in-depth reviews of the 13 Member States that had been identified as countries with potential imbalances in the Alert Mechanism Report. The Commission's assessment was that macroeconomic Imbalances persisted in 12 of the 13 Member States examined. Of these 12 Member States, 3 were judged to have excessive imbalances. All Member States assessed as having imbalances will be subject to specific monitoring, which is, however, adapted to how serious the imbalances are judged to be.

The Commission will submit a proposal on measures to address these imbalances within the framework of the European Semester. These proposals will be included in the package of country-specific recommendations that the Commission will present in May 2020. The information provided in the Member States' national reform programmes and convergence or stability programmes will be taken into account. If the European Commission considers that a Member State assessed as having 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

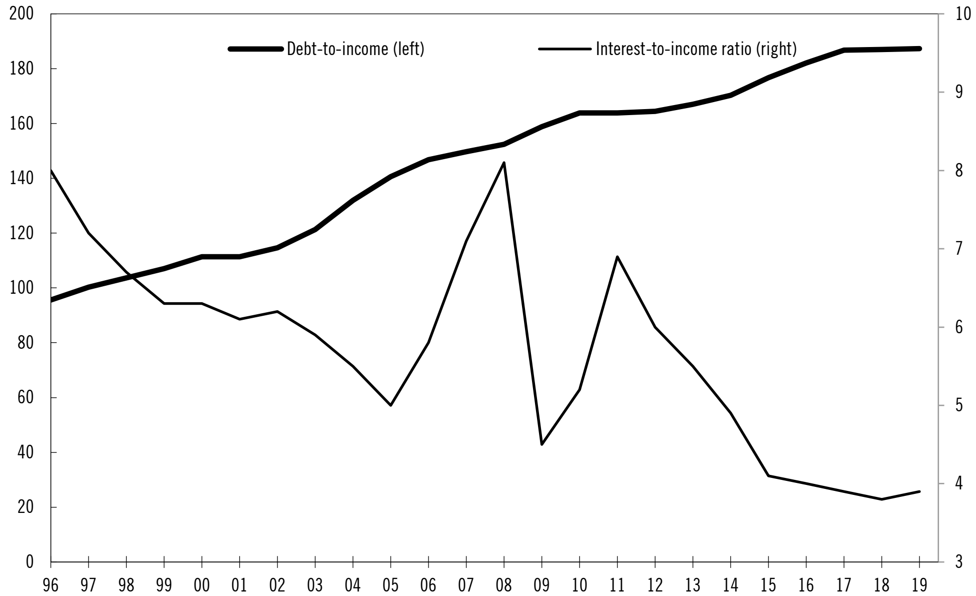
High debt, whether in the private or public sector, may lead to problems for both financial stability and macroeconomic performance.

The indebtedness of Swedish households has increased considerably since the mid-1990s (see chart 2.1). At the aggregated level, this development can be described in terms of debt-to-income ratio and interest-to-income ratio, where the debt and the interest payments after tax, respectively, are compared to households' disposable incomes. Even though the debt-to-income ratio is at a historically high level, the interest-to-income ratio is the lowest for the past 30 years. Lower interest rates have enabled households to take on more debt without higher interest expenditure crowding out their possibilities for consumption, investments or financial saving. The previous trend of a rising debt ratio broke in 2017, and debt has since stabilised at around 187% of households' disposable incomes. However, Swedish household debt is still high both from a historical perspective and compared with other countries.

A large part of the increase in house prices and household debt since the mid-1990s can be explained by structural and macroeconomic factors. More and more people own their homes. The supply of housing has increased more slowly than the population and housing-related taxes have been reduced, particularly in connection with the replacement of the central government real estate tax with a local real estate charge in 2008. The rise in the aggregate debt-to-income ratio since the mid-1990s is thus explained both by more households having loans and by households having larger loans on average. There is reason to carefully follow and monitor the high indebtedness among households.

Chart 2.1 Household debt-to-income and interest-to-income ratios

Percentage of disposable income



Source: Statistics Sweden.

In autumn 2010 Finansinspektionen adopted general guidelines concerning a ceiling for loans collateralised by residential property. The 'mortgage loan-to-value ceiling' meant that new loans should not exceed 85% of the market value of the property. Increased amortisation means that household debt decreases in the long term, which improves households' resilience. Following approval by the Government, Finansinspektionen also adopted amortisation requirement regulations, which entered into force on 1 June 2016. This requirement means that households borrowing more than 50% of the value of their home have to amortise at least 1% of their mortgage per year, while households borrowing more than 70% of the value of their home have to amortise at least 2% of their mortgage per year. On 1 March 2018 the amortisation requirement was tightened for households taking large mortgages in relation to their income. The tighter requirement means that households borrowing more than 4.5 times their annual pre-tax income have to amortise an additional 1% of their mortgage per year. In 2018, following Government approval, Finansinspektionen decided to amend the amortisation regulations so that the amortisation requirements also cover companies that have licences to provide mortgages under the Mortgage Business Act (2016:1024). Finansinspektionen has also been given an expanded mandate as of 1 February 2018 to enable the authority to propose further macroprudential measures. However, the measures must be approved by the Government before they can be implemented.

The design of the amortisation requirement enables banks and borrowers to agree on exemptions from the requirements when there are special reasons. On account of the spread of the COVID-19 virus Finansinspektionen announced on 17 March 2020 that income loss linked to the virus is one such special reason for exemptions from amortisation. On 2 April 2020 Finansinspektionen also proposed that banks be given the possibility of offering all new and existing mortgagors an exemption from the amortisation requirements in view of the spread of the COVID-19 virus and its effects on the Swedish economy. It is then up to the banks to determine on the basis of individual assessments whether exemptions should be granted. The exemption is proposed to enter into force on 14 April 2020 and apply until and including June 2021. At that time the authority will evaluate the situation in the Swedish economy to assess whether exemption should be extended or removed.

In 2018 the Government commissioned Finansinspektionen to present methods for evaluating macroprudential policy tools. Finansinspektionen's final report on this commission was presented to the Government on 14 June 2019. Finansinspektionen's report shows that the macroprudential measures have led to households buying cheaper homes, taking smaller mortgages and amortising more than they would have done without the measures.

The Swedish banking system is large and is dominated by a few, closely-linked banks. The major banks have considerable exposure to the housing market. Several measures have therefore been taken to strengthen the resilience of the financial system. To ensure that banks maintain own funds that cover the risks in their Swedish mortgage portfolio, Finansinspektionen introduced a risk-weight floor for Swedish mortgages in several stages. In May 2013 a risk-weight floor of 15% was introduced, and it was then raised to 25% in September 2014. It has now been replaced by a requirement within the framework of Article 458 of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (Prudential Requirements Regulation). The aggregate capital needs of credit institutions were not affected to any appreciable extent by this. The requirement entered into force on 31 December 2018 and applies for two years. Higher risk weights mean that banks, given existing lending, need to hold more capital.

The initial phase of the Basel III accord was implemented in the EU in 2014 through the Prudential Requirements Regulation and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms. This regulatory framework means that a larger proportion of capital requirements has to be met with capital of higher-quality, i.e. capital with better loss-absorbing capacity. Buffer capital requirements have also been introduced through the regulatory framework, and this has resulted in higher capital adequacy requirements for Swedish institutions, especially for systemically important institutions. In 2019 the EU adopted a new regulation and two new directives that involve changes in the present legal acts concerning capital adequacy and the management of banks in crisis. The Banking Package is the collective name for these amendments. This includes the 'own funds requirement' regarding the leverage ratio, which will be a parallel requirement to the risk weighted capital requirement. Work is under way on implementing the Banking Package in Swedish law.

In June 2015 Finansinspektionen decided to raise the countercyclical capital buffer from 1.0% to 1.5%. In March 2016 the authority decided to raise the buffer to 2.0%. These decisions entered into force in June 2016 and in March 2017 respectively. In September 2018 Finansinspektionen decided to further increase the buffer to 2.5%. The most recent increase entered into force in September 2019. On account of the spread of the COVID-19 virus and the economic and financial uncertainties resulting from its spread, Finansinspektionen decided on 16 March 2020 to reduce the countercyclical buffer requirement to 0%. This measure is intended to create scope for banks to maintain or increase their lending to businesses and households, thereby supporting the Swedish economy.

The Government shares the assessment of the European Commission that the design of the tax system can influence household indebtedness. Reducing household debt and contributing to the better functioning of the housing market are among the aims of the extensive tax reform to be implemented under the January Agreement.

The Government shares the Commission's assessment that the tax system can affect mobility in the housing market. The changes made in housing taxation in recent years have moved towards lower current taxation and higher taxation when transactions are conducted. However, to increase mobility in the housing and labour market, the rules on deferral of taxation of capital gains on the sale of private homes were amended in 2017; this meant that the ceiling for the deferred capital gain was abolished for sales of private homes in the period 21 June 2016 to 30 June 2020. In 2020 the Government has also proposed increasing the deferred capital gain from SEK 1.45 million to SEK 3 million for capital gains on sales taking place after 30 June 2020. The method of calculating the size of the deferral on the purchase of a cheaper home has also been changed to make it more generous, apart from in exceptional cases. Persons holding a deferred capital gain pay interest on the latent tax credit included in the deferred capital gain. The way the interest is charged in the legislation is that a person who has a deferred capital gain reports a separate standardised income in the category of income of capital. In practice, the taxation of this standardised income is the interest. Under the January Agreement the payment of interest on the deferred capital gain will be abolished.

To sum up, a number of measures have been taken in recent years in order to strengthen the resilience of banks to financial crises and to slow the rate of growth of household debt. These have also had an effect. The macroprudential measures taken have made the households affected by them buy cheaper housing, borrow less and amortise more. The rate of increase of household debt has slowed and is at its lowest level for more than five years.

3. General government finances

3.1 Accounting principles

This section presents the forecast for general government finances given in the Spring Fiscal Policy Bill for 2020 (Govt Bill 2019/20:100). The reporting of general government income and expenditure is based on the European System of Accounts (ESA 2010). The Government's accounts, which are also used by the National Institute of Economic Research (NIER), differ in certain respects from ESA 2010 (see table 3.1). The main differences are that parts of sales revenue from public activities are recorded on the expenditure side, as a deduction item in general government consumption expenditure in the national statistics, while these revenues are recorded on the revenue side 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 ENS 2010 (and EDP) 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

	2019	2020	2021	2022	2023
Spring Fiscal Policy Bill					
Revenue	48.6	48.8	48.8	48.8	48.7
Expenditure	48.2	52.6	50.2	48.7	47.2
Net lending	0.4	-3.8	-1.4	0.1	1.5
ESA 2010					
Revenue	49.7	49.8	49.7	49.6	49.4
Expenditure	49.3	53.6	51.1	49.6	48.0
Net lending	0.4	-3.8	-1.4	0.1	1.5

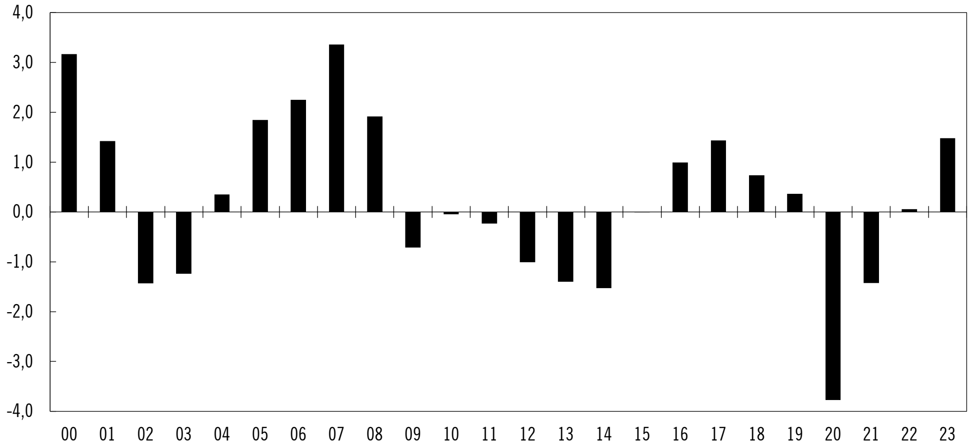
Sources: Statistics Sweden and own calculations.

