

December 2006

### **Press releases 2002–2006**

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This document contains the collected Ministry of Finance press releases from the period 1 January 2002–6 October 2006. These press releases have previously been published on [www.regeringen.se](http://www.regeringen.se) and were removed from the website on 6 October 2006 when a new Government took office.

The contact information in the press releases has largely been deleted since press secretaries and other staff have been replaced.

Links contained in the press releases have been deleted.

The press releases in the document have been sorted by date, starting with the most recent.

In total, there are 53 press releases from this period.

### **How to search the document**

You can search the press releases in the document using the Adobe Reader search function. The search function is generally marked with a binoculars icon on the tool bar. You can search using any word of your choice, but to simplify your search the press releases contain the following key words:

- Minister
- Ministry
- Subject

In 2002–2006 the following ministers, ministries and subjects were referred to on [www.regeringen.se](http://www.regeringen.se):

#### Ministers

Göran Persson, Ann-Christin Nykvist, Barbro Holmberg, Berit Andnor, Bosse Ringholm, Carin Jämtin, Hans Karlsson, Ibrahim Baylan, Jan Eliasson, Jens Orback, Leif Pagrotsky, Lena Hallengren, Lena Sommestad, Leni Björklund, Mona Sahlin, Morgan Johansson, Pär Nuder, Sven-Erik Österberg, Thomas Bodström, Thomas Östros, Ulrica Messing, Ylva Johansson, Laila Freivalds, Gunnar Lund, Lars-Erik Lövdén, Lars Engqvist, Marita Ulvskog, Anna Lindh, Margareta Winberg and Jan O Karlsson.

#### Ministries

The Prime Minister's Office, the Ministry of Justice, the Ministry for Foreign Affairs, the Ministry of Defence, the Ministry of Health and Social Affairs, the Ministry of Finance, the Ministry of Education, Research and Culture, the Ministry of Agriculture, Food and Consumer Affairs, the Ministry of Sustainable Development, the Ministry of Industry, Employment and Communications, the Ministry of Education and Science, the Ministry of Culture, the Ministry of the Environment and The Permanent Representation of Sweden to the European Union.

#### Subjects

Agriculture, forestry, fisheries  
 Asylum, migration, integration, minorities  
 Central, regional and local government  
 Communications, IT  
 Culture, the media, leisure activities  
 Defence, emergency management and safety  
 Democracy and human rights  
 Education and research  
 Employment and gender equality  
 Environment, energy and housing  
 EU  
 Foreign policy and international cooperation  
 Health care, health, social issues/insurance  
 Industry, trade, regional development  
 Legislation and justice  
 National economy and budget  
 Sustainable development

## **PRESS RELEASE**

2006-09-07

Ministry for Foreign Affairs  
Ministry of Finance

# Sweden grants debt relief to Congo

The Government decided today to grant debt relief to the Democratic Republic of Congo in the framework of the HIPC-initiative, an international agreement to assist the poorest and most heavily indebted countries to achieve a sustainable debt.

The decision is based on a multilateral agreement in the Paris Club and consists in the cancellation of about 70 per cent of Congo's payments to Sweden between June 30, 2005 and Mars 31, 2006. Payments during this period amount to about 38 million kronor in Swedish kronor, of which about 26 million kronor are cancelled. Congo shall make the remaining payments between 2010 and 2027.

The Paris Club is a group of official creditors from 19 industrialized countries.

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Key word: 69049 Foreign policy and international cooperation National economy and budget Carin Jämtin

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## **PRESS RELEASE**

2006-07-03

Prime Minister's Office  
Ministry of Agriculture, Food and Fisheries  
Ministry of Health and Social Affairs  
Permanent Representation of Sweden to the EU  
Ministry of Defence  
Ministry of Industry, Employment and Communications  
Ministry for Foreign Affairs  
Ministry of Finance  
Ministry of Sustainable Development  
Office for Administrative Affairs  
Ministry of Education, Research and Culture  
Ministry of Justice

# Improved usability and accessibility on [www.sweden.gov.se](http://www.sweden.gov.se)

In July 2006, some changes will be made to the design of the

www.regeringen.se and www.sweden.gov.se websites. The new design is the result of a systematic effort to improve usability and accessibility. The changes are based on such things as user tests and validation of HTML and style sheets.

In connection with the launch in July, the text version of the website will be discontinued. Instead, the level of customisation on the entire website will be increased in accordance with WAI guidelines. Visitors to the website will be able to select their own preferences, such as choice of font or background colour.

Content on the websites is validated XHTML 1.0 Strict, and Cascading Style Sheets (CSS) 2.0. The website has a fluid design, which means that all proportions are relative to the text size used.

The changes being made will not affect the URL addresses; links to material on the websites will still work after the launch.

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Key word: 66638 Communications, IT

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## **PRESS RELEASE**

2006-04-18

Ministry of Finance

# Sweden's Economy

Sweden's gross domestic product (GDP) is forecast to grow by 3.6 per cent in 2006 and 3.0 per cent in 2007. Open unemployment, measured as an annual average, is expected to fall to 4.9 per cent this year and 4.5 per cent next year. General government net lending is estimated to amount to 2.0 per cent of GDP in 2006 and 2.2 per cent in 2007.

### Continued strong growth in the global economy

GDP growth in the global economy is expected to remain strong both this year and next. Growth is being fuelled to a great extent by low interest rates and strong productivity growth. Despite strong growth, rising energy prices and higher resource utilisation, inflation has been low. The high rate of growth in the United States is expected to slow somewhat during the year but remain favourable throughout the forecast period. The euro area and Japanese economies are expected to strengthen in 2006.

### Strong Swedish GDP growth and labour market

The Swedish economy is expected to grow rapidly in 2006 and 2007. Rising international demand and Swedish firms' good competitiveness mean that exports of both goods and services will grow strongly, especially this year. Low interest rates, good corporate earnings, high capacity utilisation and strong demand for housing spell continued favourable investment growth. Household consumption will perform well thanks to rising employment and real incomes coupled with a favourable wealth situation and low interest rates. Robust local government finances and enlarged

labour market policy programmes in the general government sector mean that general government consumption will also grow strongly this year.

The number of vacancies is rising, and firms' recruitment plans are increasingly positive. Employment began to recover in 2005 and is expected to continue to rise thanks to strong domestic demand and enlarged labour market policy programmes. Many of those previously outside the labour force are now looking to enter the labour market. This increased supply of labour will favour a lasting increase in regular employment and counter labour shortages, but does mean that unemployment will fall less far than employment rises during the forecast period. The regular employment rate is expected to grow throughout the period.

Resource utilisation in the labour market is currently low but is set to rise gradually. Wage growth is expected to accelerate but remain moderate. Slowly mounting domestic inflationary pressure, coupled with a stronger krona and falling oil prices, is expected to mean that inflation will rise only slowly both this year and next. Only a moderate increase in interest rates is therefore anticipated.

For 2008, an estimate based on assessments of the resource situation and the economy's potential growth rate is presented. The estimate assumes that the economy will reach full resource utilisation in 2008. It is expected that there will still be available resources in the labour market at the end of 2007, which means that employment and GDP can continue to grow at a good rate in 2008 without the risk of excessively high inflation. GDP is estimated to grow by 2.8 per cent in 2008 and open unemployment to edge down further to 4.4 per cent.

#### Public finances

General government net lending amounted to SEK 71 billion or 2.7 per cent of GDP in 2005. Financial assets exceeded liabilities by SEK 331 billion or 12.4 per cent of GDP at the end of the year. Consolidated gross debt was 50.3 per cent of GDP, which is well below the EU's reference value of 60 per cent.

In 2006 general government net lending is forecast to be 2.0 per cent of GDP, which is more than twice the level anticipated in the Budget Bill for 2006. The improvement is due primarily to tax revenues - particularly capital taxes - being expected to be higher than previously assumed. In 2007-08 expenditure will fall as a proportion of GDP, and net lending will rise.

Local government finances strengthened considerably in 2005, and both financial result and net lending are expected to continue to show relatively large surpluses during the forecast period.

The positive net lending in the general government sector means that its financial position will continue to improve during the forecast period. The budget balance will show a surplus throughout the period; thus, both central government debt and consolidated gross debt will fall.

For a more detailed presentation of the macroeconomic forecasts and the forecasts for public finances, see Appendix 1 to the Spring Fiscal Policy Bill, "Sweden's Economy", which can be found at [www.regeringen.se](http://www.regeringen.se).

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Key word: 62212 National economy and budget Pär Nuder

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## **PRESS RELEASE**

2006-04-18

Ministry of Finance

# The 2006 Spring Budget: Focusing on the elderly, young people, new jobs and integration

Today the Government presents the 2006 Spring Fiscal Policy Bill. The Bill contains proposed economic and budget policy guidelines, along with a supplementary budget for 2006. It is based on an agreement between the Social Democratic Government, the Left Party and the Green Party.

The Swedish economy is developing strongly, with an expected growth rate of 3.6 per cent in 2006 and 3.0 per cent in 2007. This is a revision upwards compared with the assessment in the Budget Bill for 2006. Inflation is expected gradually to rise from the present low levels, approaching the Riksbank's 2 per cent target in 2007. However, low rent increases, a stronger krona and declining oil prices are expected to restrain the rise in inflation.

Employment took an upward turn in the autumn of 2005 in response to a strong domestic economy and active labour market measures. In all, employment is expected to increase by about 80 000 in 2006 and approximately 40 000 in 2007, with the private sector accounting for around 65 per cent of the new jobs. With the initiatives proposed in the Spring Fiscal Policy Bill, open unemployment is expected to fall to approximately 4.5 per cent at the end of 2006. This means that the unemployment target according to Statistics Sweden's previous estimation methods will be reached by the end of 2006.

Central government debt is expected to decline in 2006, both as a share of GDP and in kronor. In the period since the surplus target was introduced in 2000 up to and including 2008, average public sector net lending is estimated at 2.0 per cent of GDP. This means the surplus target is being met.

In 2006 and 2007, the expenditure ceiling will amount to SEK 907 billion and SEK 949 billion respectively. With the proposals in the Spring Fiscal Policy Bill, the margin to the expenditure ceiling will be SEK 2.7 billion in 2006 and SEK 9.7 billion in 2007, which is well in line with the budgeting margins presented in the Budget Bill for 2006.

### More new jobs and lower unemployment

The Government proposes measures to supplement the autumn's employment package. Although employment is expected to grow this year, the Government believes that continued measures are required to reduce unemployment, particularly among the long-term unemployed, young people, immigrants and people with disabilities. This is because the supply of labour is also on the rise, along with employment. As a result, it can still be difficult for unemployed people to get a job even though there are more jobs to apply for.

250 positions for generational change in the central government sector

Central government agencies will be given the opportunity to recruit an additional 250 people to cope with generational change between 1 July 2006 and 31 December 2007.

#### 150 new jobs in the cultural sector

State-owned cultural institutions will be given the opportunity to recruit an additional 150 unemployed graduates from 1 July 2006, to look after museum collections.

#### Bonus jobs up to retirement for 60-year-olds

Everyone who is at least 60 years old and obtains a bonus job can keep the job until they are 65, unlike other bonus jobs that last for a maximum of two years.

#### 2 000 more wage subsidies

In order to increase employment among people with disabilities, the Government proposes 2 000 new wage subsidy places in the second half of 2006 and all of 2007.

#### Co-financing requirements for work experience places will be abolished

As a trial, the co-financing requirement for employers offering work experience places will be abolished until the end of 2007.

#### 1 000 more places in advanced vocational training

The drive to provide more places in advanced vocational training will be extended to add a further 1 000 places from autumn 2007 until spring 2009.

#### Employment training targeting shortage occupations

Labour market measures will add another 11 000 places in 2007 and 2008, which will provide an opportunity for more places in employment training. Existing resources will be redistributed and employment training will be given precedence over preparatory training. The employment training will be adapted to meet national and regional needs and will be provided in areas where there is an existing or impending shortage of labour.

#### Compensation for jobseekers' travel expenses

Young people aged 20 to 24 will be eligible for compensation for travel expenses associated with employment interviews.

#### Businesses and growth

The Government wants to strengthen the climate for business, particularly for small enterprises, and proposes the following measures:

The basic financing of Almi Företagspartner AB (Almi Business Partner) will be secured SEK 70 million will be put into Almi from 2007.

#### Reinforced investment in innovation

Almi will be given SEK 10 million per year in 2007 and 2008 to strengthen its work on providing funding and advice for all forms of innovation.

#### Research and development at small and medium-sized enterprises

The Swedish Agency for Innovation Systems will receive an additional SEK 100 million from 2007 onwards to put into the programme "Forska & Väx" ("Research & Grow"), which targets small enterprises.

#### Investment in Industrial Development Centres

The Swedish Agency for Economic and Regional Growth (Nutek) will be allocated SEK 10 million more per year in 2007 and 2008 to support Industrial Development Centres (IDCs).

### Promoting rural development

The next Environmental and Rural Development Programme for 2007-2013 will have broader coverage than the present programme. The Government intends to allocate additional national resources to increase the scope of the programme. It will include energy and environmental measures as well as initiatives targeting small enterprises. The contents of the programme will be prepared at the Government Offices during the spring of 2006.

### Strategic development programmes for Swedish industry

Together with the business sector and trade unions, the Government has drawn up strategies for a number of key industries in Sweden: forestry and wood products, metals, vehicles, pharmaceuticals, biotechnology and IT/telecommunications. The Government is considering extending this initiative to more industries. If it does, the first in line will be the tourism industry and other parts of the services sector. The Government will revert to this issue in the Budget Bill for 2007.

### Wealth tax in unlisted companies ("Lex Uggla")

The Lex Uggla issue should be included in the major review of taxation that has previously been announced. However, the Government considers that there may be reason even now to take account of the latent tax liability when valuing owners' shares in unlisted companies for the purpose of assessing wealth. There will be an inquiry on this issue. In addition, the Government will instruct the Swedish Tax Agency to further clarify its information on excess liquidity in unlisted limited liability companies so as to simplify application of the legislation.

### The elderly

Sweden must become the best place in the world to grow old. This will require numerous measures over the coming decade. The Spring Fiscal Policy Bill presents measures for better health care and social care, secure housing arrangements and enhanced financial security.

### Billion kronor investment in better health care and social services for the most infirm

SEK 600 million will be invested in 2006 and SEK 1 billion per year in 2007 and 2008 to improve the health care provided to the most infirm members of the elderly population. SEK 200 million will be provided to care of dementia patients in 2007 and 2008. In addition, SEK 50 million will be specially committed in 2007 and 2008 to develop elderly care adapted to a multicultural society.

### Investment grants for special service homes

At present there is a shortage of special service homes in many parts of the country. The Government wants to encourage municipalities to build new special service homes and make alterations to existing homes. A new investment grant facility will be set up for special service homes, making SEK 250 million per year available from 2007.

### Higher housing supplement for pensioners

The compensation will be raised from 91 to 93 per cent of the cost of housing up to the ceiling, which is SEK 4 850 a month. The higher rate will be effective retroactively from 1 April 2006.

### Preventive work

In 2007 and 2008, SEK 150 million will reinforce preventive work by the municipalities, for instance measures to prevent falling accidents in the home.

### Research in the elderly field

With a view to supporting research and development in the elderly area, SEK 30 million will be allocated each year in 2007 and 2008 to the Swedish Council for Working Life and Social Research. SEK 5 million per year will be allocated in 2006, 2007 and 2008 to the development of a national skills centre for health care and social services for the elderly, including family and dementia issues.



### Technological development in the elderly field

The Government considers that resources are needed to support technological development of strategic importance and everyday relevance in the elderly area and is committing SEK 25 million per year to this purpose in 2007 and 2008.

### Young people

The spring budget includes a major focus on young people. It addresses work, education, housing, recreation, security and health.

### Bonus jobs for young people

To make it easier for young people to get a foot in the labour market, from 1 July 2006 the number of bonus jobs will increase by 1 000 places specially intended for young people aged between 20 and 24. The qualifying rules will be the same as for other bonus jobs.

### More jobs for unemployed young people

Unemployed young people qualify for general recruitment incentives after six months of unemployment. In 2006 general recruitment incentives will be granted for approximately 1 500 young people aged 20 to 24. The lower six-month registration requirement for young people will be extended until 2007.

### More summer jobs

In 2006 SEK 100 million will be put into support for municipalities offering young people summer jobs.

### Support for apprenticeship training

In order to establish apprenticeship training schemes, between 2007 and 2009 SEK 20 million per year will be put into development support for 20 municipalities with a high proportion of upper secondary students who lack final grades from the vocationally oriented programmes.

### Higher study grant

The study grant for upper secondary students will be raised by SEK 100 to SEK 1 050 per month. This increase will be effective retroactively from 1 April 2006.

### Higher study support

Study support will be raised on 1 July 2006 by SEK 300 a month, of which SEK 100 will be a grant and SEK 200 a loan.

### Rent guarantees

A central government grant will be introduced for municipalities that want to use rent guarantees to make it easier for young people and others to obtain housing. SEK 100 million per year will be set aside for this purpose. It is estimated that this will be enough for approximately 20 000 guarantees each year.

### Extended investment-support schemes

The temporary investment support for building small housing units will be extended until 30 June 2008.

### More housing for students

SEK 100 million will be allocated in 2007 and SEK 50 million in 2008 to pay for investment grants for student housing, which it is estimated will lead to 1 300 more units.

### Drive for psychiatric services for children and young people

There will be a drive to improve the availability of psychiatric services for children and young people. In addition, a national centre will be established for support, knowledge and methods development. This drive will have a budget of SEK 250 million per year in 2007 and 2008.

#### More recreation centres

The Government is committing SEK 80 million per year between 2007 and 2009 to develop recreation activities and meeting places for young people.

#### Integration

The Government is presenting several measures to improve educational and working opportunities for women and men of foreign origin.

#### 100 schools - 100 special resource staff

To improve students' results in school, 1 000 special resource staff will be employed at schools in segregated areas. They are intended to provide teaching support and help enable more young people to leave school with a complete set of grades.

#### Meeting places for young people

SEK 3.5 million per year will be allocated in 2007 and 2008 to give young people in the metropolitan regions in particular better access to places where they can meet.

#### Speedy establishment of new immigrants

The Public Employment Services will be given overall responsibility for helping newly arrived immigrants to quickly enter employment. Trial activities will start on 1 July 2006 as a geographically limited trial over a two-year period.

#### Workplace induction for immigrants

The workplace induction trials conducted in 20 municipalities will be incorporated into ordinary activities.

#### More new entrepreneurs

In order to improve business opportunities for immigrants to Sweden, an extra SEK 20 million per year will be put into the Swedish Association of Ethnic Entrepreneurs (IFS) and Almi.

#### Supplementary education and validation

Many university graduates with foreign degrees lack employment commensurate with their education. A drive to provide teacher education for 300 students per year for two years will therefore be launched, along with a pilot project providing supplementary education for 30 lawyers with foreign degrees. The advanced education programme in administrative practice at Stockholm University, Göteborg University and Malmö University will be extended. The National Agency for Services to Universities and University Colleges will be given extra resources to improve the validation of foreign upper secondary school grades.

#### Increased grants to anti-discrimination offices

The central government grant will increase by SEK 1 million in 2006 and SEK 4 million per year from 2007.

#### Increased support to municipalities

Municipalities receiving people who have now obtained permanent residence permits under the new Asylum Act will receive increased support to enable them to offer a good induction and employment or education. The municipalities will be given a one-off payment of SEK 20 000 per refugee that they receive in 2006. In addition, the standard compensation will be raised by approximately 6 per cent from 2007, which is equivalent to SEK 10 000 for adults.

### Dental care

In the Spring Fiscal Policy Bill resources will be allocated to pay for the first stage of a dental care reform. Basic support will be introduced at a level of SEK 500 so that everyone can go to the dentist once every eighteen months at the same price as a visit to the doctor. When the reform has been implemented, a check-up will cost a maximum of SEK 200. SEK 500 million will be allocated to this first stage in 2007 and SEK 1.7 billion from 2008. The reform will enter into force in 2007. In the Budget Bill for 2007, the Government intends to present a proposal on a high-cost protection scheme for everyone in the dental care system.

### Limitation of real estate tax

The limitation rule for real estate tax is to apply to holiday and weekend homes as well. This entails that a household that only owns one property - a holiday or weekend home - will be able to apply the limitation rule. The limitation rule will also be amended so that households that now benefit from the limitation rule but have properties assessed at more than SEK 3 million can pay a reduced real estate tax on assessed values between SEK 3 million and SEK 5 million. These proposals will be effective retroactively from 1 January 2006.

### Fighting homelessness

Society must improve its efforts to fight homelessness. The Government proposes, among other measures, an increase of SEK 20 million per year in 2007 and 2008 in the personal representative initiative, as well as increases of SEK 23 million in 2007 and SEK 33 million in 2008 in the resources available to the National Board of Health and Welfare to contribute to projects to combat homelessness.

### Liberal adult education

The central government appropriation for liberal adult education will be augmented by SEK 400 million per year from 2007 onwards.

### Better preparedness for contagious diseases

The country's preparedness for a possible influenza pandemic will be strengthened. SEK 200 million will be allocated in 2006 to efforts to ensure a satisfactory supply of vaccine in the event of a pandemic.

### Environmental initiatives

SEK 30 million per year will be allocated to expanding wind power in 2007 and 2008. In 2007 and 2008, SEK 500 million per year will be allocated to energy-saving measures and conversion to renewable energy in premises used for public activities, with SEK 50 million of this sum going to support solar cell installation. The state investment programmes in support of climate investments (KLIMP) will be augmented by SEK 75 million per year in 2007 and 2008. In addition, SEK 50 million in 2006 and SEK 100 million in 2007 will be dedicated to renewable fuels, by stepping up the appropriation for climate investments.