3.2 Development of general government finances

General government finances were reinforced strongly between 2014 and 2017. Net lending turned round from a deficit of 1.5% of GDP to a surplus of 1.4% of GDP (see chart 3.1). Then, as lending was adapted to the new level of the surplus target, net lending fell and was 0.4% of GDP in 2019.

Chart 3.1 General government net lending 2000–2023

Per cent of GDP



Sources: Statistics Sweden and own calculations.

General government finances have shown surpluses in 2016–2019. As a result of the sharp economic downturn expected, and the measures proposed and announced, the weakening of general government finances in 2020 is considerable. As the economy recovers, net lending is expected to strengthen gradually (see chart 3.1 and table 3.2).

Table 3.2 General government finances

Per cent of GDP if not otherwise stated

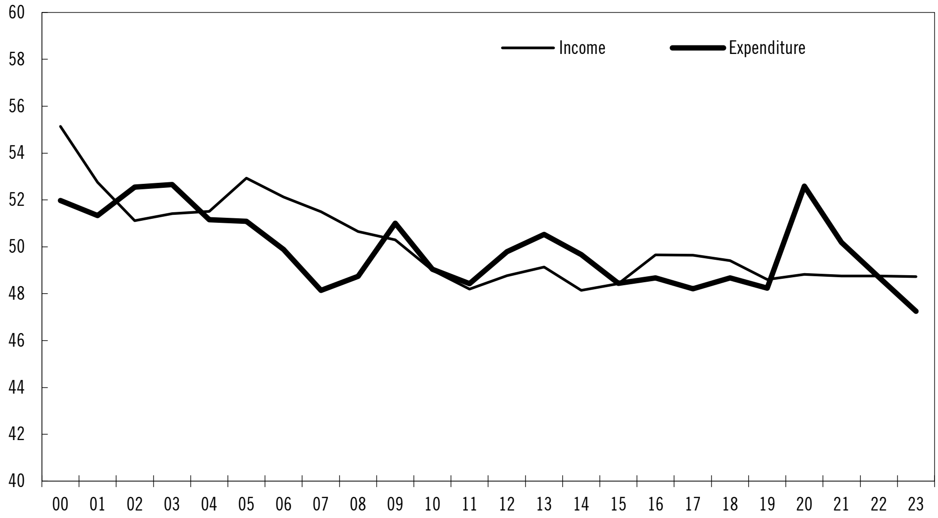
	SEK, billions 2019	2019	2020	2021	2022	2023
Revenue	**2443**	**48,6**	**48,8**	**48,8**	**48,8**	**48,7**
Taxes and charges	2148	42,7	42,5	42,7	42,7	42,7
Household direct taxes	626	12,5	12,5	12,3	12,3	12,4
Corporate direct taxes	151	3,0	2,4	2,6	3,0	3,1
Employers' contributions	267	5,3	5,5	5,4	5,3	5,3
Indirect taxes	1104	22,0	22,1	22,3	22,1	22,0
Income from capital	78	1,5	1,7	1,6	1,7	1,7
Other revenue	217	4,3	4,6	4,5	4,4	4,3
Expenditure	**2425**	**48,2**	**52,6**	**50,2**	**48,7**	**47,2**
Transfer payments[1]	851	16,9	19,3	17,7	17,2	16,6
Final consumption expenditure	1307	26,0	27,6	26,8	26,0	25,3
Gross fixed capital formation	247	4,9	5,3	5,4	5,2	5,0
Interest expenditure	19	0,4	0,3	0,3	0,3	0,3
Net lending	**18**	**0,4**	**-3,8**	**-1,4**	**0,1**	**1,5**
Primary net lending	38	0,8	-3,4	-1,1	0,3	1,8
Consolidated gross debt	**1764**	**35,1**	**39,9**	**38,3**	**36,2**	**32,4**
Net debt	**1405**	**27,9**	**23,4**	**22,9**	**23,7**	**24,6**

[1] Including unallocated expenditure.

Sources: Statistics Sweden and own calculations.

The weakening of general government net lending between 2019 and 2020 is mainly due to expenditure growing faster than GDP. At the same time, however, the development of general government income is weak since GDP decreases between these years (see table 3.2 and chart 3.2). With the gradual recovery of the economy, general government finances also become stronger.

Chart 3.2 General government income and expenditure 2000–2023
Per cent of GDP



Sources: Statistics Sweden and own calculations.

Net lending in central government in 2019 was 1.2% of GDP. The severe downturn in the economy results, along with the considerable measures announced and proposed, in tax revenue to the sector in 2020 decreasing, but, especially, in expenditure increasing as a share of GDP compared with 2019 (see table 3.3). Overall, this mean that the sector's net lending deteriorates rapidly compared with 2019.

Table 3.3 Net lending and the central government budget balance
Per cent of GDP

	2019	2020	2021	2022	2023
General government net lending	**0.4**	**-3.8**	**-1.4**	**0.1**	**1.5**
Central government	1.2	-2.8	-0.7	0.7	2.0
Old-age pensions system	0.1	-0.1	0.1	0.1	0.2
Local government sector	-1.0	-0.8	-0.8	-0.8	-0.7
Central government budget balance	2.2	-3.9	0.4	1.0	1.7
Central government debt	20.8	24.7	22.8	20.6	17.8

Sources: Statistics Sweden, National Financial Management Authority and own calculations.

3.3 Net financial wealth and consolidated gross debt

Consolidated gross debt (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).

Prior to Sweden’s accession to the EU on 1 January 1995, the consolidated gross debt amounted to over SEK 1 200 billion, corresponding to around 70% of GDP. Since then the nominal value of this debt has increased by around SEK 550 billion and was just over SEK 1 750 billion at the end of 2019.

General government’s net financial wealth is strengthening

The net financial wealth of the general government sector consists of both real capital and financial assets, less debts. The following section presents its financial wealth.

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 income in the form of interest and dividends, mainly attributable to the old-age pension system, exceed its interest expenditure. Its 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 consolidated defined-contribution occupational pensions are not included in the general government sector, but are instead reported in the insurance sector.

In 2019–2021 the deficits in central government and the local government sector lead to the weakening of the net financial wealth of the general government sector. Thereafter the expected surpluses in central government result in the gradual strengthening of net financial wealth.

3.4 Reconciliation against the general government net lending target

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 a deviation from the target may be due to several circumstances and this must not 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 target is an average of 0.33% of GDP over an economic cycle. Formulating the net lending target as an average over an economic cycle, instead of an annual target, is justified for reasons of stabilisation policy. If the target were to be set 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 then 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.

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

Per cent of GDP if not otherwise stated

	2019	2020	2021	2022	2023
Net lending	**0.4**	**-3.8**	**-1.4**	**0.1**	**1.5**
Retrospective eight-year average	-0.1				
Structural balance[1]	0.4	-0.9	0.6	1.2	1.7

[1] Per cent of potential GDP.Sources: Statistics Sweden and own calculations.

Sources: Statistics Sweden and own calculations.

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 prospective monitoring of the surplus target is also judged to be consistent with EU law. Tabletable 3.4 presents outcomes and forecasts of general government net lending. The structural balance in years *t* and *t+1*, i.e. in the present year and the next year, 2020 and 2021, is used to assess achievement of the surplus target looking forward.

The Government's assessment is that there is a significant deviation from the surplus target, but that this deviation is justified on grounds of stabilisation policy in view of the economic effects of the outbreak of the COVID-19 virus. The framework states explicitly that there can be stabilisation policy reasons that justify conducting an active fiscal policy that weakens the structural balance. This means that even if fiscal policy leads to a significant deviation from the surplus target in the present year, the policy is consistent with the fiscal policy framework. However, when a deviation from the target is established, the Government has to give an account of how a return will be made to the target. The Government's assessment in the current situation is that a return to the target can begin when resource utilisation has stabilised. Considering that the forecast does not any further include future changes in regulations and appropriations, lending will already be in line with the target in 2021, but there is great uncertainty in this estimate.

Retrospective eight-year average

The retrospective average of net lending for 2012–2019 is expected to be under the target level. However, net lending has increased gradually during the period.

The Government's assessment of achievement of the medium-term budgetary objective (MTO) according to the preventive arm of the Stability and Growth Pact

Sweden's medium-term budgetary objective (MTO) is that the structural balance should not fall below -1% of potential GDP.

Table 3.5 Structural balance, European Commission

Procent av potentiell BNP

	2019	2020	2021
Structural balance	0.2	0.4	0.6
Medium term budgetary objective (MTO)	**-1.0**	**-1.0**	**-1.0**

Source: European Commission's forecast (November 2019).

The European Commission's forecast, published in November 2019, estimated the structural balance in Sweden at 0.2% of potential GDP in 2018, with an increase to 0.4% in 2019 (see table 3.5). The balance in 2020 is assessed as being 0.6% of potential GDP, which is considerably higher than the Government's assessment of -0.9% of potential GDP (see table 3.4). However, it is worth noting that the Government's forecast is still at a higher level than the medium-term budget objective. The main reason for the difference is that the Commission had not included the economic effects of the outbreak of the COVID-19 virus.

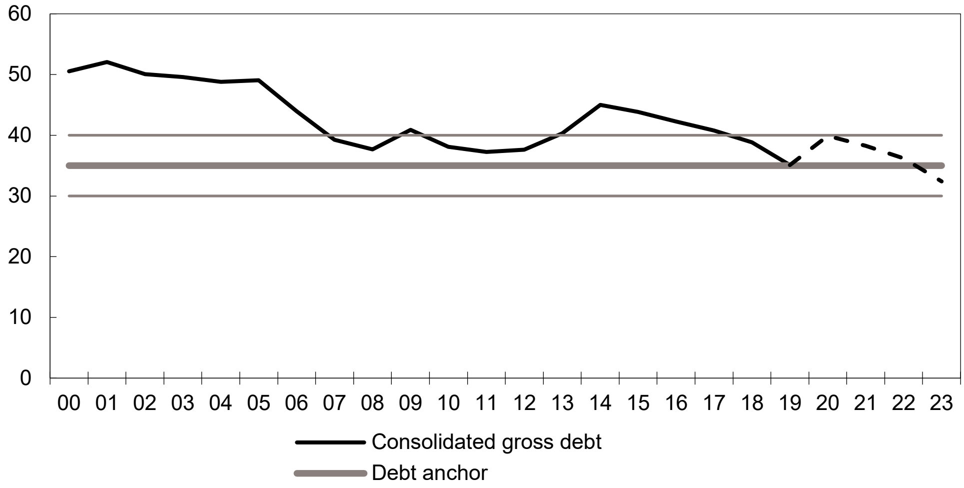
3.5 Monitoring of the debt anchor

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 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 this communication the Government has to give an account of the cause of the deviation and how the Government intends to handle it. In 2020 the gross debt as a share of GDP is expected to be just within the debt anchor's tolerance interval (see chart 3.3). In the present forecast, based solely on the fiscal policy announced, the gross debt falls further ahead in the forecast horizon to just over 32% of GDP in 2023.