### Green tax shift

The Budget Bill for 2006 announced a tax shift of SEK 3.6 billion. Because some proposals could not enter into force as quickly as was anticipated at that time, it is proposed that the abolition of carbon dioxide tax for the trading sector should be postponed until 1 January 2007.

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Key word: 62094 National economy and budget Pär Nuder

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## **PRESS RELEASE**

2005-12-20

Ministry of Education, Research and Culture  
Ministry of Finance

# Education leads to increased productivity and higher lifetime incomes

People with an education become more productive in their work and thus earn higher lifetime incomes. It is difficult to demonstrate on the basis of the research findings whether education contributes to increased economic growth, in addition to that resulting from the increase in lifetime incomes. Professor Anders Björklund and Mikael Lindahl Ph.D., both at the Swedish Institute for Social Research at Stockholm University, show this to be the case in a review of the research literature. Their findings are presented in the first of a series of reports, which the Expert group on Economic Studies (ESS) will publish.

Björklund and Lindahl discuss and analyse in their report "Education and Economic Development - What does empirical research show about causal inter-relationships" (ESS 2005:4) the latest findings in economic research on the relationship between education and economic development, and give as their overall conclusion that "the best studies indicate that the overall economic production effects correspond fairly closely to the aggregate individual income effects".

Apart from higher lifetime incomes, there are other empirically documented effects of the impact of education on individuals, such as better health, longer life expectancy and greater political involvement. In addition, education tends to be "inherited" in the sense that the children of parents with a higher education also get a higher education themselves.

The report identifies a number of gaps in our current knowledge. For instance, how growth in Sweden is affected by the major initiatives and investments that have been taken in education. In addition, relatively little research has been carried out into how the effects of education differ in relation to educational orientation. Neither have the positive effects that education is assumed to have on linkages to the labour market and transition to work been sufficiently well covered in the research.

In order to provide a broader social science perspective of our knowledge in macroeconomics, Albert Tuijnman, Professor in International Pedagogy has been invited to comment on and supplement this review of the findings.

The Expert Group on Economic Studies (ESS) is a working group in the Swedish Ministry of Finance co-operating with other parts of the Government Offices. This report has been initiated in conjunction with the Ministry of Education, Research and Culture. The main task of ESS is similar to the former Expert Group on Public Finance (ESO) to broaden and deepen the knowledge needed for policy initiatives in different socio-economic areas.

The report can be ordered from Fritzes

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Key word: 55412 Education and research National economy and budget Pär Nuder

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## **PRESS RELEASE**

2005-11-24

Ministry of Finance

# Sweden's Convergence Programme Update Presented

Sweden has today submitted an update of the convergence programme to the European Commission and to the Council.

The convergence programme shows that Sweden's economy is on a positive track. GDP is expected

to increase by 2.4 per cent in 2005 and 3.1 per cent in 2006. Net lending in the public sector is estimated at 1.4 per cent of GDP in 2005 and 0.7 per cent in 2006. Consolidated gross debt in the public sector, the so-called Maastricht debt, is expected to reach 50.9 per cent of GDP this year and to decline to 46.0 per cent of GDP in 2008.

Under the Stability and Growth Pact, Member States participating in the monetary union will prepare stability programmes. Member States that are not participating will prepare convergence programmes. The aim of the programmes is to strengthen surveillance of public finances. Members have undertaken to attain budget objectives in balance or surplus. Each country may define its precise national objectives. However, the objective may not be below -1 per cent of GDP.

The update of Sweden's convergence programme is based on the forecasts, estimates and proposals in the Budget Bill for 2006. Economic objectives remain unchanged. This means that public finances shall achieve a surplus of 2 per cent of GDP on average over the business cycle.

The Government also reports on its measures to improve efficiency in the economy. Measures in labour market policy, education and medical care and ill health are emphasized. The long-term impact of demographic changes on the public finances is also highlighted. These issues are of high importance for economic policy in the European Union.

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Key word: 53810 National economy and budget Pär Nuder

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## PRESS RELEASE

2005-11-24

Ministry of Finance

# Minister for Financial Markets Sven-Erik Österberg to visit London

On Friday 25 November, Minister for Financial Markets Sven-Erik Österberg will visit London. Mr Österberg has emphasised his ambition to strengthen Stockholm's position as a financial centre in the Baltic region (Finansplats Stockholm). London holds a strong position as a global financial centre and its status as such is promoted by determined marketing.

During his visit, Mr Österberg will meet the Lord Mayor of London to discuss their respective experience of marketing and promoting the financial sector. During the day Mr Österberg will also meet representatives of the British supervisory body the Financial Services Authority (FSA), the London Investment Banking Association (LIBA) and Swedish banks in London.

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Key word: 53779 National economy and budget Sven-Erik Österberg

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**PRESS RELEASE**

2005-11-22

Ministry of Finance

## Minister for Local Government and Financial Markets Sven-Erik Österberg to attend Ministerial eGovernment Conference in Manchest

On Thursday 24 November, Sven Erik Österberg will participate in a Ministerial eGovernment Conference in Manchester arranged by the UK EU Presidency. The conference aims to bring together ministers and politicians who are responsible for the development of electronic government in the European Union.

The conference will adopt a Ministerial Declaration on the development of eGovernment in Europe. This declaration has been drawn up within the European Public Administration Network (EPAN). Mr Österberg will also meet Bulgarian minister Nikolay Vassilev to discuss experience of public administration policy.

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Key word: 53690 National economy and budget Sven-Erik Österberg

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**PRESS RELEASE**

2005-11-11

Ministry of Finance

## Guidelines for Central Government Debt Management in

## 2006

The Government has decided on the guidelines for the management of the central government debt. This year's decision on the guidelines covers the years 2006 to 2008. It continues to aim at greater risk diversification in Sweden's central government debt in the long term. Thus the percentage of foreign currency debt will decrease and the percentage of inflation-linked debt will increase. The goal for the percentage of inflation-linked debt has been fixed at 20 per cent of the central government debt with the aim of reducing the uncertainty in the allocation of the debt between nominal and inflation-linked borrowing.

- The central government debt at its peak in 1998 came to approximately 75 per cent of GDP. Through good economic policy, we have succeeded in slashing the debt and in October 2005, the central government debt came to SEK 1,278 billion, less than 50 per cent of GDP, says Sven-Erik Österberg, Minister for Local Government and Financial Markets.

- The general goal of central government debt policy is to minimise the long-term cost of the debt while giving due consideration to the inherent risk. This goal remains unchanged. Therefore the maturity in the central government debt will stay the same as it was in the guidelines for 2005, Sven-Erik Österberg concludes.

The main points in the decision on the guidelines are:

- The measure for the maturity of the nominal krona and foreign currency debts is changing from the duration to the average interest rate refixing period;
- The foreign currency debt is to decrease in the long term to 15 per cent of the central government debt. The foreign currency debt is to be amortised by SEK 25 billion in 2006 and the aim for 2007 and 2008 is an amortisation of the same amount. The Debt Office may deviate from this benchmark by  $\pm$  SEK 15 billion;
- The percentage of inflation-linked debt is to increase in the long term to 20 per cent of the central government debt. The Government is also of the opinion that the goal for the rate of growth in the stock of inflation-linked loans could be lowered somewhat;
- The benchmark for the average interest rate refixing period is to be 3.1 years for 2006, with the same benchmark being the aim for 2007 and 2008. The Debt Office may take interest rate positions not exceeding 0.5 years duration. The risk mandate covers both the strategic and operational levels;
- The goal for debt and market maintenance is being introduced and clarified in the guidelines for 2006. The Debt Office is to use debt and market maintenance measures to help make the markets work better. Such measures must not entail setting aside the goal of long-term cost minimisation.

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**PRESS RELEASE**

2005-10-27

Ministry of Finance

## Simpler and cheaper premium pension

Inquiry chair Karl-Olof Hammarkvist today presented the report *Svårnavigerat? Premiépensionssparande på rätt kurs* (Difficult waters? Premium pension savings on course) to the Minister for Local Government and Financial Markets Sven-Erik Österberg.

The construction phase of the premium pension system has been completed. The Premium Pension Inquiry notes that the premium pension system is working well and is reasonably cost-effective, but that it should be even simpler and cheaper for pension savers to manage their premium pension.

### Simpler premium pension

Despite extensive information many pension savers feel unable to handle their premium pension. Pension savers need different information and guidance from that given at present by the Premium Pension Authority (PPM). The Inquiry proposes that all pension savers be given in-depth decision-making support that simplifies management of their premium pension.

Pension savers must continue to be able to choose freely among the funds in the system, but should be helped to compose a well-diversified fund portfolio with low administrative charges. The PPM's investment model soon to be introduced is a good first step in this work. The premium pension is not only about putting together a fund portfolio. The greatest difficulties with pension saving consist of the day-to-day management, evaluation and review of choices made. The PPM should therefore develop services that make it simpler for pension savers to manage and follow up their premium pension.

### Cheaper premium pension

In an international perspective the charges paid by pension savers for their premium pension are low. This is also the case in comparison with Swedish insurance companies and other authorities. The PPM's administrative costs per pension saver are, for example, only about one third of the Swedish Social Insurance Agency's average administrative costs for income pensions.

A large proportion of the charges paid by pension savers go to the fund management companies. In its capacity as a major investor the PPM requires a rebate on the fund fees paid by pension savers. The premium pension can therefore be made even cheaper if the PPM reviews the model for requiring a rebate from fund management companies and introduces fees to be paid by the fund management companies to pension savers.

### The selection of funds in the premium pension system

The selection of funds in the premium pension system has increased considerably since the start. At the time when the first fund choices were made, in 2000, there were just over 450 funds in the system. At the end of September 2005 there were 705 funds registered in the system. The basic view of the Inquiry is that no fund per se can be regarded as unnecessary or impossible in a fund portfolio for pension savings. The fundamental problem is not the selection of funds but rather the lack of sophisticated guidance.

However, it is not an end in itself to have so many funds in the system. There are funds in the system that do not fill any function since there is no demand for them from pension savers. The selection of funds can therefore be reduced to about 100 to 200 funds, without any deterioration in

pension savers' possibilities of managing their premium pensions. This is not a goal in itself but relates to how pension savers are utilising the fund selection and so may change over time.

Premiesparfonden to be developed and Premievalsfonden phased out

It is proposed to make the default alternative, Premiesparfonden, a generation fund so that the risk level is reduced as the pension saver gets older. Premiesparfonden will be opened up for active selection and Premievalsfonden of the Seventh National Swedish Pension Fund (Sjunde AP-fonden) that can be actively selected should thereby be discontinued. The low-risk requirement in Premiesparfonden should be replaced by the prudent person principle. It is proposed that the Seventh National Swedish Pension Fund be allowed to exercise voting rights and the restrictions on influence that apply generally to fund management companies be applied to the Seventh National Swedish Pension Fund.

An independent and separate pension authority

The present system, with two authorities for old age pensions, means that pension savers do not receive the service they are paying for. Without going into details, the Inquiry proposes that an independent and separate pension authority be established, with responsibility for pension administration.

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Key word: 52183 National economy and budget Sven-Erik Österberg

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## PRESS RELEASE

2005-10-05

Ministry of Finance

# Sweden provides debt relief to Indonesia

The Government decided today to provide debt relief to Indonesia. Resources freed by this decision are to be used for humanitarian and reconstruction needs

following the tsunami.

The decision is based on a multilateral agreement in the Paris Club and means that SEK 33.6 million (USD 4.3 million) will be scheduled for repayment between 1 December 2006 and 1 December 2009. The debt relief is being provided by deferring payments due from Indonesia in 2005 on loans originally guaranteed by the Swedish Export Credit Agency, EKN.

The Paris Club is a group of official creditors from 19 industrialised countries.

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Key word: 51093 Foreign policy and international cooperation Pär Nuder

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## **PRESS RELEASE**

2005-10-03

Ministry of Finance

# **Tax Convention between Sweden and USA amended**

Sweden and the United States have signed a protocol amending the tax convention between the two countries. One effect of the amendments will be to eliminate withholding taxes in cases where dividends are paid from a subsidiary in one of the states to a parent company in the other state.

The protocol makes certain amendments to the 1994 Tax Convention between Sweden and the United States. One result of the amendments will be to completely eliminate withholding taxes in most situations when a dividend is paid from a subsidiary in one of the states to a parent company in the other state. At present dividends paid from the United States are taxed at a rate of 5 per cent. The amendment will enable Swedish companies operating in the American market to act on the same terms as companies from major competing countries.

Pension funds will also be exempted from withholding taxes on dividends from the other country.

The protocol will enter into force during the spring of 2006 at the earliest.

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Key word: 50964 National economy and budget Pär Nuder

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**PRESS RELEASE**

2005-09-20

Ministry of Finance

## The budget for 2006: Investing in new jobs, growth and welfare

The Swedish economy is doing well. Over the past ten years Sweden has had a growth rate higher than the EU and OECD average. Sweden also has lower inflation, a higher employment rate, less unemployment and lower interest rates than in the EU as a whole. However, unemployment is still too high.

A shift is now expected from last year's strong export-led growth to domestically driven growth. Low interest rates and good profit rates in industry are encouraging continued strong investment growth. Household consumption is expected to continue to increase as a result of low interest rates, a good asset position, healthy income growth and a stronger labour market. Growth in the local government sector, which has been weak, is expected to pick up strongly in 2006, partly in response to considerable central government commitments to the local government sector.

Growth is estimated to reach 2.4 per cent in 2005 and 3.1 per cent in 2006. The growth forecast is being revised downwards for 2005 and upwards for 2006, relative to the assessment in the 2005 Spring Fiscal Policy Bill. Inflation is expected to remain low during 2005 before gradually rising in 2006.

Increasing domestic demand in 2005 and 2006 is expected to lead to higher demand for labour in the private sector. Overall, employment is expected to rise by 0.1 per cent in 2005 and 1.3 per cent in 2006, with open unemployment falling to 4.8 per cent in 2006. During 2005 the labour force survey conducted by Statistics Sweden has undergone a major reorganisation and the concept of unemployment has been redefined. As a result, unemployment figures have gone up without any effect on actual unemployment. An unemployment level of 4.5 per cent is equivalent to approximately 4.0 per cent according to the previous definition.

The surplus target set for 2005 is at least 0.5 per cent of gross domestic product (GDP). Although growth is expected to be lower than when the target was proposed, a considerably higher surplus is anticipated: 1.4 per cent. This is due partly to lower interest on the national debt, higher corporate taxes and a better financial performance in the local government sector. The Government proposes that the surplus target set for 2006 should be at least 0.5 per cent of GDP. The general target of a surplus of 2 per cent on average over the course of a business cycle remains in place.

The expenditure ceilings have been met every year since their introduction in 1997. The Government's proposal in the Budget Bill is that the expenditure ceiling for 2007 should be set at SEK 949 billion. A proposed level for the 2008 expenditure ceiling will not be presented until the Budget Bill for 2007.

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#### Promoting new jobs

In the present Budget Bill, the Government is launching a broad two-year employment package, to start on 1 January 2006. This will give 55 000 people a job, a trainee position or a place in education or training. The employment package targets both the private and the public sector. It will cost a total of SEK 10 billion in 2006 and SEK 10 billion in 2007.

#### More jobs in industry

Sweden is in a good position to compete. The European Commission puts Sweden in first place in its comparisons of the climate for innovation in the EU. However, competition from other countries is growing tougher. The Government proposes several measures to strengthen Sweden's competitiveness and encourage more and expanding businesses.

#### ·Strategic development programmes for Swedish industry

The Government, the business sector and the trade unions have begun to draw up strategies for six

key industries: forestry, metals, vehicles, pharmaceuticals, IT/telecommunications and biotechnology. In addition, there will be special initiatives for aeronautics and space technology. The investment in industry-specific programmes will have a total scope of SEK 1 billion between 2006 and 2010.

·Research at small enterprises

The Government proposes new support of SEK 100 million in 2006 for research and development at small enterprises. From 2007 onwards this support will be provided in the form of reduced taxes for SMEs that invest in research and development. A sum of SEK 200 million has been budgeted for this purpose from 2007. In all, commitments to research and development at small enterprises will amount to SEK 900 million between 2006 and 2010.

·Investment in Industrial Development Centres

The Government proposes that the Swedish Agency for Economic and Regional Growth (Nutek) should be allocated SEK 20 million in 2006-2008 to support and develop Industrial Development Centres (IDCs).

·Encouraging women entrepreneurs

A special drive to encourage entrepreneurship by women will be undertaken within the framework of regional resource centres (RRCs). SEK 15 million will be allocated in 2006.

·Lower employer's contributions for solo entrepreneurs who take on staff

The employer's contribution will be reduced to 10.21 per cent for solo entrepreneurs who take on an employee. The reduced employer's contribution can be claimed by the company for a period of about one year in 2006 and 2007.

·Simpler tax rules for close companies

On 1 January the reform of tax rules for active owners of close companies (the "3:12 rules") will be completed. Full implementation of the reform will have cut these taxes by a total of SEK 1 billion.

·New bridges to working life

Labour market programmes will be expanded by 13 000 places to make it easier for people to enter the labour market.

·More secure conditions for entrepreneurs

The Government will look over the terms for social security affecting entrepreneurs.

·Increased commitment to environmental technology

Research appropriations targeting sustainable development will increase by SEK 210 million in the coming years.

·Lower carbon dioxide tax for companies trading in emissions rights

Carbon dioxide tax will be completely eliminated for industrial plants covered by the trade in emissions rights. This tax will also be abolished for high-efficiency cogeneration and will be reduced for other plants in the energy sector included in the trading system by SEK 0.13 per kilogram of carbon dioxide.

Improved quality in the public sector

The Government proposes measures to raise quality in the public sector and give people outside the labour market a chance of a job in, for example, health care or social services.

·Bonus jobs for increased quality

20 000 "bonus jobs" will be created to raise quality in the public sector. These positions will be used to perform quality-enhancing tasks that are not now carried out. To get a bonus job, a person will have to have been unemployed for more than two years. People in bonus jobs must be offered pay at the collective agreement rate. The employers will receive a subsidy of 100 per cent of the cost of wages up to SEK 1 000 per day.

·Enhanced skills in health and social services

Many people who work in the health service and the elderly care sector lack proper education and training. They will now be given an opportunity for further education and training. The employment package contains 10 000 educational-leave replacement positions per year.

·Higher central government grants to local government

In order to put municipalities and county councils in a position to plan for the long term and to raise the quality of welfare provision, the Government proposes a rise in the general government grants of SEK 1 billion in 2007 and SEK 6 billion in 2008.

Jobs for higher education graduates

In the wake of the latest recession, the number of unemployed higher education graduates has increased. The Government proposes several measures to reduce unemployment in this group.

·Trainee positions in small businesses

A joint project between public employment offices and staffing companies will provide 4 000 trainee positions for unemployed graduates, mainly in small businesses.

·Easing the generation shift

In order to ease the generation shift at central government agencies and secure the transfer of know-how, SEK 360 million will be committed in 2006 and 2007 to enable the agencies to bring forward the recruitment of up to 1 000 people. Over a two-year period, 100 new positions for law clerks will be created at the courts. Supervisory operations at the county administrative boards will be able to recruit an extra 100 people. There will be opportunities for 210 people to do a traineeship.

·Better controls of tax evasion and benefit fraud

The Swedish Tax Agency will be able to employ 420 people in 2006 and 2007 so as to undertake a forceful drive against tax evasion. Over the same period, the Swedish Social Insurance Agency and the National Labour Market Board will receive resources to employ 300 and 500 people respectively to raise standards and tighten up checks on benefit payments.

·More resources for border control

The Swedish Customs Service will receive resources to employ a further 50 people to fight the illegal import of drugs, alcohol and tobacco.

·Taking care of Sweden's cultural heritage

600 positions will be established for unemployed higher education graduates during 2006 and 2007 so as to restore and conserve museum collections. Over the same period, the National Property Board will receive resources to recruit a further 50 graduates.

·Increased diversity in the central government sector

The advanced education programme in administrative practice for immigrants with higher education will be expanded by 120 positions in 2006.

Jobs for young people

Many young people are out of work. The Government will make vigorous efforts to combat youth unemployment.

·Apprenticeships for young people

3 000 apprenticeships will be established for unemployed people aged 20 to 24 who lack a complete upper secondary education.

·Continued employment support for the young long-term unemployed

During 2006, the employment offices will continue to be able to use general employment support for young unemployed people aged 20 to 24, starting as soon as they have been unemployed for 6 months.

·Enhanced support for holiday work

In 2006 the Government will increase the grant enabling local governments to provide holiday jobs for upper secondary school students who have difficulty obtaining such work on their own.

#### Increased knowledge, skills and creativity

Sweden must assert itself in the face of growing international competition by means of increased knowledge, skills and creativity. Since 1994 the proportion of pupils taking three-year upper secondary programmes has doubled from 40 to 84 per cent and the number of students in higher education has increased by more than 140 000. The Government wants to continue to invest in knowledge.

##### ·More places in higher education

Higher education will expand by a total of 17 500 places by 2007. 3 500 places will be added in autumn 2005, 12 500 in 2006 and 1 500 in 2007. At the same time, there will be a major investment in raising the quality of higher education. Appropriations to higher education will increase by more than SEK 130 million in 2006 and a further SEK 135 million from 2007 onwards.

##### ·Advanced vocational training

Advanced vocational training programmes will expand by 1 000 places in 2006 and 2007.

##### ·More teachers in school

An additional 300 places will be available at teacher education institutions, starting in the spring of 2006, to enable higher education graduates to qualify as teachers.

##### ·Education in shortage occupations

In 2006 a special employment training programme will be established offering 500 places primarily to prepare people to work as treatment providers in penal care, treatment centres and schools. Three higher education institutions will be instructed to develop shortened further education programmes by spring 2006 for people wishing to qualify as pre-school teachers and nurses.

#### Increased fairness and welfare

The economic standard enjoyed by households rose by 23 per cent between 1994 and 2003. The trend towards widening income gaps has been broken and the income spread is now declining, for the third year in a row. Yet much unfairness still remains. To make Sweden a fairer country, welfare needs further development. The efforts made in this term of office will continue.

##### ·Rise in child allowance brought forward

The child allowance and supplementary allowance for additional children will rise by SEK 100 per child per month from 1 October. The first payment will be made retroactively in December. Moreover, a new supplementary allowance of SEK 100 will be introduced for families with a second child. This measure will mean an extra SEK 300 a month for a family with two children and an extra SEK 500 a month for a family with three children.

##### ·Higher ceiling for housing supplement for pensioners

To improve conditions for the worst-off pensioners, the rent ceiling in the housing supplement scheme will be raised from SEK 4 670 per month to SEK 4 850 per month, as from 1 January 2006. A pensioner paying a rent above the new ceiling will receive nearly SEK 2 000 more in housing supplement per year.

##### ·Support for family members

From 2006 an additional SEK 100 million will be allocated to support for family members. SEK 75 million will go to continued development of support provided by local government, SEK 20 million to cooperation with voluntary organisations and SEK 5 million to organisations of pensioners and family members.

##### ·Better preparedness for contagious diseases

SEK 10 million per year will be set aside from 2006 to 2008 to provide for better national preparedness for outbreaks of serious communicable diseases.



·More resources to penal care

The Swedish Prison and Probation Service will receive SEK 400 million to continue its expansion to accommodate more inmates and to improve operations in terms of security, treatment and occupation.

·More resources for care of substance misusers

The Government will continue its commitment to care for substance misusers and its measures to combat homelessness. In 2006 SEK 210 million will be allocated and in 2007 SEK 360 million.

·Commitments to culture

The Government proposes a range of measures to strengthen the cultural sector. There will be increased support for free dramatic art and for dance. In addition, the Government will up its commitment to the Theatre Alliance. Action will be taken for Swedish film by increasing government support for the film agreement. The cultural sector will also receive SEK 55 million from 2006 onwards for increased pension premium costs at state-supported theatre, dance and music institutions.

·Asylum seekers

Health care for asylum seekers will be enhanced by SEK 75 million from 2006. The municipalities will receive SEK 50 million from 2006 to take social action for child refugees. The appropriation to the Swedish Migration Board will increase by SEK 43 million in 2006, SEK 52 million in 2007 and SEK 60 million in 2008 in order to improve the quality of reception of asylum seekers.

## Taxes

·Lower taxes for low and medium income earners

The last step will be taken in compensation for personal social insurance contributions. On average, this will lower taxes by approximately SEK 110 per earner per month. Since it began in 2000, the entire reform has lowered the average tax charged by over SEK 900 a month. In addition, the basic income tax allowance will be raised as part of the green tax shift.

·Limitation of real estate tax

The limitation rule will be changed so that the real estate tax cannot amount to more than 4 per cent of household income, as opposed to 5 per cent previously. A person who earns SEK 300 000 per year and who lives in a house with an assessed value of SEK 2 million currently enjoys a tax reduction from SEK 20 000 to SEK 15 000. Under the new regulation, the tax in this case will be lowered by an additional SEK 3 000 to SEK 12 000.

·Higher mileage deduction

In order to alleviate the effects of the high price of petrol, the mileage deduction will be raised from SEK 17 to SEK 18 per ten kilometres.

·A step towards abolition of advertising tax

The tax on advertisements in general newspapers will be lowered from 4 to 3 per cent and the tax on other advertising from 11 to 8 per cent. In addition, the threshold beyond which tax must be paid will be raised from SEK 12 million to SEK 50 million for daily newspapers and from SEK 6 million to SEK 10 million for popular and specialist periodicals. This means that fewer daily newspapers will have to pay advertising tax and that the tax will be lowered for those that do pay advertising tax.

·Tax on alcopops and tobacco

A surtax on alcopops will be introduced in spring 2006. The minimum excise duty on cigarettes will be raised from 90 to 100 per cent and the tax on smoking tobacco will increase from SEK 630 to SEK 770 per kilogram as from 1 January 2006. Appropriations for alcohol and drug prevention efforts will increase by a total of SEK 185 million in 2006 and 2007.

## Proactive environmental policy

In order to continue the transformation of Sweden into a sustainable society, the Government's budget contains commitments totalling more than SEK 1 billion to the environment and a continuation of the green tax shift.

·Green tax shift

The vehicle tax on light buses and light lorries will be increased by 60 per cent. The output tax on nuclear energy will be raised by 85 per cent. A tax on air tickets will be introduced from 1 May 2006, at a rate of between SEK 50 and SEK 100 per ticket. In addition, the tax on gravel will be increased by 30 per cent and the landfill tax by SEK 65 per tonne. A tax on waste incineration will be introduced. The tax on electricity used by households and the service sector will be raised by SEK 0.006/kWh. As part of adaptation to the EU, the reduced tax rates for electricity, gas, heating and water will be eliminated. The tax increases amount to a total of SEK 3.6 billion. At the same time, tax reductions will be implemented for an equivalent amount. Income tax will be lowered by SEK 2.5 billion, primarily benefiting low and medium income earners by raising the basic income tax allowance. Solo entrepreneurs who take on staff will pay lower employer's contributions.

·Commitment to energy research

Appropriations for energy research will increase by SEK 270 million in 2006 and 2007 and a further SEK 100 million in 2008.

·Economic incentives to switch to environmentally friendly energy sources

New economic incentives will be established for switching from direct electricity heating or oil heating to more environmentally friendly energy sources, by means of new investment support schemes. This will involve tax relief totalling SEK 400 million per year over a five-year period.

·Support for replanting after Gudrun

The Government proposes that appropriations for replanting of storm-felled forest should amount to SEK 150 million per year from 2006 to 2008.

·Climate investment programmes

The central government climate investment programmes will receive an extra SEK 200 million in 2006 and SEK 320 million in 2007 and 2008.

·Biological diversity

The funds committed to biological diversity will be augmented by SEK 120 million in 2006, SEK 100 million in 2007 and SEK 100 million in 2008.

·Wind power

Support for wind power pilot projects will be extended for five years beginning in 2008. The support will be worth SEK 70 million per year.

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**PRESS RELEASE**

2005-09-20

Ministry of Finance

## Sweden's Economy

Sweden's gross domestic product (GDP) is forecast to grow by 2.4 per cent in 2005 and 3.1 per cent in 2006. Open unemployment is expected to hold at 5.9 per cent this year before falling to 4.8 per cent next year. General government net lending is estimated to amount to 1.4 per cent of GDP in 2005 and 0.7 per cent in 2006.

Global economy continues to grow at a good rate

The very strong growth in the global economy slowed during the second half of 2004. Nevertheless growth is expected to remain favourable and amount to just over 4.0 per cent in both 2005 and 2006. Low interest rates, high corporate earnings and rising employment are leading to growing investment and consumption in the United States and Japan. Industrial activity in the euro area is slowly picking up, due to stable demand from the rest of the world, low interest rates and high earnings. Continued robust growth is expected in the Nordic region, thanks primarily to strong domestic demand. Developments in oil prices add a substantial element of uncertainty.

Higher Swedish growth after temporary dip

Swedish exports and industrial output grew very strongly last year. After a sharp slowdown around the turn of the year, exports are now recovering, but domestic demand is expected to be the main driver behind Sweden's continued favourable GDP growth in 2005 and 2006. Investment picked up last year. High capacity utilisation in industry, firms' solid profits and low interest rates will help investment in machinery and residential construction to continue to grow strongly. Household consumption is picking up thanks to a brightening labour market outlook and robust real income growth.

The growing number of hours worked and several labour market indicators suggest the start of an upswing in employment during the second half of 2005. However, measured as an annual average, employment growth will be very weak this year. Next year employment is expected to rise by 1.3 per cent, thanks partly to strong domestic demand fuelling recruitment needs in the service and construction sectors. Rising employment in the local government sector and an increased number of places in labour market policy programmes will also contribute. However, the regular employment rate will fall slightly this year to 76.6 per cent and then hold at this level next year.

Productivity growth in the business sector will slow next year as the main source of growth shifts from the export industry to the more labour-intensive service sector. Resource utilisation in the labour market will climb gradually in 2006. Domestic inflationary pressure will therefore build up slowly, but wage settlements to date suggest continued moderate wage growth. Inflation will remain low this year and rise only slowly in 2006. The Riksbank is not expected to start raising its repo rate until the second half of 2006.

Medium-term estimates

Besides the economic forecast for 2005 and 2006, medium-term estimates are being presented for 2007 and 2008. It is expected that there will still be available resources in the labour market at the end of 2006. Employment and GDP can therefore continue to grow at a good rate in 2007 without the risk of excessively high inflation. GDP will grow by 2.8 per cent in 2007. GDP will then grow by 2.3 per cent in 2008, which is in line with what is considered to be the potential rate. Open

unemployment will fall to 4.4 per cent in 2007 - equivalent to around 4.0 per cent using Statistics Sweden's previous definition - and stay at this level in 2008.

#### Public finances

After two years of net lending deficits, the general government sector generated a net lending surplus of SEK 26 billion or 1.0 per cent of GDP in 2004. At the end of 2004 financial assets exceeded liabilities by SEK 131 billion or 5.2 per cent of GDP. Consolidated gross debt was 51.1 per cent of GDP, which is well below the EU's reference value of 60 per cent.

In 2005 general government net lending is estimated to be 1.4 per cent of GDP, which is twice the level forecast in the 2005 Spring Fiscal Policy Bill. The unemployment measures, tax changes and other reforms proposed in the Budget Bill will contribute to net lending falling to 0.7 per cent of GDP in 2006. In 2007-08 expenditure will fall as a proportion of GDP and net lending will rise.

The central government sector will continue to report net lending deficits and budget deficits throughout the forecast period, while the old-age pension system will generate stable net lending surpluses of around 2 per cent of GDP. The local government sector recorded a net lending surplus in 2004 and is expected to continue to do so during the forecast period.

This positive net lending means that the general government sector's financial position will improve substantially during the forecast period, and in 2008 financial assets are expected to exceed liabilities by SEK 270 billion. Central government debt and consolidated gross debt will fall as a proportion of GDP.

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#### PRESS RELEASE

2005-05-27

Ministry of Finance

## Sweden to implement the prudent person rule for occupational pensions

The Swedish Government is to present today a bill to the Riksdag on new regulations for occupational pensions institutions. The bill covers friendly societies that provide occupational pensions (occupational pension funds),

pension foundations and the occupational pension business of life assurance companies. The new regulations, which implement the European Directive on the activities and supervision of institutions for occupational retirement provision, represent the first step towards more modern and risk-based insurance regulation.

The underlying principle of the Directive and of the bill to the Riksdag is the prudent person rule, which targets the decision-making process of the individual institution.

The proposals referred to the Riksdag are an important step towards more modern regulation and proactive supervision in the insurance field. We are laying a firm foundation for stronger occupational pensions, while ensuring consumer protection for pensioners. A further step towards modern and risk-based regulation of insurance activities and stronger, more preventive supervision will be taken by the coming introduction of a modernised solvency system for insurance companies that are now being prepared at the Ministry of Finance. These solvency rules are well in line with the Solvency II work at Community-level, says Minister for Local Government and Financial Markets Sven-Erik Österberg.

In the bill to the Riksdag, the Government proposes that the institutions should invest their assets in a prudent manner. Technical provisions corresponding to pension commitments should be based on a market valuation of these commitments. In addition, new operating terms are proposed as well as special provisions on information to beneficiaries. Under another proposal, Finansinspektionen (the Financial Supervisory Authority), which already supervises life assurance companies and occupational pension funds, will be made responsible for supervising the financial operations of pension foundations.

It is proposed that the new regulations come into force on 1 January 2006.

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Key word: 45302 National economy and budget Sven-Erik Österberg

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## **PRESS RELEASE**

2005-05-12

Ministry of Finance

Ministry for Foreign Affairs

# Sweden to grant debt relief to Cameroon

The Government decided today to grant debt relief and rescheduling of payments to Cameroon within the framework of the international agreement aimed at achieving sustainable debt levels in the most heavily indebted poor countries (HIPC).

The agreement covers a total of SEK 72 million, SEK 64 million of which are repayments that were never made in 2004 and which have now been formally written off. Payment of the remainder has been rescheduled.

The decision on debt relief is based on multilateral agreements in the Paris Club which is an

informal group of official creditors from 19 industrial countries.

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Key word: 44305 Industry, trade, regional development Foreign policy and international cooperation Pär Nuder

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## **PRESS RELEASE**

2005-04-14

Ministry of Finance

# Spring Fiscal Policy Bill: Focus on jobs and welfare

Today the Government presents the 2005 Spring Fiscal Policy Bill. The bill contains proposed economic and budget policy guidelines, along with a supplementary budget for 2005. It is based on an agreement between the Social Democratic Government, the Left Party and the Green Party.

**Strong economy, continued labour market uncertainty**

The Swedish economy is strong, growing at 3.2 per cent in 2005 and 2.7 per cent in 2006. Inflation remains low and public finances are healthy. Households are expected to continue to increase their consumption, thanks to good real wage growth and low interest rates. Public sector consumption is expected to rise in both 2005 and 2006. As in previous economic upturns, however, developments in the labour market lag behind. Unemployment is still much too high. This is the context for the priorities that the Government is setting in the Spring Fiscal Policy Bill.

**Expenditure ceilings are being met, surplus target remains firm**

The Spring Fiscal Policy Bill means that the expenditure ceiling for 2005 will be met, as will the precise surplus target for 2005 a public finances surplus of 0.5 per cent of GDP. The budget margin for 2005 is larger in the 2005 Spring Fiscal Policy Bill than it was in the Budget Bill for 2005. The margin predicted then was SEK 0.2 billion. The assessment now is that it will be around SEK 1 billion. General government net lending is estimated at 0.7 per cent of GDP in 2005 and 0.6 per cent of GDP in 2006.

**Reforms set out in the Budget Bill for 2005 remain firm**

The Spring Fiscal Policy Bill confirms the reforms that the Government and the parties cooperating with it agreed on in the Budget Bill for 2005.

**Employment package**

In addition, the 2005 Spring Fiscal Policy Bill contains a number of new proposals. One of these is an employment package that will provide financial scope to put over 22 600 people into work or training in autumn 2005. The Government estimates, moreover, that compared with the present

forecast, close to an extra 5 000 places will be available at higher education institutions this autumn.

This employment package, together with the measures that the Government and Riksdag already decided on in the autumn, are expected to reduce unemployment to 5 per cent in 2005 and 4 per cent in the second half of 2006. It is estimated that open unemployment will average 5.0 per cent in 2005 and 4.4 per cent in 2006.

The employment package contains the following measures:

#### SEK 1 billion for jobs for the long-term unemployed

Employers who give jobs to people who are long-term unemployed will receive tax rebates. The subsidy will be equivalent to up to 85 per cent of the wage cost. This measure will provide scope for a further 10 000 full-year equivalent positions in 2005, which will allow 20 000 positions as early as the second half of 2005. Within the framework of this measure, 1 500 new green jobs will be created, i.e. project appointments for environmentally oriented work. These recruitment incentives will reduce central government tax revenue by approximately SEK 1 billion in 2005. The initiative will continue at a level equivalent to 10 000 full-year positions in 2006.

#### Higher ceiling for wage subsidies

The ceiling for wage subsidies for recruitment of occupationally disabled people and people in sheltered employment with public sector employers will be raised from SEK 13 700 to SEK 15 200 per month from 1 July 2005. This reform will cost an estimated SEK 70 million in 2005. The Government will present a comprehensive review of the measures for people with occupational disabilities in connection with the Budget Bill for 2006.

#### Better employment services

A number of measures will be implemented to step up and improve employment services. A reallocation of 2 000 sabbatical year places from 2005 to 2006 will enable the Swedish National Labour Market Administration to increase the quality of both job placement services and the sabbatical year initiative. Job placement services must be enterprise-oriented. The regulatory framework for these programmes will be clarified to increase legal certainty and to ensure that support is available to those whose needs are greatest.

#### More places in advanced vocational training

From autumn 2005, an extra 1 000 places will be made available in advanced vocational training schemes. This measure will have a budget of SEK 45 million in 2005, SEK 90 million in 2006 and SEK 45 million in 2007.

#### Increased training in shortage occupations

An additional 2 000 places will be created in labour market training schemes in 2005, focusing particularly on occupations where there is a shortage of labour.

500 new educational places will be established at folk high schools for young people who are long-term unemployed, a measure that will cost SEK 30 million.

#### Supplementary courses for immigrants

Immigrants with qualifications from foreign universities will be offered a one-year supplementary course at Linköping University and Malmö University. SEK 10 million per year will be allocated to this purpose in 2005 and 2006.

#### Special programme for teachers

A special project for further education of schoolteachers who lack full teaching qualifications will be carried out in cooperation with the local government sector. The project primarily targets teachers in vocational subjects, will be offered on a half-time basis and will begin in autumn term

2005, when 500 places will be available. An additional 500 places will be offered in the spring term of 2006.

#### Adult secondary education

The targeted government support for adult education will be retained for a further three years in order to ensure the number of places in municipal adult secondary education.

The Government will monitor developments in the labour market closely and make further proposals if needed.

#### Other highlights in the Spring Fiscal Policy Bill:

Support to people who have suffered as a result of the tsunami disaster and the storm

The bill also contains measures in response to the tsunami disaster in Asia and the storm in southern Sweden.

SEK 150 million is allocated for costs associated with the tsunami disaster. Over and above this, the National Board of Psychological Defence will receive additional funds of SEK 21.2 million, chiefly because the national council for coordination and support for people affected by the tsunami disaster will be transferred to the National Board of Psychological Defence on 1 July 2005.

In response to the storm in southern Sweden, SEK 500 million is being allocated to provide special support to enable forest owners to store storm-felled timber. In addition, SEK 100 million is being committed to provide financial support at a fixed rate to forest owners for use in restoring forest roads and land after increased volumes of transport. The Government also proposes to reduce diesel tax for forest machinery, which will cost SEK 200 million.

Moreover, the National Board of Forestry will receive SEK 15 million for an aerial inventory of storm-felled forest and survey of insect damage.

In addition, forest owners affected will receive special support of SEK 50 per cubic metre of timber (solid volume under bark) removed from the forest. This support will take the form of a tax reduction. The support will total SEK 2 billion in 2005 and 2006.

#### Other proposals in the Spring Fiscal Policy Bill

The 2005 Spring Fiscal Policy Bill also contains the following proposals:

#### Other proposals in the Spring Fiscal Policy Bill

##### Energy research

will receive a boost of SEK 100 million in 2006 and an equal amount in 2007. This higher level means that present programmes in energy research, including renewable energy sources such as solar energy, bioenergy and wind power, will be carried through.

##### More resources for the National Public Transport Agency

The National Public Transport Agency will be put in a better position to purchase interregional public transport. The appropriation will increase by SEK 100 million in 2005, SEK 100 million in 2006 and SEK 100 million in 2007.

Car allowances for people with disabilities will be raised by SEK 65 million to shorten waiting periods for allowances in 2005.

##### Increased appropriation for the new system for appeals and procedures

To cover the costs associated with the new system for appeals and procedures in aliens and citizenship cases, which will be introduced on 1 January 2006, the appropriations to the courts system, the Swedish Migration Board and other relevant authorities will rise by SEK 200 million in 2005 and SEK 414 million in 2006. In addition, the Aliens Appeals Board will receive extra



resources of SEK 25 million this year.

Commitment to womens shelters, the National Center for Battered and Raped Women and womens organisations

SEK 135 million will be allocated from 2006.

Local government sector

The Government, the Left Party and the Green Party share the assessment that additional resources will need to be allocated to the local government sector in the next few years. The Government will return to this issue in connection with the Budget Bill for 2006.

Fight against tax fraud and benefit fraud

In the 2005 Spring Fiscal Policy Bill, the Government presents a coordinated package of measures to combat tax fraud and benefit fraud.

- . Tax control will be improved.
- . The tax offences departments will be made more effective.
- . The obligation to provide statements of income from savings abroad will be strengthened.
- . To restrain unregistered labour in the building industry, a proposal on deductions for contractors and reverse charge liability for VAT is being prepared.
- . The 2004 Tax Control Inquiry is studying the issue of type-approved cash registers in cash-based businesses.
- . The rules for information exchange between the tax authoritys fiscal branch and the tax offences departments will be reviewed.

Work on restraining fraud relating to benefits and allowances will also be stepped up.

- . The exchange of information between government agencies will be expanded.
- . The Swedish Agency for Public Management will be instructed to assess the exchange of information between the Swedish Social Insurance Agency, the unemployment insurance funds and the National Board of Student Aid and to propose improvements.
- . There will be an inquiry into the criminal law provisions concerning benefit fraud.
- . The regulations for demanding repayment of benefits and allowances will be reviewed.
- . A special delegation against benefit fraud will be established.
- . Increased supervision will be a priority.