Chart 3.3 Consolidated gross debt

Share 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. In principle, all expenditure in the central government budget is subject to the expenditure ceiling, apart from expenditure for interest on the central government debt. Off-budget expenditure on the old-age pensions system is also covered by the expenditure ceiling. In the monitoring of the expenditure ceiling, ceiling-restricted expenditure consists of the actual use of appropriation funds, so that the use by agencies of appropriations savings and appropriations credit is included. The space between the expenditure ceiling and the ceiling-restricted expenditure is termed the budgeting margin. As a rule, use of the budgeting margin worsens general government finances. The expenditure ceiling is the upper limit for ceiling-restricted expenditures. The level of the expenditure ceiling should not, however, be regarded as a target for ceiling-restricted expenditures. One reason is that the surplus target may restrict the level of ceiling-restricted expenditures even when there is space below the expenditure ceiling.

The level of the expenditure ceiling for 2020–2023 is shown in table 3.6. In the Spring Amending Budget for 2020 the Government proposes raising the level for the expenditure ceiling already adopted for 2020 for fiscal policy reasons (Govt Bill 2019/20:99). The Government considers that the very serious consequences of the COVID-19 outbreak for the economy justify stabilisation policy measures on a scale not accommodated within the level of the expenditure ceiling set by the Riksdag for 2020, and that this means that there is reason to increase this level for fiscal policy reasons. Given this serious situation and the uncertainty the Government considers it justified to raise the expenditure ceiling for 2020 to a level that does not risk restricting freedom of action to take necessary measures later in the year.

The Riksdag has previously set the level of the expenditure ceiling for 2021 and 2022 (Govt Bill 2019/20:1, Com. Rep. FiU1, Riksdag Comm. 2019/20:59). Even with the measures already taken, the budgeting margins for these years are above the minimum levels specified in the Communication Fiscal policy framework. However, it is not possible to rule out that major changes may, as a result of a more protracted course of the crisis, have to be made on both the income and the expenditure sides of the central government budget. It follows from the provision of Chapter 11, Article 18 of the Riksdag Act that a proposal to amend the level of the expenditure ceiling for the coming years has to be presented in the Budget Bill.

The Government is following developments closely, and in conjunction with the Budget Bill there will be better possibilities of assessing what impact the crisis will have on the economy in 2021 and 2022. If judged necessary, the Government can therefore return to the question of the levels of the expenditure ceiling for 2021 and 2022 in the Budget Bill for 2021.

For 2023 the Government makes an assessment of the level of the expenditure ceiling. The Budget Act requires the Government to propose a level of the expenditure ceiling for the third year ahead in the budget bill. In accordance with the Budget Act the Government will propose a level of the expenditure ceiling for 2023 in the Budget Bill for 2021. An assessed level is not subject to decision by the Riksdag.

Table 3.6 Expenditure ceiling

SEK billions, unless otherwise stated

	2020	2021	2022	2023
Expenditure ceiling	1 742	1 443	1 502	1 540
Per cent of GDP	35,7	28,1	27,8	27,1
Ceiling-limited expenditure	1 442	1 407	1 429	1 439
Per cent of GDP	29,5	27,4	26,5	25,3
Budgeting margin	300	36	73	101
Per cent of GDP	6,2	0,7	1,4	1,8

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

Source: Own calculations.

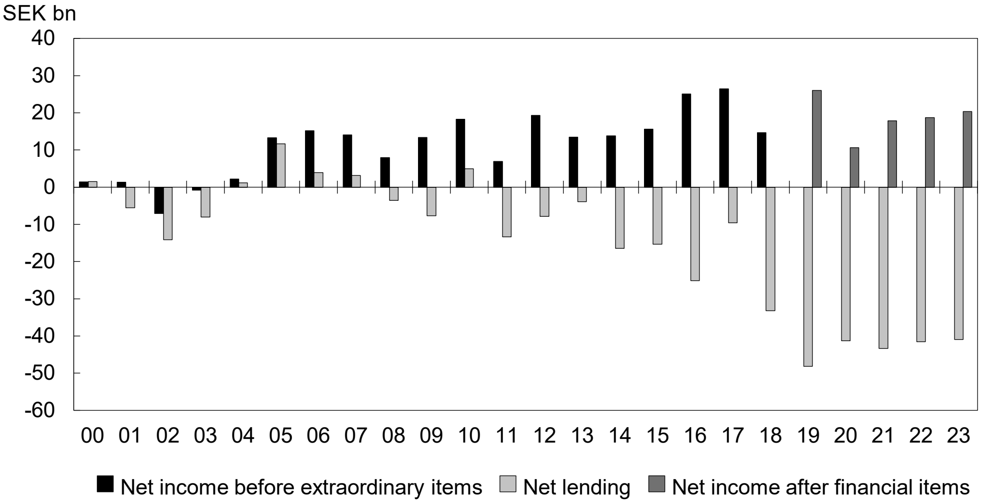
The budgeting margin under the expenditure ceiling is estimated at SEK 300 billion for 2020. The estimated budgeting margins for 2021, 2022 and 2023 are SEK 36 billion, SEK 73 billion and SEK 101 billion.

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

The general government net lending target (see section 1.1) also includes net lending in the local government sector, that is, municipalities and regions and certain other local government organisations. The surplus target is expressed in terms of net lending as defined in the National Accounts. However, it is net income, and not net lending, that determines whether municipalities and regions are in compliance with the balanced budget requirement of the Local Government Act. According to this requirement, municipalities and regions have, as a main rule, to draw up budgets in which revenue exceeds costs. Deviations from the balanced budget requirement are only permitted in exceptional cases. Negative net income in the accounts for a particular year must be corrected within three years, unless there are exceptional grounds.

There are accounting differences between the local government accounts and the National Accounts that can amount to several billion kronor for a particular year (see chart 3.4). The reason for these differences is that local government accounting is based on the same theoretical principles as those that apply to accounting in the business sector. If, for example, investment expenditure rises substantially between two years, this has an immediate impact on net lending, while net income would only be affected by depreciation.

Chart 3.4 Local government net income and net lending



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 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 2019 the local government sector as a whole reported net income after financial items of SEK 26 billion (see chart 3.4). Amended rules apply to local government accounting as of 2019, and net income after financial items has replaced net income before extraordinary items. These amendments had a positive impact on net income in 2019 through a one-time effect and the positive development of certain financial assets. In the Government's forecast of local government sector finances, corresponding changes in value are assumed to have a slight negative effect on net income after financial items for 2020. However, these changes in value do not affect compliance with the balanced budget requirement. The Government's forecast assumes that the local government sector's net income after financial items will be SEK 11 billion in 2020 and SEK 18–20 billion in 2021–2023.

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 of the commitment has to be charged, unless the Riksdag decides otherwise. 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 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 guarantee model. Examples of major guarantee commitments covered by this guarantee model are export credit guarantees and credit guarantees for infrastructure projects.

However, 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 on some other basis. The fees for such guarantees are usually stipulated directly in law and may 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 2019 the central government guarantee portfolio amounted to SEK 2 017 billion. The largest commitments were the deposit insurance scheme (SEK 1 631 billion) followed by credit guarantees (SEK 224 billion) and guarantees for capital injections (SEK 154 billion).

Table 3.7 Central government guarantee commitments and pledges, 31 December 2019

SEK billions

	Guarantees	Pledges[3]
Deposit insurance scheme[1]	**1 631,4**	
Investor compensation[2]		
Credit guarantees	**224,0**	**39,8**
of which		
Bank guarantee programme		
Export credit guarantees	195,9	39,5
Credit guarantees in foreign aid	0,7	
Independent guarantees	5,8	0,4
Infrastructure	15,7	
Housing credits	3,0	
International commitments	2,9	
Other	0,0	
Guarantees for capital injections	**154,3**	
of which		
Capital cover guarantees[4]	5,4	
Subscription guarantees	0,4	
Callable capital	148,6	
Pension guarantees[4]	**7,7**	
Total	**2 017,4**	**39,8**

[1] The commitment for the deposit insurance scheme is as of 31 December 2018.
[2] For the investor compensation scheme there is a lack of data regarding the scope of the protected assets.
[3] Refers to restricted pledges.
[4] The commitment for pension guarantees is as of 31 December 2018.

Source: Swedish National Debt Office.

Expected losses in the central government's guarantee portfolio

In 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 a provision has been 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 in (reported as guarantee assets in table 3.8).

Table 3.8 Comparison between provisions for expected costs and assets in the guarantee operations as of 31 December 2019 (excluding the deposit insurance scheme, investor compensation scheme, bank guarantee programme and guarantee capital)

SEK billions

Authority	Guarantee commitment	Provisions for expected costs	Guarantee assets
Swedish National Debt Office	26,7	1,0	1,1
Swedish Export Credits Guarantee Board	195,9	8,7	33,7
Sida (Swedish International Development Cooperation Agency)	6,5	0,3	2,5
Swedish National Board of Housing, Building and Planning	3,0	0,1	2,3
Total	**232,1**	**10,1**	**39,7**

Source: Swedish National Debt Office.

Annual analysis of the risk of major losses

The National Debt Office has the task of 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 of Student Finance (CSN), Sida *[Swedish International Development Cooperation Agency]*, Swedish National Board of Housing, Building and Planning *[Boverket]* and the other agencies concerned. The term large losses is defined by the National Debt Office as losses of at least around SEK 20 SEK billion in the coming five years. The risk of large losses in the regular portfolio is judged to remain low. The risk of major losses linked to the deposit insurance scheme is assessed as low.

4. Alternative scenarios and comparison with Sweden’s Convergence Programme 2019

4.1 Alternative scenarios

There is currently great uncertainty about the economic impact of the COVID-19 virus. The virus outbreak is expected to have both direct and indirect effects on the economy. The direct economic effect of the virus is that fewer people are able to work to the same extent as they usually do, and this has a negative impact on production. To some extent, the decrease in production is due to people being absent from work on account of sickness or staying at home from work to avoid being infected or to care for close relatives. In addition, non-deliveries of input goods due to disturbances in production may cause further disturbances in production further up in the value chain. One important factor for companies to maintain their production is therefore the possibility of finding alternatives to suppliers that have closed. At present it is hard to estimate the size of the loss of production since it depends on a large number of different factors, such as the rate of virus transmission in the community and the effectiveness of the treatment of people who are already sick. Another uncertainty is the economic impacts of the measures that have been taken and may be taken in the future to contain the infection. At the same time as these measures slow the spread of infection down, they can also decrease household consumption and company investments, which may further slowe production. The risk of being infected can also mean that individuals choose more often to stay at home, which may then reduce household consumption. In addition to the direct negative effect on GDP, there are also more indirect effects of the virus. These effects concern, for instance, the fact that uncertainty about the development as such is holding back the willingness to invest and consume. The difficulties in estimating the economic impacts of the virus have also led to increased uncertainty in financial markets, which risks reinforcing the decline in GDP both in Sweden and internationally.

Because of the uncertainty about the effects of the COVID-19 virus on Swedish economy, two alternative scenarios are analysed (see table 4.1). Scenario 1 assumes that the virus outbreak has the same negative effect on the economy in 2020 as in the forecast in the main scenario, but the economy is assumed to recover more quickly in 2021. Scenario 2 assumes that the virus outbreak has a greater negative effect on the economy in 2020 than in the forecast in the main scenario at the same time as the economic recovery after 2020 is assumed to be slower.

Scenario 1 assumes that the economy performs more strongly in 2021 than in the forecast in the main scenario. This leads to a resource utilisation in the economy that is slightly higher than in the main scenario. As a result of this, inflation is slightly higher in 2021. Consequently, general government net lending is slightly higher in 2021 than in the main scenario. General government consolidated gross debt is therefore slightly lower.

In scenario 2 the direct and indirect negative effects of the virus lead to production and GDP growth in Sweden falling more than is assumed in the main scenario. This leads to a resource utilisation in Sweden being much lower than in the main scenario, which results in unemployment being higher and the inflation being lower than in the main scenario. As a consequence of the lower activity in the economy, general government net lending is lower than in the main scenario, mainly due to lower income from taxes, but also, to some extent, due to higher public expenditure when unemployment rises. It is assumed that new public debt is used to finance the deterioration of general government finances. Along with lower GDP, this increases the general government consolidated gross debt as a share of GDP.

Table 4. 1 Alternative scenarios

Scenario 1: Stronger recovery, Scenario 2: Deeper and longer crisis The outcome in 2019 and the forecast according to main scenario are shown in bold for each variable. These forecasts are based on previously adopted and announced reforms and reforms now proposed and announced.[1]
Percentage change unless otherwise stated

	2019	2020	2021
GDP[2]	**1.3**	**-4.2**	**3.3**
Scenario 1: Stronger recovery	1.3	-4.2	5.2
Scenario 2: Deeper and longer crisis	1.3	-10.0	4.0
GDP-gap[3]	**0.8**	**-5.2**	**-3.6**
Scenario 1: Stronger recovery	0.8	-5.2	-1.8
Scenario 2: Deeper and longer crisis	0.8	-11.0	-9.0
CPIF[4]	**1.7**	**0.5**	**1.5**
Scenario 1: Stronger recovery	1.7	0.5	1.7
Scenario 2: Deeper and longer crisis	1.7	-1.3	-0.5
Unemployment[5]	**6.8**	**9.0**	**9.0**
Scenario 1: Stronger recovery	6.8	9.0	7.5
Scenario 2: Deeper and longer crisis	6.8	13.5	13.0
Repo rate[5]	**-0.3**	**-0.1**	**-0.3**
Scenario 1: Stronger recovery	-0.3	-0.1	0.1
Scenario 2: Deeper and longer crisis	-0.3	-0.5	-0.5
Net lending[6]	**0.4**	**-3.8**	**-1.4**
Scenario 1: Stronger recovery	0.4	-3.8	0.0
Scenario 2: Deeper and longer crisis	0.4	-9.0	-7.0
Maastricht debt[6]	**35.1**	**39.9**	**38.3**
Scenario 1: Stronger recovery	**35.1**	**39.9**	**36.0**
Scenario 2: Deeper and longer crisis	35.1	49.0	53.0

[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.
[5] Per cent.
[6] Per cent of GDP.
Note: The Convergence Programme for 2020 presents alternative scenarios for t and t+1, instead of for t, t+1, t+2 and t+3. This is in line with the Commission's simplified guidelines for stability and convergence programmes in 2020.

Sources: Statistics Sweden, the Riksbank and own calculations.

4.2 Comparison with the 2019 Convergence Programme

GDP growth in 2019 was slightly lower than the assessment made in the 2019 Convergence Programme (see table 4.2). In Sweden GDP is expected to decrease markedly in 2020. Demand has decreased sharply, both in Sweden and globally, as a result of behavioural changes and restrictions introduced to prevent the spread of COVID-19. At the same time, production is affected by closures, more absences and disturbances to global production chains, especially in the first half of 2020. In an overall assessment, demand for Swedish goods and services is expected to decrease sharply in the first half of 2020 and to then recover gradually. Resource utilisation is expected to be much lower than normal.

Table 4.2 Comparison with the 2019 convergence programme

Annual percentage change in volume and per cent of GDP

	2019	2020	2021	2022	2023
GDP, percentage change in volume					
Convergence programme 2019	1.6	1.6	1.6	2.0	--
Convergence programme 2020	1.2	-4.0	3.5	3.4	3.1
Difference, percentage points	-0.4	-5.6	1.9	1.4	--
General government net lending, per cent of GDP					
Convergence programme 2019	0.6	0.7	1.1	1.9	--
Convergence programme 2020	0.4	-3.8	-1.4	0.1	1.5
Difference, percentage points	-0.2	-4.5	-2.5	-1.8	--
Consolidated gross debt, per cent of GDP					
Convergence programme 2019	34.5	32.8	30.9	28.2	--
Convergence programme 2020	35.1	39.9	38.3	36.2	32.4
Difference, percentage points	0.6	7.1	7.4	1.8	--

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, of whether fiscal policy is unsustainable so that action can be taken at an early stage to restore its sustainability.

In the present situation it is particularly uncertain how the economy and general government finances will develop in the near future. This means that the conclusions in this section are only indicative and should be interpreted with great caution.

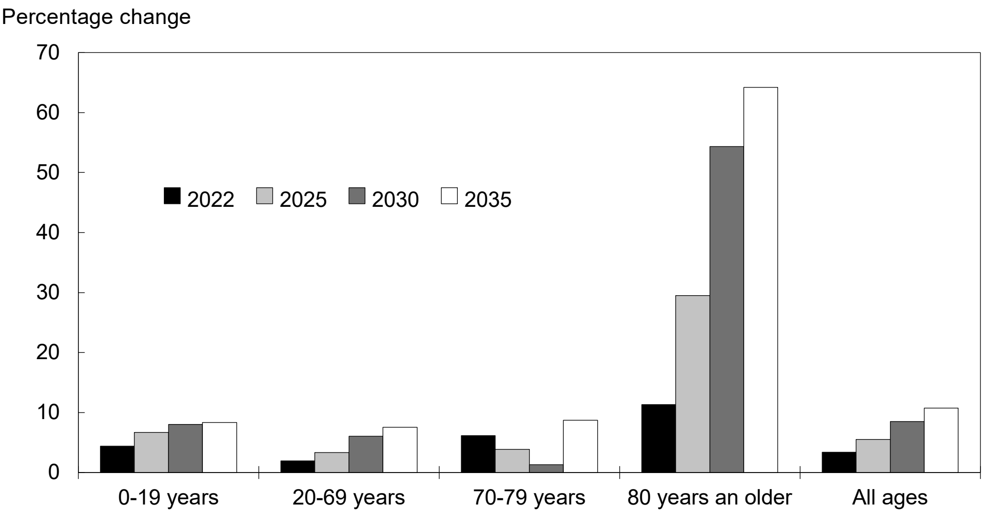
It is too early to say whether the sharp economic downturn will have long-term effects on general government finances. Since the number of hours worked in the economy has a considerable effect on general government finances, the potential long-term negative effects on employment are crucial. However, the weakening of general government finances taking place in 2020 is not judged to endanger the long-term sustainability of general government finances.

In the longer term general government finances are mainly affected by trends that are not related to economic developments over the next few years. Demographic developments over the next 15 years mean that the production of health care, schooling and social care will need to increase faster than in the past decade. This means that staffing in parts of local government services will probably be a challenge.

5.1 Long-term challenges

The Swedish population is expected, according to Statistics Sweden's population projection from April 2019, to increase by around 10%, or almost 1.1 million people, between 2018 and 2035 (see chart 5.1). Children and young people account for around 18% of this increase and the number of people of working-age (20–69) for around 44%. The remaining 38% consists of people aged 70 or older. To a great extent, the expected population increase therefore takes place in the age groups in which expenditure on welfare services and transfer payments is substantially higher than payments of tax.

Chart 5.1 Change in population compared to 2018



Source: Statistics Sweden.

5.2 What is meant by sustainable fiscal policy?

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, when it must be changed. The analysis is based on fiscal policy being unchanged and disregards the fact that, in reality, it is adapted to cope with quantitative targets and restrictions like the surplus target and the expenditure ceiling.

5.3 A scenario for long-term development

The projection of general government income and expenditure presented here extends up to and including 2110 and is based on Statistics Sweden's population projection from April 2019. For tax-financed activities it is assumed that the standard is unchanged, expressed as resource input per user. For example, in the future, a 90-year-old receives the same number of hours of health and social and access to areas of premises of the same size, other assistive devices, etc. as a 90-year-old does today. The compensation level in all transfer systems apart from the pension system is assumed to increase in line with average wages. It is also assumed that current tax rates are unchanged. However, the projection focuses on the general government commitment as a whole, and the general government sector (central government, municipalities, regions and the old-age pension system) is regarded as a single entity.

The labour supply does not grow as fast as the population.

The projection estimates that the number of employed will increase more slowly than the population. This is because the labour force participation rate, unemployment and average working hours are unchanged for people of different ages with different origins at the same time as the number of older people is increasing rapidly. However, the trend of a decreasing share of sick people outside the labour force is assumed to continue, which increases the labour force participation rate in the 55–64 age group. The number of employed and the number of hours worked are assumed to increase by around 0,4% per year on average.

More welfare services are needed when the population grows and gets older.

The use of public consumption, i.e. health care, schools and social care, etc., varies over a lifetime. Early in life, considerable resources are used for preschool and education. When a person is around 20, use of general government expenditure decreases, and towards the end of life expenditure increases rapidly, primarily for health care and elderly care. A rising number of older people means that the need for care of elderly and disabled people increases by around 18% between 2019 and 2030, and by a further approx. 6% 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 be just less than 10% higher in 2035 than in 2019. Overall, public consumption needs to increase by around 14% in volume terms between 2019 and 2035 for the supply of services to keep pace with demographic developments.

When the general government sector expands, the number employed also needs to expand. If the number of employees in the general government sector is to rise in pace with the number of people using tax-financed services, the number of employees must increase by around 10 000–15 000 per year up until 2035. This means a total increase of just over 200 000 people between 2019 and 2035. The need for personnel is greater in the local government sector than in central government – especially in care of elderly and disabled persons, but also in health care.

Despite a rapid expansion, general government net lending and debt develop in a sustainable way.