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Key word: 42698 National economy and budget Pär Nuder

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## **PRESS RELEASE**

2005-04-14

Ministry of Finance

# Sweden's Economy

Besides the economic forecast for 2005 and 2006, medium-term estimates are being presented for 2007. As there will be some available resources in the economy at the end of 2006, it is predicted that employment and GDP could grow at a good rate in 2007 without causing inflation problems. GDP is projected to grow by 2.4 per cent in 2007, and open unemployment to fall further to 4.2 per cent.

Two alternative scenarios are also presented for developments through to 2008. The low-growth scenario assumes that foreign demand for US government bonds falls, leading to rising interest rates and a weaker dollar. Swedish GDP growth and employment are then lower than in the base scenario. The high-growth scenario assumes that the labour market and wage formation function better than in the base scenario. Employment and GDP can then grow faster than in the base scenario, unemployment can remain lower without a risk of overheating, and the government's target of an 80 per cent regular employment rate is achieved in 2008.

Sweden's gross domestic product (GDP) is forecast to increase by 3.2 per cent in 2005 and 2.7 per cent in 2006. Open unemployment is expected to fall to 5.0 per cent this year and 4.4 per cent next year. General government net lending is estimated to amount to 0.7 per cent of GDP in 2005 and 0.6 per cent in 2006.

Global economy continues to grow fast

The very strong growth in the global economy in 2004 slowed in most regions towards the end of the year. However, global growth is set to remain strong. In the United States, rising employment is leading to higher household consumption, and business sector investment is continuing to grow. In the euro area, investment is expected to recover this year, and household consumption is projected to pick up, supported by an improvement in the labour market. Oil prices and global financial imbalances are sources of uncertainty.

Continued good growth in the Swedish economy in 2005-2006

Last year's high Swedish GDP growth was above all due to very strong export growth. Export growth is falling back now that the global economy has slowed, the need for replacement

investment outside Sweden is decreasing and the Swedish krona is strengthening further. Domestic demand will play an increasingly important role. The upswing in investment that began last year is continuing. Investment in industry and the energy sector is expected to grow strongly, and residential construction is expected to continue to increase. Household consumption is rising more quickly thanks to rising real incomes, low interest rates, a good wealth position and a brighter labour market outlook.

Last year's strong output growth, above all in industry, was the result of higher average hours worked and high productivity growth, which meant that employment fell. In 2005 employment will begin to rise, largely thanks to the local government sector. Next year employment will grow more quickly, and above all in the private service sectors. The regular employment rate will fall to 76.8 per cent this year before rising to 77.1 per cent next year. Rising employment and the expansion of labour market policy programmes will cause open unemployment to fall to 5.0 per cent this year and 4.4 per cent in 2006.

As growth slows in the export industry and picks up in the service sectors, the business sector's aggregate productivity growth will drop to a more long-term sustainable level. Resource utilisation will climb gradually in 2005 and 2006. Domestic inflationary pressure will build up slowly, but wage settlements to date suggest continued moderate wage growth. Inflation will remain low in 2005 and rise slowly next year. The Riksbank is not expected to start raising its repo rate before 2006.

#### Medium-term estimates and alternative scenarios

Besides the economic forecast for 2005 and 2006, medium-term estimates are being presented for 2007. As there will be some available resources in the economy at the end of 2006, it is predicted that employment and GDP could grow at a good rate in 2007 without causing inflation problems. GDP is projected to grow by 2.4 per cent in 2007, and open unemployment to fall further to 4.2 per cent.

Two alternative scenarios are also presented for developments through to 2008. The low-growth scenario assumes that foreign demand for US government bonds falls, leading to rising interest rates and a weaker dollar. Swedish GDP growth and employment are then lower than in the base scenario. The high-growth scenario assumes that the labour market and wage formation function better than in the base scenario. Employment and GDP can then grow faster than in the base scenario, unemployment can remain lower without a risk of overheating, and the government's target of an 80 per cent regular employment rate is achieved in 2008.

#### Public finances

After two years of net borrowing, the general government sector generated a surplus of SEK 28 billion, or 1.1 per cent of GDP in 2004. The improvement was due to expenditure falling while revenue was largely unchanged as a proportion of GDP. The central government sector improved its net lending by SEK 22 billion relative to 2003, and the local government sector by SEK 8 billion. Financial assets are estimated to have exceeded liabilities by SEK 147 billion or almost 6 per cent of GDP. Consolidated gross debt was 51.2 per cent of GDP at the end of 2004, which is well below the EU's reference value of 60 per cent.

Both revenue and expenditure will fall as a proportion of GDP during the forecast period. In 2005 and 2006 general government net lending will drop to 0.7 and 0.6 per cent of GDP respectively despite an increase in resource utilisation in the economy and a decrease in unemployment. The drop in net lending will partly be the result of expansionary fiscal policy.

The central government sector will continue to report net lending deficits and budget deficits throughout the forecast period, while the old-age pension system will generate stable surpluses of around 2 per cent of GDP. The local government sector recorded a net lending surplus in 2004 and is expected to continue to do so during the forecast period.

This positive net lending means that the general government sector's financial position will improve during the forecast period, and in 2007 financial assets are expected to exceed liabilities by SEK 200 billion. At the same time, the central government sector's deficits mean that the liabilities column of the general government balance sheet will grow. However, both central government debt and consolidated gross debt will fall as a proportion of GDP.

For a more detailed presentation of the macroeconomic forecasts and forecasts for public finances, see Appendix 1 to the Spring Fiscal Policy Bill, Sweden's Economy, which can be found at [www.regeringen.se](http://www.regeringen.se).

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Key word: 42697 National economy and budget Pär Nuder

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## PRESS RELEASE

2005-04-08

Ministry of Finance

# Sweden to implement the prudent person rule for occupational pensions

The Swedish Government is today referring a set of proposals on new regulations for occupational pensions institutions to the Council on Legislation. The proposals cover friendly societies that provide occupational pensions (occupational pension funds), pension foundations and the occupational pension business of life assurance companies. The new regulations, which implement the European Directive on the activities and supervision of institutions for occupational retirement provision, represent the first step towards more modern and risk-based insurance regulation.

The underlying principle of the Directive and of the Governments proposals to the Council on

Legislation is the prudent person rule, which targets the decision-making process of the individual institution.

The proposals referred to the Council on Legislation are an important step towards more modern regulation and proactive supervision in the insurance field. We are laying a firm foundation for stronger occupational pensions, while ensuring consumer protection for pensioners. A further step towards modern and risk-based regulation of insurance activities and stronger, more preventive supervision will be taken by the coming introduction of a modernised solvency system for insurance companies that are now being prepared at the Ministry of Finance. These solvency rules are well in line with the Solvency II work at Community-level, says Minister for Local Government and Financial Markets Sven-Erik Österberg.

In the proposal referred to the Council on Legislation for consideration, the Government proposes that the institutions should invest their assets in a prudent manner. Technical provisions corresponding to pension commitments should be based on a market valuation of these commitments. In addition, new operating terms are proposed as well as special provisions on information to beneficiaries. Under another proposal, Finansinspektionen (the Financial Supervisory Authority), which already supervises life assurance companies and occupational pension funds, will be made responsible for supervising the financial operations of pension foundations.

It is proposed that the new regulations come into force on 1 January 2006.

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Key word: 42304 National economy and budget Sven-Erik Österberg

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## PRESS RELEASE

2005-03-31

Ministry of Finance

Ministry for Foreign Affairs

# Sweden grants debt cancellation to Ghana

The Government decided today to grant debt cancellation to Ghana within the framework of the HIPC-initiative, i.e. the international agreement aiming at reaching sustainable debts in the poorest and most indebted countries. This is the second and final debt cancellation that Sweden grants to Ghana within the HIPC-initiative, the first being granted in February of this year.

The decision is based on a multilateral agreement in the Paris Club and consists in the cancellation of 25,3 million UD dollars, corresponding to 100 per cent of eligible claims.

The Paris Club is a group of official creditors from 19 industrialized countries.

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Key word: 41557 National economy and budget Foreign policy and international cooperation Pär Nuder

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## **PRESS RELEASE**

2005-02-24

Ministry of Finance

### **Joint statement by Pär Nuder and Hervé Gaymard**

M. Pär Nuder and M. Hervé Gaymard met in Paris on 23. February and discussed issues related to the financing of development assistance, which will be essential for the poorest countries to reach the Millennium Development Goals. They underlined the central importance of traditional resources mobilized through national budgets and called on other donors countries to commit to reaching the 0,7% of GDP target.

They also agreed to cooperate to promote innovative mechanisms such as the IFF and international taxes. These new concepts will help improving the stability and predictability of aid flows and financing human development programs that require long term financing guaranties. They may therefore have a major impact on the MDGs, as well as on global public goods, as the work of the international task Force set up by France and Sweden has confirmed.

As a first step, Sweden and France will support the pilot work aiming at providing additional resources to finance actions in sectors where stable long-term funding is most needed such as the fight against AIDS and immunization in poor countries.

Both countries are willing to discuss these questions in depth in appropriate fora and in particular with other European Union Member States. These issues will be reviewed in the coming months in the Ecofin Council and may hopefully lead to operational proposals before the September Heads of State UN Summit on the Millennium Development Goals.

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Key word: 39933 National economy and budget Pär Nuder

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## PRESS RELEASE

2005-02-16

Ministry of Finance

Ministry for Foreign Affairs

# Sweden to support environmental work in Russia

Sweden is to contribute EUR 6 million (SEK 55 million) to the Support Fund for the Northern Dimension Environmental Partnership (NDEP). This contribution will be for the period 2006-2008.

The aim of the NDEP Support Fund is to deal with environmental problems in north-western Russia. The Fund focuses on the environment and nuclear safety. Projects for extending water supplies, wastewater treatment, waste management and efficient energy use are financed in the environmental area. Initiatives for managing spent nuclear fuel and radioactive waste are planned in the area of nuclear safety.

The NDEP is a partnership between bilateral donors, the EU Commission, Russia and a number of international financial institutions - the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Nordic Investment Bank (NIB) and the World Bank.

"The NDEP is an effective instrument for international environmental cooperation with Russia. Environmental issues also have high priority in bilateral Russian-Swedish development cooperation. As one of the initiators of the NDEP, Sweden feels special responsibility for its continued work," says Minister for International Development Cooperation Carin Jämtin.

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The NDEP was organised during Sweden's Presidency of the EU in the spring of 2001 and is administered by the EBRD. In all, eight environmental projects have received financing from the NDEP Support Fund.

Sweden has previously contributed EUR 10 million (approximately SEK 91 million) to the Support Fund over the period 2002-2005.

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Key word: 39029 Environment, energy and housing Sustainable development Foreign policy and international cooperation Carin Jämtin

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## **PRESS RELEASE**

2005-02-10

Ministry for Foreign Affairs  
Ministry of Finance

# **Sweden contributes to newly-established IMF fund to subsidise loans to poor countries affected by natural disasters**

The Government took the decision today to contribute SEK 70 million to support poor countries affected by natural disasters and needing assistance in reconstruction via loans from the International Monetary Fund (IMF). The Swedish contribution means that it will be possible for the IMF to offer loans at very low interest rates to the countries affected.

The decision to set up the IMF-administered fund was recently taken by the IMF Executive Board. However, a precondition for enabling the fund to start up has been that bilateral donors take part in financing the grant component. One example of a country that is expected to make use of the new



interest subsidy fund is Sri Lanka.

- We are not only supporting reconstruction after the tsunami disaster via development assistance, but are now making it possible for poor countries hit by natural disasters to borrow at very low interest rates, says Minister for International Development Cooperation Carin Jämtin.

- The Government has a high level of ambition with regard to debt. By giving direct bilateral contributions to interest subsidies, we shoulder our role as reliable lenders to vulnerable countries while taking responsibility to ensure that the financial position of the IMF is not undermined. This is an objective that the Government is actively pursuing, adds Minister of Finance Pär Nuder.

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Key word: 38708 National economy and budget Carin Jämtin

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## PRESS RELEASE

2005-02-04

Ministry for Foreign Affairs  
Ministry of Finance

# Swedish officers to Sudan

The Government decided Thursday to contribute six staff officers to the UN rapid deployment force SHIRBRIG in southern Sudan and one staff officer to the African Unions (AU) peace support initiative in Darfur.

## The African Union

The AU has been monitoring the ceasefire between the Sudanese Government and the two rebel groups in Darfur since May 2004. On 20 October the Peace and Security Council of the African Union took a decision to expand the current observer mission. The mission will consist of 3 320 persons, including 450 observers and 815 civilian police officers. Sweden has already sent an observer to the AUs mission in Darfur and has given financial support of SEK 5.7 million to the AU and to the political peace negotiations.

The Government decided Thursday to contribute a Swedish staff officer to the African Unions initiative in Darfur. The decision was made after an enquiry from the AU and is part of a coordinated EU contribution to the AUs efforts to create peace and security in the region. Sweden is thereby making a further contribution to strengthening the international presence in Sudan.

## UN Mission in Sudan

The civil war between the Sudanese Government and the rebel movement SPLM (the Sudanese Peoples Liberation Movement) ended on 9 January 2005, when a peace agreement was signed. The

fighting, which has been going on since 1983, has cost more than 2 million lives and more than 4 million refugees inside and outside the country.

The UN has long been preparing an operation after a peace agreement in southern Sudan. The UN Mission in Sudan (UNMISUD) will consist of military observers, protective and supporting forces as well as police and other civil personnel numbering almost 11 000 people. The UN Security Council will probably adopt a resolution on UNMISUD in February.

In 2004 many major steps were taken in the peace process for southern Sudan and SHIRBRIG, a rapid deployment force supporting the UN, was activated by the UN in order to plan its operation. The role of SHIRBRIG is to act as the command for military operations in the initial phase of the UN mission in southern Sudan. The Government decided Thursday that Sweden will contribute 6 staff officers to the mission over a six-month period.

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Key word: 38371 Defence, emergency management and safety Leni Björklund

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## **PRESS RELEASE**

2005-02-03  
Ministry of Finance

# Sweden grants debt relief to Ghana

The Government decided today to grant debt relief to Ghana within the framework of the HIPC-initiative, an international agreement to assist the poorest and most heavily indebted countries to achieve a sustainable debt.

The decision to cancel part of Ghanas debt to Sweden is an important step in reaching a sustainable debt for Ghana and in laying the ground for sustainable development, said Finance Minister Pär Nuder today.

The decision is based on a multilateral agreement in the Paris Club and consists in a cancellation of 90 per cent of Ghanas payments to Sweden between June 1, 2001 and September 30, 2004. Ghana shall make the remaining payments between 2009 and 2025. The agreement covers 18,3 million USD, of which 14,5 million USD are cancelled.

The Paris Club is a group of official creditors from 19 industrialized countries. Read more about the Paris Club and the HIPC-initiative on the web page <http://www.clubdeparis.org>

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Key word: 38304 National economy and budget Pär Nuder

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## **PRESS RELEASE**

2005-01-12

Ministry of Finance

# Sweden will offer debt relief to Indonesia

- I welcome the agreement among G 7 countries to extend debt payment relief to the countries in Asia struck by the Tsunami, said Finance Minister Pär Nuder today. Sweden supports this. The purpose is that these countries should use the means made available for humanitarian and reconstruction needs. An important requirement is that all these resources are used to support the whole population in affected regions.

The next two years, SEK 52 millions will fall due from Indonesia to Sweden. The other affected countries have no debts to Sweden and they will be assisted in other ways. Sweden will work for a generous treatment of the affected countries debt when the Paris Club meets later this week. (The Paris Club is a group of public creditors from 19 industrialized countries.) Depending on the conclusions of the needs assessment to be undertaken by the International Monetary Fund and the World Bank, Sweden and the international community stand ready to consider further financial assistance.

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## **CONTACT**

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Key word: 36753 National economy and budget Pär Nuder

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## **PRESS RELEASE**

2004-11-18

Ministry of Finance

# Sweden's Convergence Programme Update Presented

Sweden has today submitted an update of the convergence programme to the European Commission and to the Council.

The convergence programme shows that Sweden's economy is on a positive track. GDP is expected

to increase by 3.5 per cent in 2004 and 3.0 per cent in 2005. Net lending in the public sector is estimated at 0.7 per cent of GDP in 2004 and 0.6 per cent in 2005. Consolidated gross debt in the public sector, the so-called Maastricht debt, is expected to decline to 50.5 per cent of GDP in 2005.

Under the Stability and Growth Pact, Member States participating in the monetary union will prepare stability programmes. Member States that are not participating will prepare convergence programmes. The aim of the programmes is to strengthen surveillance of the public finances. Members have undertaken to attain budget objectives close to balance or in surplus in the consolidated public sector. Each country may define its precise national budget objectives.

The update of Sweden's convergence programme is based on the forecasts, estimates and proposals in the Budget Bill of 2005. Economic objectives remain unchanged. This means that public finances shall show a surplus of 2 per cent of GDP on average over the business cycle.

The Government also reports on its measures to improve efficiency in the economy. Measures in labour market policy, education and medical care and ill health are emphasised. The long-term impact of demographic changes on the public finances is also highlighted.

The Budget Bill that has been the basis for the update of Sweden's programme is based on an agreement between the Social Democratic Government, the Left Party and the Green Party.

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## **PRESS RELEASE**

2004-11-11

Ministry of Finance

# **Guidelines for Central Government Debt Management in 2005**

The Government has decided on the guidelines for the management of the central government debt. The guidelines have as an aim to continue reducing the percentage of foreign currency in the central government debt. In the long term, the percentage of foreign currency debt will be lowered to about 15 per cent. Therefore, the amortisation of the foreign currency debt will continue to be SEK 25 billion a year. The percentage of inflation-linked bonds in the central government debt will increase in the long term and in time it will be 20 to 25 per cent. The benchmark for the average maturity in the total nominal krona debt and foreign currency debt is to be 2.5 years.

This years decision covers 2005 to 2007.

The Swedish National Debt Office may deviate from the stated amortisation rate for the foreign currency debt by SEK ±15 billion.

Borrowing in inflation-linked bonds is to be weighed against the growth in demand for these bonds as well as the costs and risks of other borrowing.

In addition to krona borrowing in inflation-linked instruments and borrowing in foreign currencies, the central government borrowing requirement is to be met by nominal loans in kronor, which are traditionally the Governments most important source of financing.

The average maturity in the nominal krona debt and the foreign currency debt will be 2.5 years, which is a reduction of 0.2 years since last years guidelines. With the slightly lower average maturity, the expected cost is estimated to decrease without an undesirable increase in the aggregate risk level. The Debt Office may deviate from the benchmark by ±0.3 years.

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## PRESS RELEASE

2004-10-15

Ministry of Finance

# Swedens National Report on Economic Reform Is Submitted to the EU

"The EU must give the work to promote growth and employment higher priority. Sweden is working towards this end with its ongoing effort to reform the product and capital markets and to improve competitiveness in the economy", says Minister for Finance Bosse Ringholm in connection with the presentation of the Swedish Report on Economic Reforms.

Sweden submitted today its National Report on Economic Reform of the Product and Capital Markets, which is part of the Cardiff Process, to the Economic Policy Committee in the EU.

Since work with the Cardiff Process began in 1997, economic development in Sweden has been very favourable, with growth averaging 2.8 per cent. Growth in the EU as a whole has averaged 1.8 per cent during the same period.

"The EU countries have to do their homework. In order to achieve the goals of the Lisbon Strategy and make the EU into the worlds most dynamic and competitive knowledge-based economy, EU Member States must set higher goals and the reform efforts must continue", says Bosse Ringholm.

"The Government is giving priority to work on economic reform of the product and capital markets in order to increase growth and employment. Unfortunately price levels in Sweden are still too high

and there is insufficient competition. Therefore there needs to be more competition" Bosse Ringholm concludes.

The report includes measures to increase competition in Sweden, strengthen consumer protection, and improve efficiency in the public sector. It also includes an account of competitiveness and price developments in certain markets.

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## PRESS RELEASE

2004-09-20

Ministry of Finance

# Sweden's Economy

Sweden's gross domestic product (GDP) is forecast to increase by 3.5 per cent in 2004 and 3.0 per cent in 2005. Of the 3.5 per cent GDP growth in 2004, 0.6 percentage points are a result of a higher number of working weekdays this year than last year. Open unemployment is expected to be 5.6 per cent this year before falling to 5.1 per cent next year. General government net lending is estimated to amount to 0.7 per cent of GDP this year and 0.6 per cent next year.

### Developments in 2004/2005

The global economy has strengthened gradually in recent years. Investment has begun to recover after a number of very weak years thanks to low interest rates, much better corporate earnings and growing demand, not least from the rapidly growing Asian economies. Growth in the United States is forecast to slow somewhat next year, due in part to less expansionary monetary and fiscal policy. The economic upswing in the euro area has been weak, but growth will pick up this year and remain favourable next year. Oil prices are a source of uncertainty.

The composition of international demand favours Swedish exports, and competitiveness is good. Exports of telecommunication equipment and motor vehicles grew particularly strongly during the first half of 2004. Next year the world's need for replacement investments will fall slightly. At the same time, the Swedish krona will appreciate. Exports will continue to grow, but at a slightly slower rate. Domestic demand will strengthen. Investment has stopped falling and is now rising, especially in industry. Household consumption will also grow at a good rate during the rest of 2004 and in 2005, buoyed by a brighter labour market outlook, rising income and a good wealth position.

The rapid growth in output to date has been the result of higher average hours worked and high productivity growth rather than higher employment. The fall in employment has now flattened out, but there will be no clear increase until the beginning of 2005. The regular employment rate will fall from 77.6 per cent in 2003 to 77.0 per cent in 2004 and hold at this level in 2005. Absence due

to sickness is expected to continue to drop. Open unemployment is believed to have peaked this year and will fall to 5.1 per cent in 2005.