Between 2023 and 2035 the demographic changes mean that general government consumption is estimated to increase slightly as a share of GDP (see table 5.1). It is mainly expenditure for care of elderly and disabled persons and health care that rise faster than GDP. The primary balance weakens as a share of GDP in these years, mainly in central government, which bears the overall responsibility for financing welfare provision. After 2035 primary expenditure decreases slightly as a share of GDP. The main reason for the trend of falling expenditure is that general government investments and consumption expenditure decrease. General government transfer payments show a continued weak rising trend as a share of GDP even after 2035. The most important tax bases are largely steered by the performance of the labour market. Primary income amounts to around 47% of GDP in the first part of the projection period, but falls back slightly around 2035.

Table 5.1 Primary general government expenditure if there is no change in behaviour

Per cent of GDP

	2019	2023	2035	2060
Primary expenditure	**47,7**	**46,8**	**46,8**	**46,3**
General government consumption	26,0	25,3	25,6	25,4
Investments	4,9	5,0	4,8	4,0
Transfer payments	16,7	16,4	16,5	16,8
Households	13,3	12,6	12,7	13,1
Primary revenue	**47,1**	**47,0**	**46,9**	**46,5**

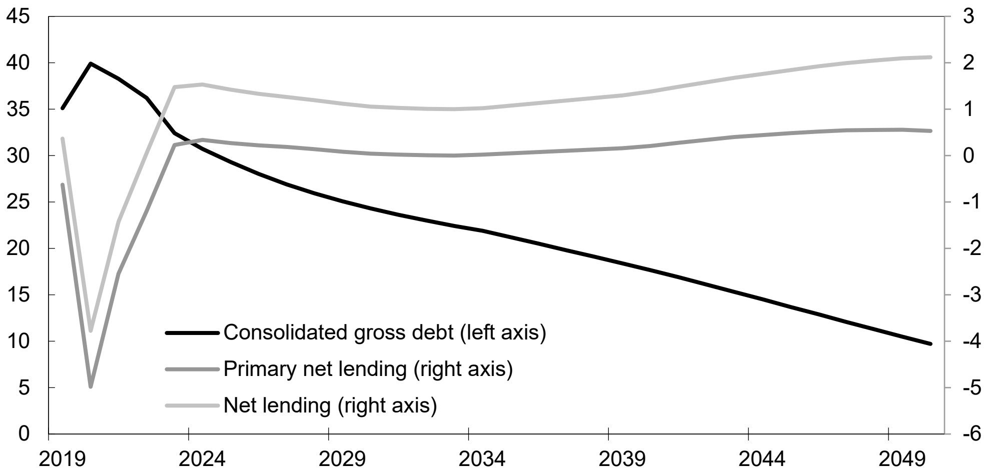
Sources: Statistics Sweden and own calculations.

Following an initial sharp deterioration, the primary balance is assumed to improve markedly by 2023 and to then deteriorate slightly as a share of GDP until 2035 (see chart 5.2). In the long term the high level of the net lending contributes to a sharp reduction in consolidated gross debt, from around 40% of GDP in 2020 to just over 32% of GDP in 2023, after which it decreases to less than 10% of GDP in 2050.

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 for the general government debt to develop as wanted. The S1 indicator is a measure of the size of the change in fiscal policy needed for general government consolidated gross debt (Maastricht debt) to correspond to 60% of GDP in 2034. Since the gross debt is expected to correspond to around 40% of GDP at the end of 2020, 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 for the general government net debt as a proportion of GDP to stabilise over a very long horizon.

Chart 5.2 General government net lending and consolidated gross debt

Per cent of GDP



Sources: Statistics Sweden and own calculations.

The S1 sustainability indicator is -3.4% of GDP, calculated from 2021. The relatively large negative S1 value shows that the present volume of the public commitment can very likely be maintained up until 2034 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 for the debt ratio to correspond to 35% of GDP in 2034, i.e. a debt ratio in line with the debt anchor, the indicator value is -1,2.

The value of S2 is also -1,2. Strictly interpreted, this means that net lending can be permanently weakened by 1.2% of GDP in 2021, without net debt becoming unstable over the very long term. Fiscal policy is therefore sustainable even using this method of assessment.

The value of the indicators has changed slightly since the previous assessment.

In the 2019 Convergence Programme for Sweden S1 was calculated as -3.1 and S2 as -1.5. One reason why S2 has weakened to some extent is that the net financial position of the general government sector for the initial year is slightly poorer than in the previous projection. The fact that the S1 indicator is sightly larger in absolute terms even though the starting position had weakened is explained by the fact that the indicator value is calculated in a different way from in the 2019 Convergence Programme. In the 2019 Convergence Programme the S1 indicator was the permanent weakening of lending in 2020 that was consistent with a consolidated gross debt of 60% of GDP in 2033, while S1 in this Convergence Programme is the aggregate weakening of lending over 5 years, 2021–2025, that is consisted with a consolidated gross debt of 60% of GDP in 2034. When the change in lending is spread over several years instead of one year, the total change is larger. If the indicator value is calculated in the same way as in the 2019 Convergence Programme, it is now -2,9, i.e. 0.2 lower in absolute terms than according to the 2019 Convergence Programme.

Other assessments of the sustainability of the fiscal policy.

Both the National Institute of Economic Research (NIER) and the European Commission have recently published assessments of the long-term sustainability of Swedish fiscal policy (see Special Study 2020:5, NIER, February 2020 and Debt Sustainability Monitor 2019, European Economy, January 2020). The NIER's assessment is that Sweden has strong public finances with a low gross debt and a positive net position. At the same time there are challenges in coming decades regarding both finance and staffing in general government services. Delivering what the NIER estimates to be the public sector commitment will require a small improvement of the primary balance. The Commission considers that the risk of an unsustainable development is low in the short, the medium (up until 2034) and the long term. Summary sustainability indicators are presented in table 5.2.

Table 5.2 Sustainability indicators for Sweden
Per cent of GDP

	S1	S2
Government	-3,4	-1,2
Swedish National Institute of Economic Research (Feb 2020)		0,1
European Commission (Jan 2020)	-5,4	1,2

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 reference scenario S1 is -3.4% of GDP and S2 is -1.2% of GDP. It is, however, too early to say whether the sharp economic downturn will have long-term effects on general government finances. Since the number of hours worked in the economy has a considerable effect on general government finances, the potential long-term effects on employment are crucial. However, the weakening of general government finances expected to take place in 2020 does not endanger the long-term sustainability of general government finances.

There are trends of importance for general government finances that have no link to the ongoing virus outbreak. The assessment made is that the years up until 2035 will be characterised by growing demographically motivated needs of tax-financed welfare services. Primary expenditure in central government and in the municipalities is estimated to increase in these years, but the increase is not so great that it makes fiscal policy unsustainable.

6. Quality of general government finances

6.1 Expenditure

In assessing the structure of general government finances it is not sufficient to only consider total expenditure and income. For this reason, income 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 their development over time. Additional information and a higher level of detail are required to be 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.

Table 6.1 General government expenditure by purpose, per cent of GDP

Per cent of GDP

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Change 2008–2018
General public services	7,9	7,4	7,4	7,6	7,7	7,8	7,5	7,1	6,7	6,8	7,1	-0,8
Interest payments	1,7	1,3	1,2	1,3	1,1	1,0	0,8	0,7	0,7	0,6	0,7	-1,1
Other	6,1	6,1	6,2	6,3	6,6	6,8	6,6	6,3	6,0	6,2	6,4	0,3
Defence	1,5	1,5	1,5	1,4	1,4	1,4	1,3	1,2	1,2	1,2	1,2	-0,3
Public order and safety	1,3	1,3	1,3	1,3	1,4	1,3	1,3	1,3	1,3	1,3	1,3	0,0
Economic affairs	4,3	4,6	4,5	4,4	4,6	4,4	4,3	4,2	4,2	4,2	4,3	0,0
Environmental protection	0,5	0,5	0,4	0,5	0,5	0,5	0,4	0,4	0,4	0,5	0,5	0,0
Housing and community amenities	0,7	0,7	0,7	0,7	0,7	0,6	0,6	0,6	0,5	0,6	0,7	0,0

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Change 2008–2018
Health	6,6	7,0	6,7	6,7	6,9	6,9	6,9	6,8	6,9	6,9	7,0	0,4
Recreation, culture and religion	1,1	1,1	1,1	1,1	1,1	1,3	1,3	1,3	1,3	1,2	1,3	0,2
Education	6,4	6,7	6,4	6,3	6,5	6,5	6,5	6,4	6,6	6,7	6,9	0,5
Social protection	20,0	21,5	20,3	19,7	20,5	21,0	20,6	20,2	20,5	20,0	19,5	-0,4
Total expenditure	**50,2**	**52,4**	**50,4**	**49,8**	**51,0**	**51,8**	**50,9**	**49,5**	**49,7**	**49,3**	**49,8**	**-0,4**
Excluding interest	48,5	51,1	49,2	48,5	49,9	50,8	50,0	48,7	49,0	48,6	49,1	0,6

Sources: Statistics Sweden and own calculations.

Expenditure as a share of GDP (the expenditure ratio) was relatively uneven in the wake of the financial crisis in 2008 and 2009 but has, since 2015, been relatively stable at just under 50% of GDP. As shown in table 6.1 and table 6.2, expenditure on social protection in Sweden in 2018 amounted to around 20% of GDP and more than 40% of total general government expenditure. After increasing at the start of the century, expenditure on social protection has oscillated around 40% of total expenditure. Expenditure on health care also accounts for a large share of general government expenditure. After being around 13% of total expenditure in 2008, this share has risen, and was around 14% in 2018. There has been a large decrease in the proportion 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 6.2 General government expenditure by purpose, per cent of total expenditure

Per cent of total expenditure

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Change 2008–2018
General public services	15,6	14,2	14,7	15,3	15,0	15,0	14,7	14,3	13,6	13,9	14,2	-1,4
Interest payments	3,5	2,5	2,4	2,6	2,1	1,9	1,7	1,5	1,4	1,3	1,4	-2,1
Other	12,2	11,6	12,3	12,7	12,9	13,2	13,0	12,8	12,1	12,6	12,9	0,7
Defence	2,9	2,8	3,0	2,9	2,7	2,8	2,5	2,4	2,4	2,4	2,4	-0,5
Public order and safety	2,6	2,6	2,7	2,6	2,7	2,6	2,6	2,6	2,6	2,6	2,6	0,0
Economic affairs	8,6	8,8	8,9	8,9	8,9	8,4	8,5	8,4	8,5	8,4	8,7	0,0
Environmental protection	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9	1,0	0,1

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Change 2008–2018
Housing and community amenities	1,4	1,4	1,4	1,4	1,4	1,1	1,2	1,2	1,1	1,1	1,4	0,0
Health	13,1	13,3	13,3	13,5	13,4	13,4	13,6	13,8	13,8	13,9	14,0	0,9
Recreation, culture and religion	2,1	2,1	2,2	2,2	2,1	2,5	2,6	2,6	2,6	2,5	2,6	0,4
Education	12,8	12,8	12,7	12,7	12,7	12,6	12,8	13	13,3	13,6	13,8	1,0
Social protection	39,8	40,9	40,3	39,5	40,1	40,6	40,5	40,8	41,3	40,6	39,2	-0,5
Total expenditure	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	
Excluding interest	96,5	97,5	97,6	97,4	97,9	98,1	98,3	98,5	98,6	98,7	98,6	2,1

Sources: Statistics Sweden and own calculations.

6.2 Income

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 2012 and 2023, the tax ratio is expected to increase by 0.6 percentage points, 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. Thereafter the tax ratio is expected to decrease to 42.7% in 2020. The tax ratio is thus expected to be at its lowest level in 2020. This is due both to previously adopted changes in regulations and to the measures the Government has taken on account of the outbreak of the COVID-19 virus. At the end of the forecast period the tax ratio is expected to rise to 42.9%.

A large part of the variation in 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 In 2019 revenue from tax on labour is estimated to have decreased slightly again, which is explained by an expansion of the earned income tax credit and a higher threshold for state income tax. There are also reforms for 2020 that affect revenue from tax on labour as a share of GDP. The main points are the abolition of the upper threshold for state income tax (the 'austerity tax') and lower tax for people over 65. The Government's measures on account of the COVID-19 virus, such as temporary reductions of employers' and sole traders' social security contributions affect revenue from tax on labour in 2020.

Revenue from tax on capital as a share of GDP is expected to rise by 0.8 percentage points in the period 2012–2023, but the variations during the period are expected to be greater than that. In 2015 and for a few years thereafter the proportion was unusually high, which can be explained by temporarily higher revenue from both tax on corporate profits and tax on household capital. In 2020 the ratio for tax on capital is expected to fall sharply on account of the outbreak of the COVID-19 virus, which is reducing corporate profits at the same time as unrest in asset markets is reducing households' capital gains. Some recovery is expected during the remainder of the forecast period.

Revenue from the taxes on consumption has remained largely stable as a proportion of GDP throughout the period 2012 and 2023. But the share taken by revenue from value added tax is expected to rise during the period, while the share taken by excise duties is expected to fall. The rise in revenue from value added tax as a share of GDP in 2020 is explained by the expectation that GDP will shrink on account of the virus outbreak, while household consumption will slow down sharply. Revenue from excise duties is decreasing continuously as a proportion of GDP There are several reasons for this: for example, the use of certain products subject to selective taxation decreases over time, a third of selective taxes are not adjusted to inflation and the use of various kinds of energy in transport, heating and production is becoming more and more efficient.

Revenues from tax arrears and other taxes rose as a proportion of GDP by 0.2 percentage points between 2015 and 2016. This is explained both by a temporary respite granted and the introduction of the resolution fee. In the period 2019–2023 revenue from tax arrears and other taxes is expected to remain stable at 0.3% of GDP.

Table 6.3 Tax revenue, by tax types, per cent of GDP

Per cent of GDP

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Change 2012–2023
Tax on labour	25.3	25.5	25.0	24.7	25.8	25.8	25.7	25.1	25.3	25.5	25.2	25.1	-0.2
Direct taxes	13.5	13.7	13.3	13.1	13.7	13.7	13.6	13.0	13.5	13.3	13.1	13.1	-0.4
Indirect taxes	11.8	11.8	11.6	11.6	12.0	12.1	12.1	12.0	11.9	12.2	12.1	12.0	0.2
Tax on capital	4.5	4.5	5.0	5.8	5.6	5.7	5.4	5.5	4.5	4.6	5.1	5.3	0.8

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Change 2012–2023
Households	0.7	0.8	1.2	1.6	1.7	1.7	1.4	1.4	1.1	1.1	1.2	1.3	0.5
Corporate incomce	2.4	2.3	2.4	2.8	2.6	2.8	2.8	2.9	2.3	2.5	2.8	2.9	0.5
Tax on consumption	12.2	12.2	12.0	12.0	12.3	12.2	12.1	12.0	12.5	12.4	12.3	12.1	-0.1
VAT	8.9	8.9	8.9	9.0	9.2	9.2	9.2	9.2	9.5	9.4	9.4	9.4	0.5
Excises duties	3.4	3.2	3.1	3.1	3.1	3.0	2.9	2.9	3.0	3.0	2.9	2.8	-0.6
Arrears and other taxes	0.2	0.4	0.3	0.3	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.1
Total tax revenue	**42,2**	**42,7**	**42,3**	**42,7**	**44,1**	**44,1**	**43,7**	**42,8**	**42,7**	**42,8**	**42,8**	**42,9**	**0,6**

Sources: Statistics Sweden and own calculations.

Table 6.4 Tax revenue, by tax types, per cent of total tax revenue

Per cent of total revenue

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Change 2012–2023
Tax on labour	59.9	59.9	59.0	57.8	58.4	58.6	58.9	58.5	59.4	59.7	58.8	58.6	-1.3
Direct taxes	32.0	32.2	31.5	30.7	31.2	31.2	31.1	30.4	31.6	31.1	30.7	30.6	-1.4
Indirect taxes	27.9	27.7	27.5	27.1	27.2	27.4	27.7	28.1	27.8	28.5	28.1	28.0	0.1
Tax on capital	10.6	10.6	11.9	13.5	12.6	12.9	12.4	12.7	10.6	10.8	11.9	12.4	1.7
Households	1.8	2.0	2.8	3.8	3.8	3.9	3.3	3.3	2.5	2.5	2.7	2.9	1.2
Corporate incomce	5.7	5.5	5.7	6.6	5.9	6.2	6.3	6.7	5.4	5.8	6.5	6.9	1.2
Tax on consumption	28.9	28.5	28.4	28.1	27.9	27.6	27.8	28.1	29.3	28.9	28.6	28.3	-0.6
VAT	21.0	20.9	21.1	20.9	20.9	20.9	21.2	21.5	22.2	21.9	21.9	21.8	0.9
Excises duties	8,0	7,6	7,3	7,1	7	6,7	6,6	6,7	7,1	6,9	6,7	6,5	-1,5
Arrears and other taxes	0.5	1.0	0.7	0.6	1.1	0.9	1.0	0.6	0.7	0.7	0.7	0.7	0.2
Total tax revenue	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	

Sources: Statistics Sweden and own calculations.

Appendix A – Technical assumptions

This annex gives a more detailed account of methods applied in the calculation of general government finances in the period 2022-2110.

Demographic assumptions

The calculation is based on Statistics Sweden's population forecast from April 2019, shown in table A.1.

Table A.1 Demographic assumptions

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

	2015	2020	2030	2040	2050	2060	2070
Birth rate	1,85	1,77	1,86	1,84	1,86	1,88	1,88
Average life expectancy, women	84,0	84,5	85,5	86,5	87,5	88,5	89,4
Average life expectancy, men	80,3	81,2	82,7	84,0	85,2	86,3	87,2
Net migration, thousands	78	62	34	24	22	22	23

Source: Statistics Sweden.

Labour market

The performance of the labour market depends on demographic developments. Projections of employment and the number of hours worked are 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 because the absenteeism rate, rate of sickness and activity compensation, average hours worked, employment rate and unemployment rate are constant within each sub-group. One exception from this principle is that the current low inflows to sickness compensation are assumed to continue, which means that the labour supply in the 55–64 age group continues to increase slightly in the next few years.

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 current relatively low rate of productivity growth 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 2000–2019. This means a trend in productivity growth of about 2.1% per year as of 2028. Productivity growth in the general government sector is assumed to be zero as of 2024.

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 use 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 proportion of GDP therefore increases gradually over the period as people live longer and an increasing share of the population does not work. In total, gross fixed capital formation accounts for around 22–24% of nominal GDP. General government consumption in volume terms is determined by demographic changes, while its price growth is determined by assumptions about hourly pay growth and the development of 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 in the estimates as the difference between GDP and 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 wages

It is assumed that the Riksbank will pursue a monetary policy that holds inflation at 2%. 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 the price level and productivity. Higher productivity and a higher value added price in the business sector generate scope for higher wages. Hourly pay in the general government sector is assumed to rise in line with private sector pay.

Assumptions regarding yield on capital

In the long term it is assumed that average interest rates on saving and borrowing 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 value adjustments. 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 borrowing 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 to simplify and to avoid the focus of the analysis shifting from central issues to those surrounding the dynamics of debt.

Table A.2 Macroeconomic assumptions

Annual percentage change and per cent

	2015	2020	2030	2040	2050	2060	2070
Percentage change							
Population, 15–74 years	0.7	0.5	0.5	0.2	0.2	0.3	0.3
Labour force, 15–74 years	0.8	0.8	0.3	0.3	0.2	0.2	0.4
Number employed, 15–74 years	1.4	-1.6	0.3	0.3	0.2	0.3	0.4
Hours worked	1.6	-1.8	0.3	0.3	0.2	0.3	0.4
Business sector productivity	4.0	-2.1	2.1	2.1	2.1	2.1	2.1
GDP, fixed prices	4.4	-4.0	1.9	2.0	1.9	2.1	2.2
GDP per capita	3.3	-4.8	1.4	1.7	1.6	1.8	1.9
GDP productivity	2.8	-2.2	1.7	1.7	1.7	1.8	1.8
GDP deflator	2.2	1.1	2.3	2.2	2.2	2.2	2.1
CPI, annual average	0.0	0.5	2.0	2.0	2.0	2.0	2.0
Hourly wages	2.3	2.0	4.1	4.1	4.1	4.1	4.0
Per cent							
Real interest	1.7	0.6	1.4	2.8	2.8	2.6	2.9
Employment rate, 15–74 years	66.6	66.9	68.6	68.1	69.0	68.0	69.4
ILO unemployment rate, 15–74 years	7.4	9.0	7.0	7.2	7.0	6.9	6.7

Sources: Statistics Sweden and own calculations.

General government income

The calculations of general government income 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 than GDP. This method reflects unchanged tax regulations. Table A.3 details general government taxes 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 proportion of GDP.

Table A.3 Taxes and charges

Per cent of GDP

	2015	2020	2030	2040	2050	2060	2070
Taxes and charges	42.6	42.5	42.7	42.8	42.9	43.3	43.2
Household direct taxes and charges							
Proportion of GDP	12.9	12.5	12.5	12.5	12.5	12.7	12.7
Implicit tax rate of direct taxes	24.2	22.7	23.7	23.7	23.7	23.6	23.6
Tax base for direct taxes as a proportion of GDP	53.1	55.1	52.6	52.9	53.0	53.9	53.8
Implicit tax rate of charges	6.7	6.7	6.6	6.6	6.6	6.6	6.6
Tax base for charges as a proportion of GDP	39.5	41.1	40.3	40.7	41.0	41.3	41.5
Corporate direct taxes							
Proportion of GDP	2.6	2.4	3.1	3.1	3.1	3.1	3.1
Implicit tax rate	8.6	9.0	10.8	10.8	10.8	10.8	10.8
Tax base as a proportion of GDP	30.3	27.2	28.7	28.7	28.7	28.4	28.6
Indirect taxes[1]							
Proportion of GDP	12.7	13.1	12.5	12.4	12.3	12.5	12.3
Implicit tax rate	27.8	28.5	27.5	27.1	26.6	26.3	25.9
Tax base as a proportion of GDP	45.7	45.9	45.4	45.8	46.3	47.8	47.6
Social security contributions from employers and the self-employed[2]							
Proportion of GDP	14.1	14.5	14.7	14.8	14.9	15.0	15.1
Implicit tax rate	35.7	35.2	36.3	36.3	36.3	36.3	36.4
Tax base as a proportion of GDP	39.5	41.1	40.3	40.7	41.0	41.3	41.5

[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 is made in 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 a 70-year-old woman is allocated the same amount of public services, in real terms, in 2060 as in 2021. 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

	2015	2020	2030	2040	2050	2060	2070
Total consumption	**25.8**	**27.6**	**25.6**	**25.4**	**25.1**	**25.4**	**24.8**
Childcare	1.7	1.8	1.6	1.5	1.5	1.5	1.5
Education	5.0	5.4	4.8	4.6	4.3	4.3	4.1
Health care	6.2	6.8	6.4	6.4	6.3	6.4	6.2
Elderly care	5.2	5.5	5.4	5.7	5.9	6.2	6.2
Other activities	7.7	8.1	7.4	7.2	7.1	7.0	6.8

Sources: Statistics Sweden and own calculations.