Productivity growth is expected to remain high for the rest of the year before returning to a more long-term level. Coupled with moderate wage growth and falling import prices, the high productivity growth has meant that inflation is now low despite being pushed up by oil prices this year. Inflationary pressure is expected to grow gradually as the limiting effect of import prices subsides and domestic resource utilisation increases. The Riksbank is not expected to raise its repo rate until next year.

#### Medium-term estimates for 2006/2007 and alternative scenarios

Besides the economic forecast for 2004 and 2005, medium-term estimates are being presented for 2006 and 2007. These estimates are based on the assumption that there will still be available resources in the labour market in late 2005. This means that employment and GDP can continue to grow at a good rate in 2006 and 2007 without causing inflation problems. In calendar-adjusted terms, GDP is forecast to grow by 2.5 per cent in 2006 and 2.3 per cent in 2007. Open unemployment will fall to 4.2 per cent in 2007.

Two alternative scenarios are also presented. The low-growth scenario assumes that for a number of years oil prices will be higher than in the base scenario. In this alternative scenario it takes longer for the Swedish economy to reach normal resource utilisation. The high-growth scenario assumes that wage formation and the labour market function better than in the base scenario. Unemployment can be permanently lower than in the base scenario without a risk of overheating, and the government's target of an 80 per cent regular employment rate will be achieved in 2007.

#### Public finances

In 2003 general government net lending amounted to 0.5 per cent of GDP. This year net lending is forecast to rise to 0.7 per cent of GDP. Net lending will then fall slightly as a proportion of GDP in 2005 and 2006 before climbing to 0.9 per cent of GDP in 2007 (cf. Table 4).

Net lending in 2004 will break down between the three components of the general government sector such that central government will generate a deficit of SEK 33 billion, the old-age pension system will generate a surplus of SEK 50 billion, and the local government sector will generate a small surplus. Next year an increased central government deficit will be offset by higher surpluses in the pension system and the local government sector. The increase in general government net lending in 2007 will be due to improved central government finances.

The general government sector's net debt turned into a positive financial position in 2003 due to increases in share values. The positive net lending means that its financial position will strengthen during the forecast period, such that financial assets are expected to exceed liabilities by SEK 106 billion in 2007.

Consolidated debt amounted to 52 per cent of GDP at the end of 2003, which is well below the EU's reference value of 60 per cent. The breakdown of net lending between central government and the old-age pension system means that the improvement in financial position during the forecast period will take the form of increased assets in the pension system, while the central government deficit will increase the liabilities side of the general government sector balance sheet. Central government debt will also grow temporarily as a proportion of GDP in 2004 before falling back again.

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## **PRESS RELEASE**

2004-09-20

Ministry of Finance

# The budget for 2005: a commitment to more jobs and increased welfare

The Swedish economy is well prepared for the international economic upturn. The Sweden leaving an international recession behind it this time is stronger than the country that emerged from the recession ten years ago. Central government debt is lower, public finances stronger, employment higher and unemployment lower.

Sweden has outperformed the EU and the OECD between 1994 and 2004. During this period, Swedens GDP has increased by an average of 2.9 per cent per year. The corresponding figures for the OECD and the EU were 2.7 and 2.2 per cent respectively.

The Swedish economy experienced strong growth in early 2004. Provisional statistics show that GDP was 3.4 per cent higher in the first half of 2004 than in the first half of 2003. Industrial productivity was approximately 10 per cent higher than in the corresponding period in 2003.

GDP growth for the whole of 2004 is expected to be 2.9 per cent, mainly owing to a favourable trend for exports. Because of more working days in 2004, however, actual GDP growth will be as high as 3.5 per cent. Next year slightly weaker export growth is anticipated, but higher domestic demand will lead to an overall rise of 3.0 per cent in GDP.

Although the economy has turned the corner and growth figures are high, the labour market is still beset by recession. This year unemployment is expected to be 5.6 per cent. Among young adults, immigrants and older workers it is



considerably higher.

General government consolidated gross debt has fallen sharply since its peak in 1994 when the burden of debt exceeded 75 per cent of GDP. This year the debt is down to 52 per cent of GDP and it is expected to continue to decline next year.

Our economic policy objectives remain firm. A high growth rate is only sustainable on the basis of sound public finances. The expenditure ceilings must be met. The target of an average 2 per cent surplus in public finances over an economic cycle remains in place. The precise target proposed for 2005 is a surplus of at least 0.5 per cent of GDP.

The expenditure ceiling has been met every year since its introduction in 1997. If the expenditure ceiling for 2004 comes under threat, the Government will take necessary measures.

The estimated budgeting margin is SEK 0.2 billion for 2005 and SEK 1.4 billion for 2006. The Budget Bill does not indicate an exact expenditure ceiling for 2007. The expenditure ceiling is set on the basis of an assessment of the potential and structural level of GDP. A number of changes over the past ten years have affected the productive capacity of the economy. The Government therefore wants first to analyse the effect of these changes on potential GDP before setting the expenditure ceiling for 2007.

Another reason to wait is that the Government is considering bringing in a system involving an employment margin in 2007.

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### More jobs for a fairer Sweden

The Governments proposed budget measures aim above all to produce more jobs so as to deal with unemployment, stimulate demand, generate tax revenue for local government and so increase welfare.

The following is proposed:

Augmented employment support for local government totalling SEK 14.5 billion in 2004-2006.

- Tax relief above all for low and medium income earners.
- Improvements for small and medium-sized enterprises.

20 000 new places in labour market policy programmes in 2005. This will bring the estimated total capacity up to 111 000 places.

In the Spring Fiscal Policy Bill, which was adopted by the Riksdag in June, the following reforms were announced:

- 6 000 more staff in the pre-school sector in 2005-2007.
- 6 000 places in further education/training for local government employees in 2004 and 2005.
- 3 different types of RMI (building repairs, maintenance and improvement) deductions.

### Measures for SMEs

To generate more jobs, both in the short and in the long term, small and medium-sized enterprises need to develop well. The Government is taking a number of measures to improve conditions for SMEs:

- Inheritance and gift tax will be abolished, partly to facilitate the transition from one generation to the next in family businesses.
- The reform of the 3:12 rules will continue. This reform was initiated in 2004 by raising the interest rate used as divisor in calculating return on capital by two percentage points. A special working group will present proposals later this autumn on how to complete the reform. According to plan, the new regulations will enter into force on 1 January 2006.
- Agriculture and forestry are exposed to tough competition from other EU countries. For the sake of jobs in these sectors, the tax on diesel used by agricultural and forestry machinery will be lowered by SEK 2 per litre.
- SEK 15 million will be allocated to seed financing for newly started enterprises.

### Tax reductions for low and middle income earners

The Government proposes a number of tax cuts that will make work more worthwhile, increase the purchasing power of low and middle income earners and help create more jobs. This will include further compensation for the personal contributions to the pension system that were introduced in connection with the restructuring of the budget.

- Income taxes will be lowered by between SEK 900 and SEK 2 100 per person per year to

compensate for the personal contributions (this corresponds to half the fourth stage of compensation, bringing the total degree of compensation to 87.5 per cent).

- The basic deduction will be raised by SEK 2 400 per year for individuals earning between SEK 58 400 and SEK 271 100 per year. This translates into tax relief of between SEK 600 and SEK 800 per person per year.

- The deduction for work-related travel will be raised from SEK 1.60 to SEK 1.70 per kilometre.

#### More resources for local government

Health and medical care, schools and social services must maintain high standards and be available to all. To this end, municipalities and county councils will receive substantially higher grants in 2005 and 2006.

- Employment support for local government will increase by SEK 1.5 billion in 2004, SEK 6 billion in 2005 and SEK 7 billion in 2006.

- The general government grant will be raised by SEK 7 billion from 2007 on.

- SEK 1.7 billion will be committed to introduce a health care guarantee and to provide increased resources for health services, psychiatry and care of drug misusers. SEK 200 million of this will be allocated to the alcohol and drugs plans.

- SEK 450 million will be allocated in 2005 to continuing professional development for staff in health services and elderly care.

#### Measures for children and families with children

The Government proposes a range of measures in 2005 and 2006 to strengthen the financial position of families with children.

- The monthly child allowance will be raised by SEK 100 per child in 2006.

- The supplementary allowance for additional children will be raised by SEK 100 and will now be payable for second as well as subsequent children.

- On 1 July 2006 the ceiling in the parental insurance system will be raised from 7.5 base amounts (SEK 24 000/month) to 10 price base amounts (just over SEK 32 000/month). This will mean that in 2006, the maximum parental benefit per day will go up from approximately SEK 660 to around SEK 880.

- On 1 July 2006 the compensation provided for minimum level days in the parental insurance system will be increased from SEK 60 to SEK 180 per day.

The Spring Fiscal Policy Bill announced a commitment of SEK 1 billion from 2006 for children in families in a weak financial position. SEK 350 million will be used for maintenance support improvements, SEK 200 million for changes in the housing allowance and SEK 450 million for supplementary child allowances for students. The Government will announce the exact details at a later stage.

#### Measures for the elderly

- SEK 200 million will be allocated from 2005 onwards to improve housing supplement for pensioners.

#### Green tax shift and measures for a better environment

A continuation of the green tax shift is a key element in the Governments strategy for transforming Sweden into an ecologically sustainable society. Environmental taxes put a price on the environment and make it more expensive to pollute air or water.

The assessment made in the Spring Fiscal Policy Bill in 2000 was that there was an overall scope of SEK 30 billion for the tax shift in the period 2001-2010. Since then, a tax shift of just over SEK 7 billion has been implemented by the proposals in the 2001 and 2002 Budget Bills. During the 2002-2006 term of office, a tax shift of SEK 12 billion will be implemented.

Next year (2005), the green tax shift will involve approximately SEK 3.3 billion. It will include the following measures:

- Higher vehicle tax for cars, up approximately SEK 340 for a petrol-driven car of normal weight. For diesel-driven cars, the tax will rise by SEK 100.
- Higher petrol tax, up SEK 0.15/litre (SEK 0.19 after VAT).
- Higher diesel tax, up SEK 0.30/litre (SEK 0.375 after VAT).
- Higher vehicle tax for light lorries and light buses, up 40 per cent.
- Higher electricity tax, up SEK 0.012/kWh (SEK 0.015 after VAT).

These tax increases, lessened by the lower diesel tax for agricultural and forestry use, will be offset by:

- Higher basic deduction, up SEK 2 400 for individuals earning between SEK 58 400 and SEK 271 100 per year. This translates into tax relief of between SEK 600 and SEK 800 per year.

### Security and solidarity

Development assistance will be raised to one per cent of GNI in 2006. This means the total level will rise by SEK 3.3 billion.

- More money to make people more secure. The money freed up by the adjustment of the Swedish defence will be used for action to enhance peoples security. This will involve substantial reinforcements of the legal system, including the Swedish Police, the Swedish Security Service, the prosecution organisation, the judiciary, the Swedish Prison and Probation Service, the fight against organised crime and terrorism, care of drug misusers and measures for children and young people in risky environments. The adjustment of the Swedish defence will yield savings of SEK 600 million in 2005, SEK 1.5 billion in 2006 and SEK 3 billion in 2007.

### Research

Higher research appropriations. The level of appropriations for research will be raised by SEK 2.3 billion over a four-year period (SEK 100 million in 2005, SEK 600 million in 2006, SEK 1.1 billion in 2007 and SEK 2.3 billion in 2008). This autumn the Government will present a research bill that will describe in greater detail how the money will be used.

### Other measures:

- Improved study support for older people. SEK 100 will be allocated from 2006 and SEK 250 million from 2007 to change the study support system so as to enable more older people to finance their education by study support.
- More resources for the Swedish Customs Service. An extra SEK 25 million will be committed to the Swedish Customs Service from 2006 to enable more effective combating of large-scale smuggling and other cross-border organised crime.
- Lower wealth tax. Wealth tax will be reduced in 2005 by raising the exemption for married couples and cohabiting couples with children to SEK 3 million.
- More people will have to pay state income tax. The upward adjustment of the thresholds will be limited to CPI + 1 per cent. This means the thresholds above which people begin to pay state income tax will be slightly lower than under the current rules.
- Opportunities for obtaining a reduction of social security contributions will be limited. From 2005 the maximum base for a reduction of social security contributions will be lowered from a payroll of SEK 852 000 to a payroll of SEK 41 600. From 2005, interest will be charged on profits transferred to tax allocation reserves.

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## **PRESS RELEASE**

2004-05-24

Ministry of Finance

# Good results for the AP Funds in 2003

Today the Government will present to the Riksdag the annual communication evaluating the performance of the National Swedish Pension Funds (AP Funds). The evaluation shows that the AP Funds achieved good results in 2003, as a result of the upturn on the stock exchange, though deviations from the comparative index are small and management costs for the funds appear high relative to the degree of management activity.

The Government notes that the First, Second, Third and Fourth AP Funds report good results in absolute terms in 2003, due to rising prices for the share investments that have previously caused major losses. The Sixth AP Fund reports good results, both short term and long term, partly due to positive returns on the Funds holdings of non-listed shares.

-I am pleased to note that the AP Funds have achieved good results in absolute terms and that a significant part of previous losses have been recouped. I am also satisfied with the AP Funds increased activity concerning holdings, which can be expected to have a positive effect on the long-term yield of the Funds, says Gunnar Lund, Minister for International Economic Affairs and Financial Markets.

The FirstFourth AP Funds and the Sixth AP Fund, which together make up the buffer funds for the pension system, report combined earnings of SEK 80.8 billion in 2003. This compensates for a substantial part of the losses in previous years (SEK 85.6 billion in 2002 and SEK 26 billion in 2001). In terms of yield, the AP Funds had a total rate of return of 16.4 per cent in 2003. The average return over the latest five-year period was 1.7 per cent per year, which is 0.1 percentage

points per year below the average rate of inflation.

With regard to the management of the FirstFourth AP Funds, the Government notes that the returns so far have shown little deviation from the comparative index, which indicates a low level of risk-taking. The costs for managing the Funds appear out of proportion to the degree of management activity, a point the Government intends to keep a continued watch on. The Government also notes that good results must be produced in the years ahead in order to achieve the targets set by the Funds boards.

A comparison of the yields from the FirstFourth AP Funds since mid-2001 indicates a lesser degree of risk diversification than could have been expected as a result of dividing the buffer capital of the pension system into four separate funds. All the indications are that this is due to the Funds interpreting their assignments in a similar way, but an additional factor is apparently that the Funds have so far made very little use of opportunities for active management. In conjunction with future evaluations, the Government intends to come back to the issue of risk diversification between the Funds and the associated question of the mutual independence of the Funds.

The Sixth AP Fund has special instructions to invest in unlisted small and medium-sized companies. The Fund has met the boards targets by achieving a positive return on the Funds holdings of unlisted shares over the long term. The unlisted portfolio as such, however, has not met the boards targets during the period. Nonetheless, the results can be described as good.

The Seventh AP Fund, which is part of the premium pension system, has recouped some of the losses of earlier years by means of the stock market upturn in 2003. The Seventh AP Fund has so far achieved the boards long-term goal that the Premium Savings Fund shall outperform the average premium pension fund, but at a lower risk. On the other hand, the Premium Savings Fund and the Premium Choice Fund have not outperformed the comparative index over the period since they began operations in autumn 2000.

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Key word: 23947 National economy and budget Gunnar Lund

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## **PRESS RELEASE**

2004-04-15

Ministry of Finance

# **Spring Fiscal Policy Bill 2004: Fight against unemployment a priority for the Government**

The international economy is emerging from the downturn it has experienced in recent years and strengthened in the second half of 2003. In the Swedish

economy, too, activity increased in the autumn of 2003. Growth is expected to reach 2.5 per cent this year and 2.6 per cent in 2005.

The recession has left its mark on the Swedish labour market. Unemployment is at a higher level than the Government can accept. The economic upturn will have no immediate impact on the labour market.

As in previous years, central government spending will be kept below the approved expenditure ceilings. Expenditure ceilings for 2006 and 2007 will be proposed in the autumn, in the Budget Bill for 2005.

There is a budget margin of SEK 0.1 billion in 2004. The estimated margins in 2005 and 2006 are SEK 2.0 billion and SEK 24 billion respectively.

A public finances surplus of 0.3 per cent of gross domestic product (GDP) is expected this year. This is slightly lower than the target set for 2004, mainly because the employment trend is poorer than anticipated. However, the target of an average 2 per cent surplus over the course of an economic cycle remains firm.

### Growth and full employment

The objectives of Sweden's economic policy are a high rate of growth and full employment. The work first concept is a guiding principle of the policy for growth.

Open unemployment will rise to 5.5 per cent this year, declining to 5.3 per cent next year. Open unemployment must be driven back towards the 4 per cent mark.

The Government and Riskdag have set the target that 80 per cent of people aged between 20 and 64 should be employed on the regular labour market in 2004. This target will not be met in 2004, primarily because the economic cycle has been in a weak phase, but also on account of education initiatives that have reduced the proportion of people aged 20-24 who are in employment.

To supplement the employment target there is also a social assistance target. The trend for social assistance has been positive since 1999, despite the cyclical weakness. Between 1999 and 2002, social assistance payments went down by 25 per cent. The reduction continued in 2003, partly because of a positive employment trend for immigrants. The employment and social assistance targets remain in place.

### More jobs and lower unemployment

The fight against unemployment is one of the Government's principal responsibilities. The Government is now announcing a package of some SEK 10 billion to keep unemployment down and increase employment. This package includes the following measures:

- Labour market policy programmes will be expanded, adding 15 000 places

this year.

- 5 000 of these places are intended for local authorities.
- In addition, there will be a temporary further education and training initiative for local authority employees in health care, schools and social services. In 2004 and 2005, a total of 6 000 people will be given the chance to combine part-time work with part-time study in adult upper secondary programmes or higher education programmes. When allocating these study opportunities, local authorities are to give special priority to employees in involuntary part-time positions.
- The volume of labour market policy programmes will be increased in 2005 as well. The Government will assess the level of this increase in the Budget Bill for 2005.
- A deduction for building repairs, maintenance and improvement (RMI) work will be introduced to run between 15 April 2004 and 30 June 2005. In all essentials, the systems design will follow the regulations that applied between 1996 and 1999. This will cost an estimated SEK 2.4 billion.
- The budget for special employment support under the activity guarantee system will be enlarged. The compensation given to employers will rise from SEK 750 to SEK 1 000 per day. This will make it possible to provide places for a further 3 000 long-term unemployed people.
- An inquiry will be appointed to examine the possibility of strengthening the right to full-time employment.

#### Assignments for the National Labour Market Board

- Labour market policy will focus on the major tasks of job placement and employment guidance, along with action to combat labour shortages and measures to help those who are most detached from the labour market.
- Special attention must be given to the situation of young people. One of the goals of the Swedish National Labour Market Administration is to halve long-term unemployment among young people in the course of this year.
- There will be a clearer focus on the role of unemployment insurance as adaptation insurance. The National Labour Market Board will be given the task of shortening periods of unemployment and promoting greater consistency in the way different county labour boards and employment offices apply regulations, by making systematic comparisons.

The Government intends to follow developments on the labour market closely in 2004 and will decide on an ongoing basis whether additional measures are needed to curb open unemployment.

#### Environmental measures

- A special tax incentive will be brought in for source separation of waste in multi-family buildings. It is estimated that this will cost SEK 0.4 billion in lost tax revenues. The proposal can enter into force on 1 January 2005 and run until



30 June 2006.

- The Government intends to present a proposal later on a special tax incentive for environmental investments in public buildings. This will involve the introduction of a tax deduction equivalent to 30 per cent of the total cost of certain energy-saving measures and conversion to renewable energy systems undertaken in properties in public ownership. A tax deduction at the higher rate of 70 per cent will be introduced for installing solar cells. The total tax revenues lost as a result are expected to amount to SEK 2 billion, of which a maximum of SEK 100 million will be for the higher deduction for installing solar cells. This proposal will enter into force on 1 January 2005 and apply until 30 June 2006.
- The budget for the climate investment programme will increase by SEK 50 million in 2005 and SEK 150 million in 2006.
- Appropriations to support biological diversity will rise by SEK 300 million in 2005 and SEK 500 million in 2006.

### Support for local authorities

The local government sector needs extra income to enable it to take necessary initiatives. The Government proposes a vigorous commitment to local authorities for the remainder of its present term of office:

- The temporary employment support paid out to local authorities since 2002, plus receipts from the fixed SEK 200 all taxpayers pay in national income tax, will be replaced from 2005 by higher central government grants worth SEK 4.7 billion.
- General employment support worth SEK 1.5 billion is proposed for next year.

An additional sum of SEK 4 billion will be allocated to local authorities from 2005 onwards. These funds are to be distributed as follows:

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- A special government grant will make it possible to employ 6 000 extra pre-school teachers. This grant will provide SEK 1 billion in 2005 and SEK 2 billion in 2006 and 2007. After 2007 these funds will be incorporated in the general system of central government grants. The aim of these extra staff resources is to improve pre-school standards and reduce the size of groups.
- An additional sum of SEK 1.3 billion will be allocated to the local government equalisation system from 2005 onwards.
- The Government will present directions for the distribution of the remaining SEK 1.7 billion for 2005 in the Budget Bill for 2005.

### Fighting ill health/reducing sick leave

The goal set by the Government and Riskdag is that in 2008 absence from working life due to sickness will be at half the 2002 level. There will be fewer new cases of activity compensation and sickness compensation.

At present approximately 130 000 people have been on sick leave for more than a year. More than 500 000 people are receiving sickness or activity compensation. It is estimated that the number of days of sick leave claimed will fall by 16 per cent between 2002 and 2004. Yet between 2002 and 2003, the number of new activity and sickness compensation awards increased by nearly 5 per cent.

Unless effective steps are taken, there is a risk that the number of people receiving activity or sickness compensation will continue to rise relatively sharply until 2008. This is largely due to the fact that far too many cases of sick leave have been long lasting.

The Government will present a more detailed analysis of the target for reduced sick leave in the Budget Bill for 2005.

In the autumn of 2003, the Government and the social partners discussed measures that should be taken to reduce sickness absence.

In mid-December, the Government, the Left Party and the Green Party presented a joint declaration of intent containing a range of measures. These measures are now to be implemented, as follows:

- A system of co-financing, under which employers will be required to pay part of the cost of sickness benefits when an employee is on sick leave. The co-financing scheme will require employers, after the first two weeks, to pay 15 per cent of the cost of sickness benefits for each case of sickness. The co-financing will cease if the person on sick leave returns to part-time work or to work with rehabilitation compensation.

A mechanism will be introduced to protect small enterprises from being hit by unreasonably high costs.

In addition, the Government proposes measures to improve the sick leave process and ensure the sustainability of the sickness insurance system, as well as augmented work environment measures.

- The social insurance offices will be required to follow up new cases of sickness compensation for which no time limit has been set. Sickness compensation awards that have already been approved will be followed up much more extensively than previously.

- The no-benefit qualifying day system will be revised so that it is applied more fairly.

- The social insurance office will be required to call parties to a case review meeting and draw up a rehabilitation plan within a certain specified time.

- There will be changes in the regulations to help doctors and social insurance managers to prevent errors when certifying sick leave and awarding sickness compensation.

The introduction of these measures will make it possible to restore the level of compensation given by sickness benefits on 1 January 2005, as announced in

the Budget Bill for 2004.

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Tax talks have been completed with the Confederation of Swedish Enterprise, the Swedish Association of Local Authorities, the Swedish Federation of County Councils, the Swedish Trade Union Confederation, the Confederation of Professional Employees and the Swedish Confederation of Professional Associations. The constructive discussions and the proposals presented during these talks provide a good foundation for the continued political process and the Government's work on developing and improving the Swedish tax system so as to make it more conducive to growth.

## Integration

Within the framework of talks on growth, the Government has invited dialogue on growth and integration. The aim has been to harness the skills and qualifications of people in Sweden with non-Swedish backgrounds and to increase the employment rate in this group.

The Government will be disseminating information about legislation against ethnic discrimination and will encourage employers to make use of measures within the framework of present labour market policy. Such measures may involve better induction of immigrants, increased access to work experience schemes and action to combat discrimination.

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The Government will continue to engage in discussions with the social partners on ethics in the business sector.

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The Government has appointed a special working group to describe and analyse the situation of children living in financially vulnerable families. Priority will be given to improvements for this group of children.

## Development assistance

The Government expects there will be scope to raise the budget for

development assistance to 1 per cent of gross national income (GNI) during the present term of office. As a step in this direction, a further rise of SEK 590 million in the development assistance budget is proposed for 2005. As a result of macroeconomic developments, an additional increase of SEK 34 million is expected in 2005 compared with the framework estimated in the Budget Bill for 2004.

## Defence

The basic guideline for the Defence Commission in preparing its proposals is that they must lead to substantially reduced costs. One of the principal scenarios for this process is to be savings of SEK 6 billion. In order to create room for manoeuvre and facilitate the process of adjustment, the defence organisation will have limited authority to order new equipment and services in 2004.

## Green tax shift

The Government's tax shift strategy includes a reform of Swedish energy taxation. As a first step in this reform the present zero rate of tax on electricity used in industry will be replaced from 1 July 2004 by the tax rate (SEK 0.005/kWh) corresponding to the minimum level in the Energy Tax Directive. The Government will shortly present a bill proposing tax-free status, in certain circumstances, for electricity used in industrial processes. The objective is for a new energy tax system to be able to enter into force no later than 1 January 2006.

## Other proposals

- On 1 January the sabbatical year system will be brought in nationwide. Approximately 12 000 places will be available under the scheme, on the same terms as during the trial period.
- SEK 50 million have been set aside to finance a trial programme of shorter working hours in 2005 and 2006. One of the purposes of this pilot scheme is to shed light on the link between health and working hours.
- A person who has been awarded sickness compensation will be able to commence higher education studies and afterwards receive the same compensation again without reassessment.
- 4 000 new police officers will be trained during the Government's present term of office.

The international economy is emerging from the downturn it has experienced in recent years and strengthened in the second half of 2003. In the Swedish economy, too, activity increased in the autumn of 2003. Growth is expected to reach 2.5 per cent this year and 2.6 per cent in 2005.

The recession has left its mark on the Swedish labour market. Unemployment is at a higher level than the Government can accept. The economic upturn will have no immediate impact on the labour market.

As in previous years, central government spending will be kept below the approved expenditure ceilings. Expenditure ceilings for 2006 and 2007 will be proposed in the autumn, in the Budget Bill

for 2005.

There is a budget margin of SEK 0.1 billion in 2004. The estimated margins in 2005 and 2006 are SEK 2.0 billion and SEK 24 billion respectively.

A public finances surplus of 0.3 per cent of gross domestic product (GDP) is expected this year. This is slightly lower than the target set for 2004, mainly because the employment trend is poorer than anticipated. However, the target of an average 2 per cent surplus over the course of an economic cycle remains firm.

### Growth and full employment

The objectives of Sweden's economic policy are a high rate of growth and full employment. The work first concept is a guiding principle of the policy for growth.

Open unemployment will rise to 5.5 per cent this year, declining to 5.3 per cent next year. Open unemployment must be driven back towards the 4 per cent mark.

The Government and Riskdag have set the target that 80 per cent of people aged between 20 and 64 should be employed on the regular labour market in 2004. This target will not be met in 2004, primarily because the economic cycle has been in a weak phase, but also on account of education initiatives that have reduced the proportion of people aged 20-24 who are in employment.

To supplement the employment target there is also a social assistance target. The trend for social assistance has been positive since 1999, despite the cyclical weakness. Between 1999 and 2002, social assistance payments went down by 25 per cent. The reduction continued in 2003, partly because of a positive employment trend for immigrants. The employment and social assistance targets remain in place.

### More jobs and lower unemployment

The fight against unemployment is one of the Government's principal responsibilities. The Government is now announcing a package of some SEK 10 billion to keep unemployment down and increase employment. This package includes the following measures:

- Labour market policy programmes will be expanded, adding 15 000 places this year.
- 5 000 of these places are intended for local authorities.
- In addition, there will be a temporary further education and training initiative for local authority employees in health care, schools and social services. In 2004 and 2005, a total of 6 000 people will be given the chance to combine part-time work with part-time study in adult upper secondary programmes or higher education programmes. When allocating these study opportunities, local authorities are to give special priority to employees in involuntary part-time positions.
- The volume of labour market policy programmes will be increased in 2005 as well. The Government will assess the level of this increase in the Budget Bill for 2005.
- A deduction for building repairs, maintenance and improvement (RMI) work will be introduced to run between 15 April 2004 and 30 June 2005. In all essentials, the systems design will follow the regulations that applied between 1996 and 1999. This will cost an estimated SEK 2.4 billion.
- The budget for special employment support under the activity guarantee system will be enlarged. The compensation given to employers will rise from SEK 750 to SEK 1 000 per day. This will make it possible to provide places for a further 3 000 long-term unemployed people.
- An inquiry will be appointed to examine the possibility of strengthening the right to full-time employment.

### Assignments for the National Labour Market Board

- Labour market policy will focus on the major tasks of job placement and employment guidance, along with action to combat labour shortages and measures to help those who are most detached from the labour market.
- Special attention must be given to the situation of young people. One of the goals of the Swedish National Labour Market Administration is to halve long-term unemployment among young people in the course of this year.

- There will be a clearer focus on the role of unemployment insurance as adaptation insurance. The National Labour Market Board will be given the task of shortening periods of unemployment and promoting greater consistency in the way different county labour boards and employment offices apply regulations, by making systematic comparisons.

The Government intends to follow developments on the labour market closely in 2004 and will decide on an ongoing basis whether additional measures are needed to curb open unemployment.

#### Environmental measures

- A special tax incentive will be brought in for source separation of waste in multi-family buildings. It is estimated that this will cost SEK 0.4 billion in lost tax revenues. The proposal can enter into force on 1 January 2005 and run until 30 June 2006.
- The Government intends to present a proposal later on a special tax incentive for environmental investments in public buildings. This will involve the introduction of a tax deduction equivalent to 30 per cent of the total cost of certain energy-saving measures and conversion to renewable energy systems undertaken in properties in public ownership. A tax deduction at the higher rate of 70 per cent will be introduced for installing solar cells. The total tax revenues lost as a result are expected to amount to SEK 2 billion, of which a maximum of SEK 100 million will be for the higher deduction for installing solar cells. This proposal will enter into force on 1 January 2005 and apply until 30 June 2006.
- The budget for the climate investment programme will increase by SEK 50 million in 2005 and SEK 150 million in 2006.
- Appropriations to support biological diversity will rise by SEK 300 million in 2005 and SEK 500 million in 2006.

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Key word: 16929 National economy and budget Bosse Ringholm

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## **PRESS RELEASE**

2004-04-15

Ministry of Finance

# Swedens Economy

Sweden's gross domestic product (GDP) is forecast to increase by 2.5 per cent in 2004 and by 2.6 per cent in 2005. Of the 2.5 per cent GDP growth in 2004, 0.6 percentage points are a result of a higher number of working weekdays this year than last year. Open unemployment is expected to be 5.5 per cent this year before falling to 5.3 per cent next year. General government net lending is estimated to amount to 0.3 per cent of GDP this year and 0.6 per cent next year.

## Developments in 2004/2005

The global economy improved during the second half of 2003. The favourable economic growth in Asia is expected to continue. Growth in the United States is surprisingly good, and there are also now some signs of improvement in the EU. It is primarily global investment activity which is strengthening at this stage. Household consumption is already growing at a good rate in the United States, and household demand is expected to become an increasingly important driver in the EU as well as time goes on.

The recovery in the global economy is reflected in Swedish exports, which grew at a good rate during the second half of 2003. Exports of motor vehicles and pharmaceuticals were particularly strong. There is a great deal to suggest that the upswing in exports will broaden, and that the trade balance will strengthen further. Household demand will continue to be stimulated by low interest rates and a strong wealth position this year and next. Recent years' decline in investment will come to an end this year, but there will not be any notable upswing before 2005.

Employment has fallen over the last year. The decrease is no longer limited to industry but now extends to most sectors of the economy. The decline will continue in 2004; the increased activity in the economy will cause employment to rise no earlier than 2005. Open unemployment will rise to 5.5 per cent this year before falling to 5.3 per cent next year. The low demand for labour, combined with population growth in age groups with a low employment rate, means that the regular employment rate will fall from 77.6 per cent in 2003 to 76.6 per cent in 2005.

Productivity growth in the business sector has been high in recent years. Combined with lower wage increases, this has contributed to low domestic inflationary pressure. The stronger krona has led to falling prices for imported goods. Next year the stronger growth and demand are expected to result in inflation gradually nearing the Riksbank's target of 2 per cent. No further changes in the Riksbank's repo rate are assumed this year.

#### Medium-term estimates for 2006 and alternative scenarios

Besides the economic forecast for 2004 and 2005, medium-term estimates are being presented for 2006. These estimates are based on the assumption that resource utilisation in the economy at the end of 2005 will be below normal. Growth can therefore exceed the long-term rate again in 2006. GDP will grow by 2.5 per cent in 2006, and open unemployment will fall to 4.9 per cent.

Two alternative scenarios are also presented. The low-growth scenario illustrates the effects of weaker global growth on the Swedish economy. The high-growth scenario assumes that the labour market and wage formation function in such a way that the government's target of an 80 per cent employment rate is achieved in 2007.

#### Public finances

In 2003 general government net lending amounted to 0.5 per cent of GDP, which is an improvement on 2002. This year, net lending is forecast to fall to 0.3 per cent of GDP as a result of a decrease in income as a proportion of GDP. Based on decisions and proposals announced to date, expenditure will fall as a proportion of GDP in 2005 and 2006. Net lending will therefore grow to 0.6 per cent of GDP in 2005 and 1.1 per cent in 2006 (see Table 4).

Net lending in 2004 will break down between the three components of the general government sector such that central government will generate a deficit of SEK 42 billion while the old-age pension system will generate a surplus of SEK 51 billion. In 2005 an increased central government deficit will be offset by an increased surplus in the pension system. The improvement in general government net lending will be the result of a rise in local government net lending.

Consolidated debt amounted to 51.9 per cent of GDP at the end of 2003, which is well below the EU's reference value of 60 per cent. The breakdown of net lending between central government and the old-age pension system means that the improvement in financial position during the forecast period will take the form of increased assets in the pension system. The central government deficit means that both central government debt and consolidated gross debt will rise in absolute terms. In 2004 they will also rise temporarily as a proportion of GDP before falling again.

The general government sector's net debt fell almost to zero in 2003 as a result of increases in share values. The net lending during the forecast period means that the general government sector's financial assets are forecast to exceed liabilities by SEK 44 billion in 2006.

If net lending is adjusted for the economic cycle and various temporary factors, this gives a measure of underlying, or structural, net lending. Structural net lending fell between 2000 and 2002, due primarily to tax cuts and other reforms. It then increased to 1.1 per cent of GDP in 2003 and will hold at this level in 2004 before improving further in the following years (see Table 5).

#### Evaluation of forecasts

The regular evaluation of forecasts in the Spring Fiscal Policy Bill shows that the Ministry of Finance overestimated GDP growth in the forecasts for 2003 made in 2002, while the forecasts presented in 2003 were in line with the actual outcome. Other economic analysts' forecasts were also revised similarly. All forecasters underestimated the growth in unemployment in 2003, especially in the forecasts made in 2002.

For a more detailed presentation of the macroeconomic forecasts, public finances and the evaluation of forecasts, see Appendix 1 to the Spring Fiscal Policy Bill, "Sweden's Economy".

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Key word: 16895 National economy and budget Bosse Ringholm

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## **PRESS RELEASE**

2004-02-10

Ministry of Finance

# Swedish Minister of Finance Bosse Ringholm: #Completely unrealistic proposal of Commission on EU-budget#

The Commission has presented proposal for EU-expenditure where the level of expenditure is unrealistically high. In his comment to the Commission proposal for budgetary means for EU in the years 2007-2013, Swedish Minister of Finance Bosse Ringholm declares that the proposal hardly can be viewed as a realistic starting point for negotiations.

# If this proposal would be implemented, it would imply an increase in the range of 12-14 billions SEK or #1,3 # 1,6 billion of the Swedish yearly payment to the Union compared to today's level. I cannot for any reason defend such an increase, Bosse Ringholm continues.

The Commission proposal implies that expenditure within the next financial perspective, EU's long-term budget, will amount to maximum 1,27 per cent of the member states GNI. Together with five other member states, the Swedish Government, have demanded that expenditure from the EU-budget should be limited to maximum 1% of member states GNI. Expenditure from the EU-budget today amounts to less than 1% of member states GNI.

# Proposing such a massive increase in the expenditure level # considerably above what several member states demand and are able to cope with on their national budgets # shows the unrealistic view the Commission has regarding our common budget and the state of public finances in Europe, says Bosse Ringholm.

# In a situation where a number of member states must cut down in national expenditure in order to come to terms with their national budget deficits it is almost provocative to propose a large increase in the EU-budget, according to Ringholm.

# An expenditure level at 1% as we and the five co-signers of the 1%-letter advocate would allow for real increases in spending and financing of all agreed EU priorities, according to Ringholm.

Through re-allocations we can give the new member-states equal possibilities as today's member states to take part of the common EU-budget.

# The EU-budget should to a greater extent concentrate on reaching a sustainable growth in line with the ambitions in the so-called Lisbon strategy, through actions in the fields of for example research and development, education and new technologies, Bosse Ringholm ends by saying.

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Key word: 11253 Bosse Ringholm

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## PRESS RELEASE

2003-11-14

Ministry of Finance

# Guidelines for Central Government Debt Management in 2004

The Government has decided on the guidelines for the management of the central government debt. The long-term aim is still to reduce the percentage of foreign currency in the central government debt. Therefore, the amortisation on the foreign currency debt will be SEK 25 billion a year.

#The guideline decision means that we will continue the long-term aim of amortising the foreign currency debt and reducing our total indebtedness#, says Gunnar Lund, Minister for International Economic Affairs and Financial Markets.

At the end of this year, the central government debt is calculated at SEK 1,226 billion, or about 50 per cent of GDP. The central government debt at its highest amounted to about 75 per cent of GDP in 1998.

The Debt Office will be permitted to deviate from the stated amortisation rate by SEK  $\pm$ 15 billion. The percentage of inflation-linked borrowing in the central government debt will increase in the long term. The rate of increase will be weighed against the demand for inflation-linked bonds as well as the costs and risks of other borrowing.

That part of the financing requirement not covered by inflation-linked borrowing and borrowing in foreign currencies is to be met by nominal loans in kronor, traditionally the Government's most important source of financing.

The average maturity in the nominal kronor-denominated debt and the foreign currency debt will remain unchanged at 2.7 years. The Debt Office may deviate from the benchmark by  $\pm$ 0.3 years. The maturity profile, which states that the borrowing should have as an objective that no more than

25 per cent of the debt falls due in the next 12 months, has been removed. This year's decision covers 2004 to 2006.

Guidelines can be found on the Internet: [www.finans.regeringen.se](http://www.finans.regeringen.se)

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Key word: 10564 Gunnar Lund

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## **PRESS RELEASE**

2003-09-26

Ministry of Finance

# **FATF Plenary meets in Stockholm - Stockholm International Fairs, Älvsjö, 1-3 October 2003**

The Financial Action Task Force (FATF) Plenary will discuss guidance to countries adopting and implementing measures to enable their authorities to seize and confiscate assets linked to terrorism financing. In addition, the Plenary will discuss the means of supplying technical assistance to those countries which request help implementing and enforcing their national anti-terrorist financing legislations. The FATF will also assess the progress made by the non-cooperative countries and territories in the fight against money laundering.

Following its first Plenary meeting under the Swedish Presidency, the President of the FATF, Mr. Claes Norgren, and FATF Executive-Secretary, Patrick Moulette, will discuss the outcome of the Plenary at a news conference to be held at 2 p.m., Friday 3 October at the Stockholm International Fairs, Älvsjö, Stockholm, Sweden.

To attend the news conference, or for further information on the FATF, journalists are invited to contact Helen Fisher at +33 1 45 24 80 97 or e-mail: [Helen.Fisher@oecd.org](mailto:Helen.Fisher@oecd.org) or the FATF secretariat, 37 bis Blvd. Suchet, 75016 Paris (tel: + 33 1 45 24 79 45 or e-mail: [fatf.contact@oecd.org](mailto:fatf.contact@oecd.org)). For information in Sweden, please contact: May-Britt Pella, Press Officer, Stockholm International Fairs, SE-125 80 Stockholm (Tel: +46 8 749 43 36 or +46 70 789 43 36; Fax: +46 8 749 91 17; e-mail: [may-britt.pella@stofair.se](mailto:may-britt.pella@stofair.se)).

The FATF is an independent international body whose Secretariat is housed at the OECD. The thirty-one member countries and governments of the FATF are: Argentina; Australia, Austria; Belgium; Brazil; Canada; Denmark; Finland; France; Germany; Greece; Hong Kong, China; Iceland; Ireland; Italy; Japan; Luxembourg; Mexico; the Kingdom of the Netherlands; New Zealand; Norway; Portugal; the Russian Federation; Singapore; South Africa; Spain; Sweden; Switzerland; Turkey; United Kingdom; and the United States. Two international organisations are also members of the FATF: the European Commission and the Gulf Co-operation Council.

Key word: 10124

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**PRESS RELEASE**

2003-09-22

Ministry of Finance

## The budget for 2004: investing in growth, jobs, and welfare

The Swedish economy has coped well with the international economic downturn. Employment is high, growth satisfactory and joblessness still low compared with other countries. Public finances are still in surplus, with the surplus for next year estimated at 0.4 per cent of GDP. The estimated public finances surpluses over the next few years are in line with the Governments overall targets. The public finances surplus target of 2 per cent of GDP over the course of a business cycle remains firm and will be met.

As in previous years, central government spending will be kept below the approved expenditure ceilings. The Government does not consider any additional savings will be needed to manage the expenditure ceilings for 2003 and 2004. However, the Government is monitoring expenditure developments on an ongoing basis and will take additional measures if the expenditure ceilings come under threat. The proposed expenditure ceilings for the central government sector are SEK 894 billion in 2005 and SEK 931 billion in 2006.

To date there has been no clear turn around in the international economy. However, the Government is counting on an improved climate for business towards the end of 2004. The gross domestic product (GDP) is expected to rise by 1.4 per cent this year and 2.0 per cent in 2004.

The 121-point agreement between the Social Democratic Party, the Left Party and the Green Party is to be implemented in the course of the present term of office. The three parties intend to present guidelines and budget proposals for the implementation of the remaining parts of the 121-point agreement in 2005 and 2006, in connection with the 2004 Spring Fiscal Policy Bill and the budget for 2005.