Transfer payments

The calculations assume a certain guarantee of standards in the general government transfer payment systems (see table A.5). Some transfer payments have rules and regulations that automatically increase expenditure in line with earnings. This applies, for instance, to pensions that are uprated in line with the income index and also partly to transfer payments compensating for income loss, such as health and parental insurance. In the calculations, pensions are projected in accordance with the current rules. Other transfer payments to households are assumed to rise in line with wages. This also means there is an assumption that the 'ceilings' applied in the social insurance systems rise in line with wages. Such a guarantee of standards offsets the erosion of household transfer payments that would take place if the estimate was only based on a price projection.

Table A.5 General government transfer payments

Per cent of GDP

	2015	2020	2030	2040	2050	2060	2070
Total transfer payments	**17.6**	**19.1**	**16.4**	**16.4**	**16.3**	**16.8**	**16.7**
Transfer payments to households	14.2	14.5	12.6	12.6	12.6	13.1	12.9
Old age	7.7	8.0	7.2	7.2	7.1	7.5	7.4
Ill-health	2.7	2.2	1.8	1.8	1.9	1.9	1.9
Children/studies	1.9	2.1	1.9	1.9	1.9	2.0	1.9
Labour market	0.8	1.0	0.6	0.6	0.6	0.6	0.6
Other	1.2	1.2	1.1	1.1	1.1	1.1	1.1
Transfer payments to businesses and the rest of the world	3.5	4.7	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 pensions system

Table A.6 shows the old-age pensions system's revenue and expenditure and its financial position. The calculation of pension expenditure is based on demographic trends, economic assumptions and the applicable regulations. The average age of retirement is assumed to be constant at 65 years.

Table A.6 Old-age pensions system

Per cent of GDP

	2015	2020	2030	2040	2050	2060	2070
Revenue	**6.6**	**6.7**	**6.7**	**6.9**	**7.1**	**7.3**	**7.4**
Fees	5.8	6.0	5.8	5.8	5.9	5.9	5.9
Interest, dividends etc.	0.7	0.7	0.9	1.1	1.2	1.3	1.5
Expenditure	**6.3**	**6.8**	**6.1**	**5.9**	**5.7**	**6.0**	**5.8**
Pensions	6.2	6.6	5.9	5.7	5.5	5.8	5.7
Other	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net lending	**0.2**	**-0.1**	**0.7**	**1.0**	**1.4**	**1.3**	**1.6**
Net financial assets	**29.3**	**30.8**	**29.6**	**30.3**	**34.3**	**37.8**	**41.0**

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

	2015	2020	2030	2040	2050	2060	2070
Total expenditure	48.4	52.6	48.0	47.7	46.7	46.9	45.5
Age-related[1]	34.2	36.6	33.4	33.3	32.8	33.5	32.8
Pensions[2]	7.7	8.0	7.2	7.2	7.1	7.5	7.4
Guarantee pensions	0.4	0.3	0.3	0.5	0.6	0.6	0.7
Old-age pensions	6.2	6.6	5.9	5.7	5.5	5.8	5.7
Other pensions (disability and survivors')	0.5	0.4	0.4	0.3	0.3	0.3	0.3
General government occupational pensions	0.6	0.6	0.7	0.7	0.7	0.8	0.7
Health care	6.2	6.8	6.4	6.4	6.3	6.4	6.2
Elderly care and care services for disabled	5.2	5.5	5.4	5.7	5.9	6.2	6.2
Childcare	1.7	1.8	1.6	1.5	1.5	1.5	1.5
Education	5.0	5.4	4.8	4.6	4.3	4.3	4.1
Unemployment benefit	0.8	1.0	0.6	0.6	0.6	0.6	0.6
Other age-related expenditure	7.7	8.1	7.4	7.2	7.1	7.0	6.8
Interest expenditure	0.6	0.3	0.7	0.7	0.3	0.0	0.0
Total revenue	48.4	48.8	49.0	49.0	48.8	48.9	48.7
of which income from capital	1.5	1.7	2.1	2.3	2.4	2.5	2.6
of which is from the pensions system	0.7	0.7	0.9	1.1	1.2	1.3	1.5

	2015	2020	2030	2040	2050	2060	2070
Assumptions							
Labour productivity growth, GDP level	2.8	-2.2	1.7	1.7	1.7	1.8	1.8
GDP growth	4.4	-4.0	1.9	2.0	1.9	2.1	2.2
Unemployment rate	7.4	9.0	7.0	7.2	7.0	6.9	6.7
Population aged 65 + as a proportion of the total population	19.7	20.0	21.4	22.9	23.3	24.7	24.5

[1] Age-related expenditure includes childcare. 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 projections 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 2020 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 table B.2).

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

Index, unless otherwise stated

	2018	2020	2030	2040	2050	2060	2070
Population, 15–74 years							
EPC	100	101,0	107,6	114,5	118,8	123,6	126,0
Convergence programme	100	101,1	105,9	109,5	111,4	114,7	116,6
Employed							
EPC, 15–74 years	100	101,3	108,2	114,5	119,5	121,8	126,0
Convergence programme, 15–74 years	100	99	106,3	109,2	112,5	114,1	118,4
Hours							
EPC	100	101,6	108,3	114,5	119,6	121,9	126,0
Convergence programme	100	97,8	105,3	108,1	111,2	112,5	117,1
Unemployment rate, percentage points							
EPC, 15–74 years	5,9	5,8	5,6	5,6	5,6	5,6	5,6
Convergence programme, 15–74 years	6,3	9,0	7,0	7,2	7,0	6,9	6,7
Labour productivity							
EPC	100	102,6	116,5	134,3	156,1	181,8	211,6
Convergence programme	100	99,4	116,5	138,0	164,1	195,5	234,6
Potential GDP							
EPC	100	104,3	126,1	153,8	186,7	221,6	266,7
Convergence programme	100	97,2	122,7	149,1	182,5	219,9	274,7
Potential GDP per capita							
EPC	100	102,1	113,1	129,3	148,6	168,4	194,6
Convergence programme	100	95,4	112,8	131,9	156,0	181,7	219,6

Sources: European Commission and own calculations.

The population forecast for Sweden used by the EPC was prepared by Eurostat in 2017. The calculations in this Convergence Programme are based on a population forecast issued by Statistics Sweden in April 2019. That assessment takes account of actual developments in recent years, which means that the population increases slightly more quickly than in the EPC calculation in the next few years. In the longer term, however, the population grows more slowly according to this Convergence Programme. The EPC thus has a stronger increase both in the number of hours worked and in the number of persons employed in the longer term. Productivity growth is faster in the Convergence Programme than according to the EPC calculations, which means that both GDP and per capita GDP are higher in the long term in the 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

Proportion of GDP

	Change 2018–2035			Change 2018–2035		
	CP	EPC	CP-EPC	CP	EPC	CP-EPC
Pensions	-0,2	-0,9	0,6	-0,1	-0,9	0,8
Health care	0,1	0,3	-0,2	-0,1	0,7	-0,8
Elderly care and care services for disabled	0,4	0,8	-0,4	0,9	1,7	-0,8
Education/Unemployment benefit	-0,5	0,3	-0,7	-1,0	0,4	-1,5
Total	**-0,2**	**0,6**	**-0,8**	**-0,3**	**2,0**	**-2,3**

Note: CP is the abbreviation of convergence programme. Childcare is not included in this synthesis.

Sources: European Commission and own calculations.

Appendix C – Tables

Table C.1a Macroeconomic prospects

Annual percentage change

	Mdkr 2019	2019	2020	2021	2022	2023
Real GDP	4 893	1.2	-4.0	3.5	3.4	3.1
Nominal GDP	5 026	4.0	-2.9	5.1	5.2	5.2
Components of real GDP						
Private consumption expenditure	2 185	1.2	0.1	2.8	3.6	3.6
Government consumption expenditure	1 263	0.4	0.6	-0.5	-0.3	-1.1
Gross fixed capital formation	1 235	-1.2	-10.7	5.5	5.2	5.0
Changes in inventories and net acquisition of valuables[1]	34	..	..	..	..	..
Exports of goods and services	2 306	4.2	-6.0	6.2	5.0	4.1
Imports of goods and services	2 130	1.8	-5.4	6.7	4.0	3.4
Contributions to real GDP growth						
Final domestic demand		0.4	-2.5	2.5	2.8	2.6
Changes in inventories and net acquisition of valuables		-0.3	-1.0	1.0	0.0	0.0
External balance of goods and services		1.1	-0.5	0.0	0.6	0.5

[1] Contribution to real GDP growth.

Sources: Statistics Sweden and own calculations.

Table C.1b Price developments

Annual percentage change

	Level 2019	2019	2020	2021	2022	2023
GDP deflator	102.7	2.7	1.1	1.6	1.8	2.0
Private consumption deflator	101.9	1.9	0.5	1.5	1.7	2.0
HICP[1]	106.9	1.7	0.6	1.3	1.4	1.6
Public consumption deflator	103.5	3.5	2.6	2.3	2.6	3.5
Investment deflator	102.3	2.3	1.2	1.5	1.5	1.5
Export price deflator (goods and services)	103.4	3.4	0.8	0.9	1.0	1.0
Import price deflator (goods and services)	102.9	2.9	1.0	1.1	1.2	1.2

Note: All deflators are indices. 2018=100.
[1] Index, 2015=100.

Sources: Statistics Sweden and own calculations.