### The labour market

The employment rate is expected to reach 77.7 per cent this year and 77.3 per cent in 2004. This means that on this forecast the Governments target of 80 per cent in regular employment in 2004 will not be met. Nonetheless, the target of having 80 per cent of the population aged 20-64 employed on the regular labour market remains firmly in place. The Government is monitoring developments on an ongoing basis and will take steps to attain its goal.

There has been a gradual rise in open unemployment since mid-2002, owing to a weak trend for employment, fewer participants in labour market policy programmes and an increasing supply of labour. Unemployment is expected to remain at 4.7 per cent next year, after which it is forecast to decline. An augmented supply of labour is essential to secure the long-term financing of welfare.

The number of people receiving social assistance, expressed as full-year equivalents, fell by 25 per cent between 1999 and 2002. Despite this there is much to suggest that the social justice target of halving the number of people in receipt of social assistance between 1999 and 2004 may be difficult to achieve. One pre-condition for achieving this target is that the employment target is met.

This year, for the first time, the Budget Bill contains a gender equality appendix (appendix 4) with a thorough analysis of the economic situation of women and men. The appendix reports the distribution of both paid and unpaid work. It presents the distribution of working hours, wage income, income from public transfer systems and income from capital. The appendix shows that while income from these sources is unevenly distributed between women and men, the public transfer systems go some way towards levelling out income differences. Womens wages amount to 63 per cent of mens wages. When all income sources are taken into account, womens income rises to 76 per cent of mens income.

## Investments in growth

In this year's Budget Bill, the focus is on investments to increase growth. Increased growth is necessary to achieve the employment target, which in turn is essential for welfare provision.

- Improvements will be made in the core components of welfare provision health care, schools and social services. Temporary employment support to municipalities and county councils will therefore be boosted by an additional SEK 400 million during 2004. In all, this type of support will be worth SEK 4.7 billion to local government budgets. This resource will be made permanent from 2005.
- Tax will be reduced by a total of SEK 1 billion for small and medium sized enterprises by easing the 3:12 rules.
- Investments in infrastructure are a key factor in increasing growth in the coming years. The Government will return to the determination of the final appropriation levels for 2005 and 2006 in the 2004 Spring Budget Bill or in the Budget Bill for 2005 at the latest.
- The National Road Administration will be allowed to postpone amortisation payments in 2004. This will release funds totalling SEK 666 million for use in extra road investments.
- The Swedish Agency for Innovation Systems will receive an additional SEK 100 million for applied industrial research in the field of IT and telecommunications.
- A centre for environment-driven business development will be set up under the Swedish Business Development Agency.
- Support to municipalities for the expansion of broadband provision will be increased by SEK 250 million per year in 2004 and 2005.
- Increased support for basic research (the Swedish Research Council), SEK 25 million.
- A Validation Delegation will be set up, receiving SEK 15 million per year, 2004-2007.
- Payroll taxes will be reduced by SEK 640 million (as part of the green tax shift).

The Government is preparing a number of proposals aimed at facilitating the establishment of more and growing companies.

- Increased supply of seed capital.
- Increased proportion of research-related companies. The Government intends to deepen its dialogue with the parties concerned in order to increase the proportion of research-related companies. Particular emphasis will be placed on areas in which Sweden is competitive.
- More effective action at regional level to promote company development.
- Broad action programme to simplify the situation of small enterprises. Organisations representing business will be invited to take part in efforts to design a method of measuring the administrative burden on companies.
- SEK 20 million to the Swedish Industrial Design Foundation. The funds are to be used in preparations for the Design Year 2005 and for projects to help companies develop their design work.
- Shorter processing times for environmental assessments. The Committee on the Swedish Environmental Code has been instructed in supplementary terms of reference to simplify environmental assessments and make them more efficient without setting aside health and environment protection requirements.

## Action for increased employment and better welfare

Efforts to reach the employment target are continuing. The Government is now proposing additional measures that are designed to have a favourable effect on employment.

- Better Swedish language courses for immigrants. The Government will commission the National Agency for School Improvement to provide targeted professional development for teachers of Swedish for immigrants.
- Better governance of labour market policy. Rules must be applied uniformly throughout the country, for the sake of fairness. The Government intends to improve governance by clarifying programme goals and amending the regulations.
- Inventory of benefits under occupational agreements to analyse the impact of these benefits on the

supply of labour among older people.

- Shorter further education programmes for assistant nurses who want to become nurses.

#### Action to reduce ill health

Long-term sick leave is still rising. There are now some 135 000 people who have been on sick leave for more than a year and in addition some 492 000 people are in receipt of sickness and activity compensation. The Government, the Left Party and the Green Party agree that both sickness absence and the costs of ill health must be reduced in order to achieve high employment levels in the long term. A number of new measures will therefore now be taken.

- Economic drivers for employers to reduce ill health will be reinforced. A system based on economic drivers to reduce ill health will be introduced no later than in 2004. When this system and other action have brought about a reduction in the costs of ill health, it will be possible to return sickness benefits to the former level of compensation.
- The administration of social insurance. The Government considers that the work on altering the organisation of social insurance is a very important means of increasing the effectiveness of efforts to reduce ill health and achieving the national target of halving sickness absence by 2008.
- Increased responsibility for the individual to help bring about a return to work, as well as action to combat fraud and abuse. A task force will be set up in the Government Offices to establish a basis for possible action to tighten up regulations and how they are applied. The Government will present proposals on this issue in the 2004 Spring Fiscal Policy Bill.
- Responsibility for work injury insurance. The Government will raise this issue with the social partners to see if the necessary conditions exist for an agreement to transfer this insurance to them.
- Sickness compensation for a maximum of three years at a time. The Government will obtain the views of the social partners on how this issue should be resolved and will then present proposals to the Riksdag.
- Better support for and checks on people with sickness compensation. Over time everyone receiving sickness and activity compensation should have their ability to work reassessed and should be offered support.

#### Reforms to promote justice and security

A number of important reforms are being implemented both this year and next. These reforms will give more teachers in schools, improved study grants, universal pre-school and more money for health and social services. In addition, investments are being made in the environment and infrastructure, housing construction and the judicial system, and more funds are being provided for international development assistance.

#### Investments in schools and pre-schools

On 1 January this year universal pre-school was introduced for all children aged four or five. This means all children are entitled to the equivalent of three hours of pre-school per day, free of charge. Special resources totalling SEK 500 million will continue to be provided to assure the quality of this service.

Parental insurance will be enhanced this year and next. The one-month extension of parental insurance takes effect this year. This year the basic level of benefits in parental insurance has been increased to SEK 150 per day. A further increase to SEK 180 per day is proposed for 2004. When the economic situation allows, the Government intends to move ahead and further enhance the parental insurance system by raising the ceiling for qualifying income in the system.

The upper secondary study grant has been extended from 9 to 10 months of the year. This will mean an extra SEK 950 per year for families with a teenager at upper secondary school.

#### Health care and social services

Temporary employment support was introduced for 2002 to strengthen the position of municipalities and county councils in the short term. The support was extended and increased to SEK 300 million in 2003. As the financial situation of municipalities and county councils remains hard pressed, the support has also been extended to 2004. The sum of SEK 200 that all income-earners pay in state tax will again be allocated to municipalities and county councils in



2004. In addition, it is proposed that municipalities receive an additional SEK 400 million in 2004. These changes will strengthen municipal and county council budgets by a total of SEK 4.7 billion in 2004.

Improvements will be made in the core components of welfare provision health care, schools and social services. The temporary reinforcement of municipal and county council finances amounting to SEK 4.7 billion will be made permanent from 2005.

Between 2002 and 2004, SEK 3.6 billion is being invested in action to reduce waiting times in the health service.

#### The elderly

Pensions have been raised by between SEK 300 and SEK 600 a month for people on the lowest pensions. Improved support for dental care of the elderly has been introduced. This support includes a cost ceiling for prosthetic treatment. A new form of maintenance support for elderly persons has been brought in to guarantee everyone in Sweden over the age of 65 a reasonable standard of living. This reduces the need of social assistance for elderly people. Any shortcomings in eldercare must be identified and remedied quickly. The county administrative boards and the National Board of Health and Welfare have been given funds to hire about 100 safety representatives for elderly people.

#### More security in everyday life

In recent years the Government has made the biggest investments in the judicial system in modern times. The Government is following through on this investment now and the legal system will receive an additional SEK 550 million, which will mean about SEK 1 billion more in 2004 than in 2003. The police organisation will receive SEK 225 million, the prison and probation service will receive SEK 150 million to deal with the increased need for places, the court system will receive SEK 50 million and legal aid SEK 100 million. SEK 25 million will go to other government agencies in the area.

#### Education for equality and security

The Government is carrying through a vigorous initiative for enhanced quality in schools. To enable them to hire more teachers and other specialists, municipalities will receive an additional SEK 1 billion per year for five years until the level of SEK 5 billion is reached, for schools development in disadvantaged areas. A law against discrimination and sexual harassment in schools will be drafted.

A delegation will be appointed to work for four years to secure equal standards throughout the country, high quality and respect for legal rights in the validation of students knowledge. A new IT portal will provide relevant information for individual teachers and advisers. Grants for short terms of study will be increased by SEK 25 million.

The number of places in teacher and nurse education will continue to rise. Work to combat skewed recruitment to higher education will continue.

Investments in basic research and training in research will be carried through. During the period 2000-2005 the Government will allocate an additional SEK 1.7 billion to research and training in research. To make better use of research results it is important to strengthen both free basic research and needs-driven research, as well as links to society at large.

#### Housing

The Government has set up a special company that can take over vacant apartments from municipal housing companies in municipalities experiencing out-migration or that can also put up risk capital for development projects.

Municipalities in growth regions can obtain time-limited investment incentives to increase the production of small rental apartments and student housing. This support expires in 2006. It is proposed that the National Housing Credit Guarantee Board be given increased powers to use state credit guarantees to ease the supply of capital for housing construction.

#### Social policy

Implementation of the action plan on drug policy is continuing. It is intended to reduce the availability of drugs, to reduce new recruitment to drug misuse and to induce more misusers to stop misusing drugs.

An initiative for the care of drug misusers called Contract for life will begin to operate during 2004. The emphasis will be on increased measures to help the heavy misusers who are at greatest risk.

Implementation of the action plan on alcohol policy is continuing. Additional resources are being allocated to broad information activities and to strengthening and expanding local preventive work. During this term of office the Government intends to take initiatives to further limit the harmful effects of tobacco and to take action to combat the increase in overweight.

#### Regional development/infrastructure

Extensive investments will be made in infrastructure in the coming years. In 2004 investments will increase by some SEK 3 billion compared with 2003. The tax equalisation system will be developed to generate growth and to favour a fair distribution of national resources. Regional growth programmes will be prepared and implemented in agreement and dialogue between different stakeholders.

#### Shorter working hours and sabbatical years

The question of pilot schemes for shorter working hours and sabbatical years forms part of the 121-point programme and requires careful planning and preparation.

The competent authorities will be commissioned to plan pilots for shorter working hours with the aim of starting up in 2004,

To enable implementation of the sabbatical year throughout the county from 1 January 2005, the competent authorities must commence planning and preparatory work for this now.

#### Fair taxes

During the coming year, taxation policy will focus on four areas: globalisation, small enterprises, the green tax shift and various measures to combat tax evasion.

#### Small enterprises

SEK 1 billion is being set aside for a two-stage reform of the 3:12 regulations. From income year 2004 the interest rate used as divisor in calculating return on capital will be increased by two percentage points. A second stage will contain additional proposals that will apply from income year 2005. The main thrust is to make conditions for small enterprises more favourable. Later this autumn a change in gift taxation at generation shifts will be implemented.

Last year the Committee for Simplification of Taxation Rules for Small Enterprises presented its final report, which proposed a reform of tax regulations for partnerships. The report has been circulated for comment and the Government will take a position on the Committees proposal in conjunction with the continuing work on tax regulations for small enterprises.

#### Green tax shift

In the 2000 Spring Fiscal Policy Bill, the Government stated that the overall goal for the green tax shift in the period 2001-2010 is SEK 30 billion. So far a tax shift of more than SEK 8 billion has been implemented.

EC legislation is of material significance in this area and both the provisions of the coming energy tax directive and the EU Treatys provisions on state subsidies must be observed. A first step in a reform along EU lines is the proposal in the Budget Bill for 2004 that the present zero rate of tax on electricity used in industry be abolished and replaced from 1 July 2004 by the tax level (SEK 0.005/kWh) corresponding to the minimum level in the coming energy tax directive.

The Government is proposing a green tax shift of SEK 2 billion for 2004. The shift includes the following energy and environment tax components:

- Higher carbon dioxide tax for households and the service sector, up 18 per cent.
- Higher electricity tax for households and the service sector, up SEK 0.01/kWh.
- Higher electricity tax for manufacturing industry from 1 July 2004, up SEK 0.005/kWh. A system of long-term agreements with energy-intensive industry will be introduced at the same time.

- Higher tax on diesel, up SEK 0.10 per litre
- Higher tax on pesticides, up SEK 10/kg, active ingredient.

These tax increases will be offset for 2004 by the following tax reductions for individuals and companies.

- reduction of state income tax for all individuals with income from work, down SEK 200 per year
- Reduced payroll tax, down 0.12 percentage points
- Biofuels given full exemption from excise duty
- To ensure the competitiveness of alternative fuels carbon dioxide-neutral fuels should be exempt from both carbon dioxide tax and energy tax.

In order to facilitate energy-efficient electricity and heat production in thermal power stations and to ensure the competitiveness of biofuels, the following previously presented proposals will be implemented: higher tax deductions for fuels used in heat production, tax deductions tied to fuel consumption rates and the abolition of the deduction for energy tax purposes for some electricity in thermal power plants.

#### Other tax proposals

Later this autumn the Government will propose that inheritance tax between spouses be abolished from 1 January 2004.

To make improvements for low and medium wage earners the Government will propose a limit rule for real estate tax later this autumn. The new rule will apply to everyone who is covered at present by the limit rule for real estate tax and who pays wealth tax attributable to the value of a one- or two-family home that is their permanent residence. These new rules are intended to apply from income year 2003.

The Government is going to follow up the proposal of the Property Tax Committee for a moderating rule for real estate tax. The previously announced tax reduction for environment investments has been processed and a proposal will be presented during the autumn of 2003.

Sweden's exemption from the general EC regulations for the private import of alcohol and tobacco will end on 1 January 2004. The Government intends to keep a close watch on the development of cross-border trade and illegal trade. Adopted and planned tax reductions in Denmark and Finland will be taken into account in assessing Swedish tax adjustments, as will other changes in our immediate neighbourhood. The role of the Swedish Alcohol Retailing Monopoly in alcohol policy must not be weakened.

To achieve a responsible financing of the green tax shift that has the correct distribution policy profile, a limited amendment should be made to the rules governing the charging of state tax on income from work.

The Government proposes that an upward adjustment of one percentage point should be made, over and above the change in the consumer price index, when the tax thresholds in the state tax schedule are fixed for 2004.

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## **PRESS RELEASE**

2003-09-22

Ministry of Finance

# Sweden's Economy

Sweden's gross domestic product (GDP) is forecast to increase by 1.4 per cent this year and 2.0 per cent next year. Open unemployment is expected to be 4.7 per cent in both years. General government net lending is estimated to amount to 0.2 per cent of GDP this year and 0.4 per cent next year.

## Developments 2003/2004

Economic growth in the euro area has been weak so far this year, with reduced competitiveness and falling investment as contributing factors. However, there is much to suggest that the US economy is in a recovery phase. Improved profitability in the business sector and a continued expansive monetary policy will help boost growth in the United States. The rest of the world will therefore encounter increased demand next year, resulting in the strengthening of the global economy. Last year and at the beginning of this year, growth in the Swedish economy held up well relative to the weak growth of the rest of Europe. This year a strong wealth position and low interest rates have contributed to household consumption growing at a good rate. The same factors will continue to boost demand. The dampening of GDP growth that has nevertheless been seen can be explained largely by reduced investment in the business sector. Given recent years' adjustment of the capital stock and the recovery in economic activity, business sector investment is forecast to grow again next year.

Export orders have been weak in recent months, which is in part a reflection of the economic situation in the euro area. There is therefore a great deal to suggest slower growth in exports during the second half of the year. An improved international economic climate will boost demand for Swedish export commodities next year.

Employment has been largely unchanged over the last three years. Open unemployment has risen gradually since mid-2002 due to a growing supply of labour. The situation in the labour market is expected to remain relatively stable. Open unemployment is forecast to be 4.7 per cent both this year and next. Given that the working-age population is growing faster than employment, the regular employment rate will fall from 77.7 per cent in 2003 to 77.3 per cent in 2004.

The slowdown in GDP growth in recent years has resulted in decreased inflationary pressure. The wage growth has fallen and productivity growth has been high. If fluctuations in energy prices are excluded, inflation has fallen more or less continuously since the beginning of 2002. As it is anticipated that there will still be available resources in the economy next year, inflation (UND1X) is forecast to be below the Riksbank's target of 2 per cent at the end of 2004. The Riksbank is therefore expected to lower its repo rate to 2.50 per cent in 2003. Next year the Riksbank is

expected to raise its repo rate so that it ends the year at 3.25 per cent.

#### Medium-term estimates 2005-2006

Medium-term estimates are being presented besides the economic forecast for 2003 and 2004. Over this time frame it is difficult to predict the business cycle. Instead the estimates are based on the assessment that resource utilisation in the economy will be below normal at the end of 2004.

Growth in 2005 and 2006 may therefore be above the long-term rate. GDP is estimated to grow by 2.6 per cent in 2005 and 2.5 per cent in 2006. Open unemployment will fall to 4.0 per cent in 2006 and the regular employment rate in 2006 will be 77.5 per cent.

#### Public finances

In 2002 general government net lending amounted to 1.1 per cent of GDP. In 2003 net lending is forecast to decrease to 0.2 per cent of GDP. Income will fall as a proportion of GDP while expenditure will increase. Net lending is forecast to rise to 0.4 per cent of GDP in 2004.

The estimated effects of decisions and proposals published to date mean that expenditure will fall as a proportion of GDP in 2005 and 2006. Net lending will therefore rise to 1.2 per cent of GDP in 2005 and 1.6 per cent in 2006. The positive saving means that net debt will decrease. Central government debt and consolidated gross debt will continue to fall as a proportion of GDP, cf. Table 4.

Net lending in 2004 will be allocated between the three components of the general government sector such that central government will generate a deficit of SEK 40 billion while the old-age pension system will generate a surplus of SEK 54 billion. The central government deficit is expected to decrease during the forecast period while the pension system's surplus will increase somewhat. Local government is expected to generate deficits in 2004-2006 after running a surplus in 2003. These deficits are believed to be commensurate with a positive outcome as defined in the balanced budget requirement for municipalities and county councils.

Table 5 also shows net lending with taxes accrued to the income year to which they relate. Statistics Sweden has decided that in future it will report net lending with fully accrued taxes. As can be seen from the table, the accrual of taxes had a major impact on net lending in 2000-2002. Relatively small accrual effects are anticipated during the forecast period.

If accrued net lending is adjusted for the business cycle and other temporary factors, this gives a measure of underlying, or structural, net lending. Structural net lending fell from 4.1 per cent of GDP in 2000 to 0.6 per cent in 2002, which can be attributed primarily to tax cuts and other reforms. Structural net lending will rise to 1.2 per cent of GDP in 2003 and hold at this level in 2004. It will then improve further, reaching 2 per cent of GDP in 2006.

For a more detailed presentation of the macroeconomic forecasts and public finances, see Appendix 2 to the Budget Bill, "Sweden's Economy".

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## **PRESS RELEASE**

2003-04-15

Ministry of Finance

# Swedens Economy

Sweden's gross domestic product (GDP) is expected to increase by 1.4 per cent this year and 2.4 per cent next year. The weak international economy holds back Swedish exports this year. Excess capacity in parts of the business sector will lead to decreased investment. As a consequence of the moderate GDP growth, unemployment will rise somewhat this year. Next year both international and domestic demand will pick up. The stronger economy will lead to a fall in open unemployment. General government net lending is estimated to amount to 0.4 per cent of GDP this year and 1.0 per cent next year.

## International developments

The security policy situation resulting from the Iraq crisis has held back the global economy. The forecast is based on the assumption that uncertainty about the global political situation will subside but that some uncertainty will remain. As the uncertainty abates, it is predicted that firms will be more willing to invest and household consumption will strengthen globally. An expansive monetary policy in several countries will assuage the negative effects of the Iraq crisis. In the United States, GDP will grow by 2.6 per cent this year and 3.8 per cent next year. In the EU, an export-driven recovery is expected to lead to GDP growth of 1.3 per cent this year and 2.2 per cent next year. The underlying problems in the Japanese economy remain and so GDP growth will be weak over the next few years. Overall, global GDP growth will be 3.2 per cent this year and 4.0 per cent next year.

## Developments in Sweden 20032004

The unfavourable international economic climate, combined with weak demand in a number of export industries important to Sweden, including the telecommunication equipment industry, will hamper Swedish export growth this year. However, competitiveness is good thanks to strong productivity growth in the business sector. As the global investment climate improves, demand for Swedish goods will increase. Imports of goods will grow gradually once destocking is complete and demand in the economy picks up. Nevertheless, ever higher exports will result in a growing surplus on the

balance of trade in goods and so boost GDP growth both this year and next.

Net exports of services fell sharply towards the end of last year, due in part to decreased foreign tourism in Sweden. No major recovery is anticipated this year and so the balance of trade in services will slow GDP growth by around 0.4 percentage points this year.