Table C.1c Labour market developments

Annual percentage change if not otherwise stated

	Level 2019	2019	2020	2021	2022	2023
Employment, persons[1]	5 124	0.6	-1.7	0.7	1.2	2.2
Employment, hours worked[2]	822 789	-0.4	-1.8	1.8	1.1	1.5
Unemployment rate (%)[3]	373	6.8	9.0	9.0	8.4	7.0
Labour productivity, persons[4]	848	0.8	-2.4	2.8	2.2	0.9
Labour productivity, hours worked[5]	584	1.9	-2.1	1.9	2.7	1.2
Compensation of employees[6]	2 395	3.7	0.7	3.8	3.7	4.7
Compensation per employee[7]	467 375	3.1	2.5	3.1	2.5	2.5

1 Occupied population, national accounts definition. Level in thousands.
2 National accounts definition. Level in ten 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

	2019	2020	2021	2022	2023
Net lending/borrowing vis-a-vis the rest of the world	4.5	4.3	4.0	4.3	4.5
of which					
Balance on goods and services	3.8	3.4	3.2	3.5	3.7
Balance of primary incomes and transfers	0.6	0.9	0.9	0.8	0.8
Capital account	0.1	0.0	0.0	0.0	0.0
Net lending/borrowing of the private sector	4.1	8.0	5.4	4.3	3.0
Net lending/borrowing of the general government	0.4	-3.8	-1.4	0.1	1.5

Sources: Statistics Sweden and own calculations.

Table C.2a General government budgetary prospects

Per cent of GDP

	SEK bn 2019	2019	2020	2021	2022	2023
Net lending by sub-sector						
General government	18	0.4	-3.8	-1.4	0.1	1.5
Central government	60	1.2	-2.8	-0.7	0.7	2.0
Local government	-48	-1.0	-0.8	-0.8	-0.8	-0.7
Social security funds	6	0.1	-0.1	0.1	0.1	0.2
General government						
Total revenue	2 496	49.7	49.8	49.7	49.6	49.4
Total expenditure	2 477	49.3	53.6	51.1	49.6	48.0
Net lending/borrowing	18	0.4	-3.8	-1.4	0.1	1.5
Interest expenditure	19	0.4	0.3	0.3	0.3	0.3
Primary balance	38	0.8	-3.4	-1.1	0.3	1.8

	SEK bn 2019	2019	2020	2021	2022	2023
One-off and other temporary measures	0	0.0	0.0	0.0	0.0	0.0
Selected components of revenue						
Total taxes	2 010	40.0	39.7	39.9	40.0	40.0
Taxes on production and imports	1 104	22.0	22.1	22.3	22.1	22.0
Current taxes on income. wealth. etc.	906	18.0	17.6	17.6	17.8	18.0
Capital taxes	0	0.0	0.0	0.0	0.0	0.0
Social contributions	172	3.4	3.5	3.5	3.4	3.4
Property income	83	1.7	1.8	1.7	1.8	1.8
Other	230	4.6	4.8	4.6	4.5	4.3
Total revenue	2 496	49.7	49.8	49.7	49.6	49.4
Tax burden	2 155	42,9	42,7	42,8	42,8	42,9
Selected components of expenditure						
Compensation of employees + intermediate consumption	1 035	20.6	21.8	21.0	20.4	19.7
Compensation of employees	634	12.6	13.4	12.9	12.6	12.2
Intermediate consumption	400	8.0	8.4	8.1	7.9	7.6
Social payments	797	15.8	17.0	16.2	15.7	15.1
of which Unemployment benefits	31	0.6	1.0	0.8	0.7	0.6
Social transfers in kind supplied via market producers	177	3.5	3.7	3.6	3.5	3.4
Social transfers other than in kind	619	12.3	13.2	12.6	12.2	11.8
Interest expenditure	19	0.4	0.3	0.3	0.3	0.3
Subsidies	79	1.6	1.9	1.7	1.7	1.8
Gross fixed capital formation	248	4.9	5.3	5.4	5.2	5.1
Capital transfers	13	0.3	0.3	0.3	0.2	0.2
Other	287	5.7	7.1	6.2	6.0	5.7
Total expenditure	2 477	49.3	53.6	51.1	49.6	48.0
Government consumption (nominal)	1 307	26.0	27.6	26.8	26.0	25.3

Sources: Statistics Sweden and own calculations.

Table C.2b Revenue and expenditure forecasts

Per cent of GDP if not otherwise stated

	SEK bn 2019	2019	2020	2021	2022	2023
Total revenue	2 496	49.7	49.8	49.7	49.6	49.4
Total expenditure	2 477	49.3	53.6	51.1	49.6	48.0

Sources: Statistics Sweden and own calculations.

Table C.2c Amounts to be excluded from the expenditure benchmark

Procent av BNP

	SEK bn 2019	2019	2020	2021	2022	2023
Expenditure on EU programmes fully matched by EU funds revenue	4	0,1	0,1	0,1	0,1	0,1
of which investment fully matched by EU funds revenue	0	0,0	0,0	0,0	0,0	0,0
Cyclical unemployment benefit expenditure	-1	0,0	-0,3	0,2	0,0	0,1
Effect of discretionary revenue measures	-17	-0,3	-0,7	0,5	0,1	0,0
Revenue increases mandated by law	–	–	–	–	–	–

Source: Statistics Sweden and own calculations.

Table C.3 General government expenditure by function

Per cent of GDP

	COFOG code	2018
General public services	1	7.1
Defence	2	1.2
Public order and safety	3	1.3
Economic affairs	4	4.3
Environmental protection	5	0.5
Housing and community amenities	6	0.7
Health	7	7,0
Recreation, culture and religion	8	1.3
Education	9	6.9
Social protection	10	19.5
Total expenditure		49.8

Source: Statistics Sweden and own calculations.

Table C.4 General government debt developments

Per cent of GDP

	2019	2020	2021	2022	2023
Gross debt	35,1	39,9	38,3	36,2	32,4
Change in gross debt ratio	-3,7	4,8	-1,6	-2,1	-3,8
Contribution to changes in gross debt					
Primary balance	-0,8	3,4	1,1	-0,3	-1,8
Interest expenditure	0,4	0,3	0,3	0,3	0,3
Stock-flow adjustment	-1,9	0,0	-1,1	-0,1	-0,5
of which					
Differences between cash and accruals	0,3	0,6	-1,1	-0,2	-0,9
Privatisation proceeds	0,0	-0,1	-0,1	-0,1	-0,1
Valuation effects and others	-2,1	-0,5	0,1	0,2	0,5
Nominal GDP change	-1,8	-1,5	1,0	-2,0	-1,9
Implicit interest rate on debt	1,1	0,8	0,8	0,8	0,8

Sources: Statistics Sweden and own calculations.

Table C.5 Cyclical developments

Per cent of GDP if not otherwise stated

	2019	2020	2021	2022	2023
Real GDP growth (%)	1.2	-4.0	3.5	3.4	3.1
Net lending of general government	0.4	-3.8	-1.4	0.1	1.5
Interest expenditure	0.4	0.3	0.3	0.3	0.3
One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0
Potential GDP growth (%)	1.9	1.8	1.7	1.7	1.7
Output gap	0.8	-5.2	-3.6	-1.9	-0.4
Cyclical budgetary component	-0.1	-2.8	-2.0	-1.1	-0.2
Cyclically-adjusted balance	0.4	-0.9	0.6	1.2	1.7
Cyclically-adjusted primary balance	0.9	-0.5	1.0	1.5	2.0
Structural balance	0.4	-0.9	0.6	1.2	1.7

Sources: Statistics Sweden and own calculations.

Table C.6 Divergence from previous update

	2019	2020	2021	2022	2023
Real GDP growth (%)					
Previous update	1.6	1.6	1.6	2.0	--
Current update	1.2	-4.0	3.5	3.4	3.1
Difference	-0.4	-5.6	1.9	1.4	--
General government net lending (% of GDP)					
Previous update	0.6	0.7	1.1	1.9	--
Current update	0.4	-3.8	-1.4	0.1	1.5
Difference	-0.2	-4.5	-2.5	-1.8	--
General government gross debt (% of GDP)					
Previous update	34.5	32.8	30.9	28.2	--
Current update	35.1	39.9	38.3	36.2	32.4
Difference	0.6	7.1	7.4	8.0	--

Sources: Statistics Sweden and own calculations.

Table C.7 Long-term sustainability of public finances

Per cent of GDP

	2015	2020	2030	2040	2050	2060	2070
Total expenditure	**48.4**	**52.6**	**48.0**	**47.7**	**46.7**	**46.9**	**45.5**
of which							
Age-related expenditure	34.2	36.6	33.4	33.3	32.8	33.5	32.8
of which							
Pension expenditure	7.7	8.0	7.2	7.2	7.1	7.5	7.4
of which							
Social security pension	0.4	0.3	0.3	0.5	0.6	0.6	0.7
Old-age and early pensions	6.2	6.6	5.9	5.7	5.5	5.8	5.7
Other pensions (disability- and survivors-)	0.5	0.4	0.4	0.3	0.3	0.3	0.3

	2015	2020	2030	2040	2050	2060	2070
Occupational pensions (if in general government)	0.6	0.6	0.7	0.7	0.7	0.8	0.7
Health care	6.2	6.8	6.4	6.4	6.3	6.4	6.2
Long-term care	5.2	5.5	5.4	5.7	5.9	6.2	6.2
Educational expenditure	5.0	5.4	4.8	4.6	4.3	4.3	4.1
Other age-related expenditures	7.7	8.1	7.4	7.2	7.1	7.0	6.8
Interest expenditure	0.6	0.3	0.7	0.7	0.3	0.0	0.0
Total revenue	**48.4**	**48.8**	**49.0**	**49.0**	**48.8**	**48.9**	**48.7**
of which							
Property income	1.5	1.7	2.1	2.3	2.4	2.5	2.6
of which							
From pensions contributions (or social contributions if appropriate)	0.7	0.7	0.9	1.1	1.2	1.3	1.5
Pension reserve fund assets	29.3	30.8	29.6	30.3	34.3	37.8	41.0
of which							
Consolidated public pension fund assets (assets other than government liabilities)	28.0	29.5	27.4	28.7	33.5	37.5	41.5
Assumptions							
Labour productivity	4.0	-2.1	2.1	2.1	2.1	2.1	2.1
Real GDP growth	4.4	-4.0	1.9	2.0	1.9	2.1	2.2
Unemployment rate	7.4	9.0	7.0	7.2	7.0	6.9	6.7
Population aged 65+ over total population	19.7	20.0	21.4	22.9	23.3	24.7	24.5

Sources: Statistics Sweden and own calculations.

Table C.7a Contingent liabilities

Per cent of GDP

	2019
Public guarantees	40,1

Sources: Statistics Sweden and own calculations.

Table C.8 Basic assumptions

Annual average if not otherwise stated

	2019	2020	2021	2022	2023
Short-term interest rate (annual average)[1]	-0.4	-0.2	-0.4	-0.5	-0.4
Long-term interest rate (annual average)[2]	0.1	-0.2	-0.2	0.1	0.3
USD/ € exchange rate (annual average)	1.1	1.1	1.1	1.2	1.2
Nominal effective exchange rate vis-á-vis the €[3]	10.6	10.9	10.9	10.8	10.6
World. GDP growth[4]	2.9	-1.0	4.5	4.5	4.0
EU GDP growth[4]	1.4	-4.0	3.5	3.5	3.2
Growth of relevant foreign markets[4]	2.5	-9.0	7.0	6.5	5.0
World import volumes, excluding EU					
Oil prices (Brent USD/barrel. annual average)	64	38	39	42	44

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

Sources: Statistics Sweden and own calculations.

Government Offices of Sweden
Ministry of Finance
103 33 Stockholm