Despite weak growth in income, household consumption is forecast to increase by around 2 per cent per year. Household demand will be boosted by strong real wealth, continued low interest rates and a relatively stable labour market situation.

Business investment is still weak. Many industries have excess capacity, and uncertainty about global developments is undermining the willingness to invest. However, resource utilisation is rising gradually and industrial investment will increase again next year. Residential construction will grow both this year and next. General government investment will also rise, thanks in part to central government investment in infrastructure, although proposed cutbacks will dampen the upswing. Overall, investment will fall by 0.5 per cent in 2003 and rise by 2.9 per cent in 2004.

Central government consumption will decrease both this year and next, due in part to limits on defence spending. The limited financial room for manoeuvre in the local government sector will curb growth in local government consumption. General government consumption will increase by 0.5 per cent this year and 0.2 per cent next year.

Demand for labour is currently weak. Employment is forecast to decrease slightly this year and open unemployment to rise to 4.5 per cent. Next year the general economic recovery is expected to lead to an improved labour market situation. Employment will rise and open unemployment will fall to 4.3 per cent. The regular employment rate among people aged 20-64 is estimated to be 77.6 per cent in 2004.

Inflation rose sharply over the winter. The increase was due primarily to higher prices for heating oils, petrol and electricity. These prices are expected to fall gradually and so have only a temporary impact on inflation. The rate of growth in wages has slowed over the last year and inflationary pressure is expected to be low in the future. The Riksbank is expected to lower its repo rate to 2.75 per cent in 2003. Underlying inflation as measured by the UNDEX index is forecast to be slightly below 2 per cent at the end of both 2003 and 2004.

#### Medium-term estimates 2005-2006

Besides the economic forecast for the next two years, medium-term estimates are being presented. Over this time frame it is difficult to predict economic fluctuations. Instead the estimates are based on the assessment that resource utilisation in the economy will be below normal at the end of 2004. Growth in

2005 and 2006 may therefore be slightly above the long-term rate. GDP is estimated to grow by 2.6 per cent in 2005 and 2.5 per cent in 2006. The economy is assumed to reach normal resource utilisation in 2006. Open unemployment will fall to 3.8 per cent in 2006 and the regular employment rate will rise to 77.8 per cent.

### Public finances

In 2002 general government net lending amounted to SEK 25 billion or 1.1 per cent of GDP. This is a sharp decrease from 2001 when the surplus was in excess of SEK 100 billion. However, the high level of net lending in 2001 was due largely to the exceptionally high tax revenue from corporate profits and capital gains in 2000, which was reported in the National Accounts in 2001 increasing net lending by around 2 per cent of GDP. If net lending is adjusted for tax accruals and the economic climate, this gives a measure of the structural level of net lending. Structural net lending is estimated to have fallen from 4.2 per cent of GDP in 2000 to 0.8 per cent in 2002. This trend reflects an expansive fiscal policy in the reforms and tax cuts introduced during the period.

In 2003 net lending will fall to 0.4 per cent of GDP. The deterioration is due in part to the weak economy. Net lending will rise in subsequent years and is expected to exceed 2 per cent of GDP in 2006. The projected surpluses through to 2006 are believed to be commensurate with the target of an average surplus of 2 per cent of GDP over a business cycle. Structural net lending will rise from 0.8 per cent of GDP in 2002 to 2.2 per cent of GDP in 2006. The fiscal stance, measured as the change in structural net lending, is therefore expected to be tight during the forecast period.

In 2002 general government income amounted to 56.8 per cent and general government expenditure to 55.8 per cent of GDP. Income will be unchanged in 2003 as a proportion of GDP while expenditure will increase. The anticipated economic recovery will help both income and expenditure to decrease as a percentage of GDP in the period 2004-2006.

Net lending in 2003 will be allocated between the three parts of the general government sector such that central government will generate a deficit of SEK 43 billion while the old-age pension system will generate a surplus of SEK 51 billion. The central government deficit is expected to decrease during the forecast period while the pension system's surplus will increase somewhat. The local government sector is expected to generate deficits in 2004-2006 after a small surplus in 2003. These deficits are believed to be commensurate with a positive result as defined in the balanced budget requirement for municipalities and county councils.

In 2001 general government financial assets exceeded liabilities, which means that net debt was negative. Substantial reductions in the value of general government shareholdings in 2002 meant a return to positive net debt despite



continued positive saving. The forecast makes no assumptions about future changes in value with the exception of the effects of exchange rate fluctuations on central government debt. This means that net debt will move in line with net lending, and general government financial assets are expected to exceed liabilities once again in 2005.

The allocation of net lending between central government and the old-age pension system means that the improvement in financial net wealth will take the form of increased assets in the pension system. The central government deficit means that the liability side of the general government balance sheet will grow during the forecast period. However, this increase in debt is so small that central government debt and consolidated gross debt will continue to fall as a proportion of GDP.

Consolidated gross debt amounted to 52.4 per cent of GDP at the end of 2002, which is well below the EU reference level of 60 per cent of GDP.

Consolidated gross debt is forecast to be below 50 per cent of GDP at the end of 2005.

Sweden's gross domestic product (GDP) is expected to increase by 1.4 per cent this year and 2.4 per cent next year. The weak international economy holds back Swedish exports this year. Excess capacity in parts of the business sector will lead to decreased investment. As a consequence of the moderate GDP growth, unemployment will rise somewhat this year. Next year both international and domestic demand will pick up. The stronger economy will lead to a fall in open unemployment. General government net lending is estimated to amount to 0.4 per cent of GDP this year and 1.0 per cent next year.

#### International developments

The security policy situation resulting from the Iraq crisis has held back the global economy. The forecast is based on the assumption that uncertainty about the global political situation will subside but that some uncertainty will remain. As the uncertainty abates, it is predicted that firms will be more willing to invest and household consumption will strengthen globally. An expansive monetary policy in several countries will assuage the negative effects of the Iraq crisis. In the United States, GDP will grow by 2.6 per cent this year and 3.8 per cent next year. In the EU, an export-driven recovery is expected to lead to GDP growth of 1.3 per cent this year and 2.2 per cent next year. The underlying problems in the Japanese economy remain and so GDP growth will be weak over the next few years. Overall, global GDP growth will be 3.2 per cent this year and 4.0 per cent next year.

#### Developments in Sweden 2003/2004

The unfavourable international economic climate, combined with weak demand in a number of export industries important to Sweden, including the telecommunication equipment industry, will hamper Swedish export growth this year. However, competitiveness is good thanks to strong productivity growth in the business sector. As the global investment climate improves, demand for Swedish goods will increase. Imports of goods will grow gradually once destocking is complete and demand in the economy picks up. Nevertheless, ever higher exports will result in a growing surplus on the balance of trade in goods and so boost GDP growth both this year and next.

Net exports of services fell sharply towards the end of last year, due in part to decreased foreign tourism in Sweden. No major recovery is anticipated this year and so the balance of trade in services will slow GDP growth by around 0.4 percentage points this year.

Despite weak growth in income, household consumption is forecast to increase by around 2 per cent per year. Household demand will be boosted by strong real wealth, continued low interest rates and

a relatively stable labour market situation.

Business investment is still weak. Many industries have excess capacity, and uncertainty about global developments is undermining the willingness to invest. However, resource utilisation is rising gradually and industrial investment will increase again next year. Residential construction will grow both this year and next. General government investment will also rise, thanks in part to central government investment in infrastructure, although proposed cutbacks will dampen the upswing. Overall, investment will fall by 0.5 per cent in 2003 and rise by 2.9 per cent in 2004.

Central government consumption will decrease both this year and next, due in part to limits on defence spending. The limited financial room for manoeuvre in the local government sector will curb growth in local government consumption. General government consumption will increase by 0.5 per cent this year and 0.2 per cent next year.

Demand for labour is currently weak. Employment is forecast to decrease slightly this year and open unemployment to rise to 4.5 per cent. Next year the general economic recovery is expected to lead to an improved labour market situation. Employment will rise and open unemployment will fall to 4.3 per cent. The regular employment rate among people aged 20-64 is estimated to be 77.6 per cent in 2004.

Inflation rose sharply over the winter. The increase was due primarily to higher prices for heating oils, petrol and electricity. These prices are expected to fall gradually and so have only a temporary impact on inflation. The rate of growth in wages has slowed over the last year and inflationary pressure is expected to be low in the future. The Riksbank is expected to lower its repo rate to 2.75 per cent in 2003. Underlying inflation as measured by the UNDI-X index is forecast to be slightly below 2 per cent at the end of both 2003 and 2004.

#### Medium-term estimates 2005-2006

Besides the economic forecast for the next two years, medium-term estimates are being presented. Over this time frame it is difficult to predict economic fluctuations. Instead the estimates are based on the assessment that resource utilisation in the economy will be below normal at the end of 2004. Growth in 2005 and 2006 may therefore be slightly above the long-term rate. GDP is estimated to grow by 2.6 per cent in 2005 and 2.5 per cent in 2006. The economy is assumed to reach normal resource utilisation in 2006. Open unemployment will fall to 3.8 per cent in 2006 and the regular employment rate will rise to 77.8 per cent.

#### Public finances

In 2002 general government net lending amounted to SEK 25 billion or 1.1 per cent of GDP. This is a sharp decrease from 2001 when the surplus was in excess of SEK 100 billion. However, the high level of net lending in 2001 was due largely to the exceptionally high tax revenue from corporate profits and capital gains in 2000, which was reported in the National Accounts in 2001 increasing net lending by around 2 per cent of GDP. If net lending is adjusted for tax accruals and the economic climate, this gives a measure of the structural level of net lending. Structural net lending is estimated to have fallen from 4.2 per cent of GDP in 2000 to 0.8 per cent in 2002. This trend reflects an expansive fiscal policy in the reforms and tax cuts introduced during the period.

In 2003 net lending will fall to 0.4 per cent of GDP. The deterioration is due in part to the weak economy. Net lending will rise in subsequent years and is expected to exceed 2 per cent of GDP in 2006. The projected surpluses through to 2006 are believed to be commensurate with the target of an average surplus of 2 per cent of GDP over a business cycle. Structural net lending will rise from 0.8 per cent of GDP in 2002 to 2.2 per cent of GDP in 2006. The fiscal stance, measured as the change in structural net lending, is therefore expected to be tight during the forecast period.

In 2002 general government income amounted to 56.8 per cent and general government expenditure to 55.8 per cent of GDP. Income will be unchanged in 2003 as a proportion of GDP while expenditure will increase. The anticipated economic recovery will help both income and expenditure to decrease as a percentage of GDP in the period 2004-2006.

Net lending in 2003 will be allocated between the three parts of the general government sector such that central government will generate a deficit of SEK 43 billion while the old-age pension system will generate a surplus of SEK 51 billion. The central government deficit is expected to decrease during the forecast period while the pension system's surplus will increase somewhat. The local government sector is expected to generate deficits in 2004-2006 after a small surplus in 2003. These deficits are believed to be commensurate with a positive result as defined in the balanced budget requirement for municipalities and county councils.

In 2001 general government financial assets exceeded liabilities, which means that net debt was negative. Substantial reductions in the value of general government shareholdings in 2002 meant a return to positive net debt despite continued positive saving. The forecast makes no assumptions about future changes in value with the exception of the effects of exchange rate fluctuations on central government debt. This means that net debt will move in line with net lending, and general government financial assets are expected to exceed liabilities once again in 2005.

The allocation of net lending between central government and the old-age pension system means that the improvement in financial net wealth will take the form of increased assets in the pension system. The central government deficit means that the liability side of the general government balance sheet will grow during the forecast period. However, this increase in debt is so small that central government debt and consolidated gross debt will continue to fall as a proportion of GDP.

Consolidated gross debt amounted to 52.4 per cent of GDP at the end of 2002, which is well below the EU reference level of 60 per cent of GDP. Consolidated gross debt is forecast to be below 50 per cent of GDP at the end of 2005.

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**PRESS RELEASE**

2003-04-15

Ministry of Finance

## Spring Fiscal Policy Bill: responsible policies for unsettled times

Sweden is affected by the international economic downturn. Economic growth is forecast to be just 1.4 per cent this year, rising to 2.4 per cent in 2004. The surplus in the public finances will decline to 0.4 per cent of the Gross Domestic Product (GDP) in 2003. In 2004 an increase to 1.0 per cent is expected.

Nevertheless, government saving remains in line with the target of an average 2 per cent surplus over the business cycle.

As in previous years, central government spending will be kept below the approved expenditure ceilings. Expenditure ceilings for 2005 and 2006 will be proposed in the Budget Bill for 2004.

The weak economic trend is expected to have adverse consequences for the labour market. Open unemployment is forecast to rise this year to 4.5 per cent. Next year it is expected to fall back to 4.3 per cent.

The Government has set a target that the proportion of people aged 20-64 in regular employment should go up from 73.9 per cent in 1997 to 80 per cent in 2004. Despite the favourable trend in the early part of this period, the chances of reaching the employment target in 2004 have lessened. The reasons for this include the international economic downturn and the increased supply of labour. The proportion of the population aged 20-64 in regular employment is estimated to approach 78 per cent in 2003 and 2004. Even so, the employment rate in Sweden is among the highest in the EU.

Further details on the Swedish economy are reported in tables 1 and 2.

### Full employment top of the agenda

Full employment is at the top of the Governments agenda. A high growth rate, more and more people in work, and fewer and fewer jobless lead to enhanced social justice and increased resources and make it possible to gradually extend welfare. Efforts to reach the employment goal are continuing, with measures focusing on young people, immigrants, the unemployed, the elderly and the sick.

### Getting young people into jobs more quickly

At the beginning of the 1990s, 80 per cent of young people aged 20-24 were in work. The corresponding figure today is 60 per cent. The difference is largely due to the fact that more young people are pursuing more advanced studies, but the desire of young people to work and to combine work and studies needs to

be harnessed more adequately. The Government intends to instruct the National Agency for Higher Education to consider ways of giving students in programmes of higher education more credit for previous studies. The Agency is also to conduct impact studies of different educational programmes.

A special expert will be commissioned to review the selection rules for higher education, with a view to reducing the unnecessary repetition of courses to improve already passing upper secondary school grades. Opportunities to claim the higher student grant for courses taken to repeat and supplement upper secondary education will be restricted from 2004. The higher student grant will subsequently only be available to individuals who lack complete upper secondary grades.

**Better use must be made of immigrants skills**

In 1997-2002, the employment rate has risen more rapidly for immigrants than for people born in Sweden. In spite of this, the employment rate among Swedish residents born outside Europe is barely 54 per cent, as against 77 per cent for native Swedes aged 16-64.

A temporary government initiative will be taken to develop effective systems for validating knowledge acquired by immigrants before coming to this country, so they can be given credit for these qualifications in Sweden. Language learning and work placement schemes will be better integrated. Swedish instruction for immigrants will be reformed and regularly linked to studies in the local authority adult education system or higher education, work experience, employment or other activities.

**Priority to the long-term unemployed and long-term sick**

Recruitment subsidies will be reviewed to increase their effectiveness and ensure that those who have most difficulty in obtaining regular employment receive priority. Efficiency measures will be taken in labour market policy with a view to promoting a speedier transition from unemployment to work. A commission of inquiry will be appointed to investigate the right of the partly unemployed to full-time work. The rules for partial unemployment will be applied more consistently. A study will examine how marginal effects need to diminish so as to make it more economically rewarding to move from welfare to work.

Recruitment incentives are proposed to make it easier for people on long-term sick leave to begin to work for another employer. The Government is considering initiatives to make it easier for older people to obtain work.

**Industrial policy to support growth**

The Government has set aside funds for a national programme to promote entrepreneurship. The aim is to create a better entrepreneurial climate, foster positive attitudes towards entrepreneurial and business operations and boost entrepreneurial activity. To enhance growth, the Government is preparing a

number of proposals aimed at facilitating the establishment of more and growing companies. The idea is to boost the supply of capital at an early phase of development. The amount of information small enterprises are required to submit to authorities will be cut during this Government's term of office, as will the number of occasions involved. The Government intends to formulate measurable targets for reducing the administrative burden and to give SimpLex (the Governmental department responsible for regulatory simplification) the resources to scrutinise existing legislation. The Government wants to change the 3:12 rules to make them more favourable to entrepreneurs.

Welfare reforms for schools, health care and families with children

Despite the deterioration in the economic situation, it will be possible to carry out a range of welfare reforms in 2003 and 2004. This year there will be reforms worth some SEK 19 billion. These reforms will give higher pensions, more teachers in schools, improved study grants, universal pre-school, more international development assistance and more money for health and social services. The extension of parental insurance to 13 months will also take effect this year.

Next year reforms worth approximately SEK 10 billion are planned. The reforms will provide increased resources to health care, the schools, development assistance, justice, roads and railways, and various environmental initiatives.

A number of additional measures are being implemented in the Spring Fiscal Policy Bill targeting areas of particular priority:

Municipal and county councils will receive a further SEK 300 million in 2003 for the temporary recruitment incentives system.

Municipal and county councils will be allocated another SEK 4.3 billion in 2004, by the extension for one more year of the temporary recruitment incentives and the transfer to the municipalities of the SEK 200 that everyone pays in state income tax in 2004 as well.

The prison and probation services will receive a further SEK 200 million in 2003.

In 2003, SEK 40 million will also be invested in the metropolitan regions, one purpose being to improve job prospects for immigrants. SEK 10 million will go to special anti-discrimination initiatives. SEK 20 million will be committed to sheltered housing and other measures for girls and young women at risk. SEK 15 million will be allocated to cultural heritage preservation. SEK 5 million will go to measures to combat gambling addiction.

Increased ill health a human and economic problem

The increased sickness absence is a human problem above all. But it also has economic consequences. Since 1997, the costs for sickness absence in the form

of sickness allowances have risen from approximately SEK 15 billion to SEK 45 billion. Recently the number of days of sickness allowance claimed has begun to decline and the Government estimates that the figure will fall 9 per cent compared with 2002. The increased sickness absence has entailed suffering for individuals, difficulties for employers and a heavy burden on the social insurance systems. If the trend is not broken, important welfare initiatives will have to be sidelined.

Sickness absence has many causes and measures are therefore needed in a range of areas. The Government has set the target of halving the number of days of sick leave between 2002 and 2008 and bringing down the number of new activity and sickness allowances (which replace disability pensions and sickness benefits).

The Government initiated a major project in the autumn of 2001, when an 11-point programme against ill health was approved by the Riksdag. A number of measures have already been either implemented or proposed. In the Spring Fiscal Policy Bill the following new changes in the ill health area are now put forward:

The period during which the employer is responsible for sick pay is being extended with 7 to 21 days. At the same time a cost limiting mechanism is being brought in which will mean that enterprises with less than about 25 employees should not end up with excessively high costs for sick pay.

The level of compensation in sickness insurance will be lowered by making a 3 per cent reduction in the income on which sickness allowances are payable (qualifying income).

The initial no-benefit day will apply equally to all, irrespective of the timing of sickness notification.

Sickness allowances for the unemployed will be adjusted so as to prevent them being higher than unemployment benefits.

Recruitment incentives are being introduced for people on long-term sick leave who find work with another employer.

The Government intends to present additional measures in the Budget Bill for 2004, among them stronger economic incentives for employers from 1 January 2004, enhanced preventive efforts, a proposal for the review of sickness allowances (formerly disability pensions) every third year, and increased responsibility for individuals on sick leave to participate in breaking out of sick leave and to assist in rehabilitation.

Spending cuts and postponed expenditures

In order to keep to the given economic framework, a number of additional expenditure cuts and postponements of expenditures are proposed in the Spring Fiscal Policy Bill. All the spending cuts are shown in table 4.

The ceiling in the sickness and parental insurance systems will not be raised from SEK 24 000 to SEK 32 000 until later in this term of office.

The contact days for which a temporary parents allowance can be claimed will be discontinued from 1 July 2003. Contact days give parents the right to claim a temporary parents allowance one day per child each year in connection with visits to the child's school or after school centre.

The ceiling in the system of maximum charges for child care will be raised by SEK 120 to SEK 1260. It is only the highest charges that will go up, not the percentage of parents income. Hence, it will still be the case that the parents will pay a maximum of 3 per cent of their income for the first child's care. Households earning less than SEK 38 000 per month will therefore not be affected.

Purchases of defence equipment for approximately SEK 1 billion in 2003 and nearly SEK 400 million in 2004 will be postponed.

Road and railway investments worth SEK 0.5 billion in 2003 and SEK 1 billion in 2004 will be postponed.

As previously decided, international development assistance will be raised by SEK 2.2 billion in 2003 and SEK 2.4 billion in 2004. In addition, development assistance will rise an extra more than SEK 500 million in 2004 due to a change in forecast GNI. However, payments worth SEK 400 million will be postponed this year.

Expenditure restrictions totalling some SEK 240 million will be introduced for climate investment programmes and the appropriation for land decontamination. These appropriations will also be reduced in 2003 and 2004.

The reform giving free entry to museums will be postponed until 1 January 2005. This will reduce costs by approximately SEK 90 million in 2004.

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## **PRESS RELEASE**

2002-11-29

Ministry of Finance

The Tax Base Commission, Sweden

# The Tax Base Commission presents proposals for a #new tax reform#

The Tax Base Commission presented the report *Our Taxes?* (SOU 2002:47) to Bosse Ringholm, Minister for Finance, today. The Commission's main task is to present an overall assessment of how the Swedish tax structure should be designed in a globalized world.

According to the Tax Base Commission, there is every prospect of continuing to use taxes to finance a functioning welfare society that meets the same standards as today. However, this will only be possible if Sweden maintains and develops the tax system, as it has done in the past. Sweden faces a long-term demographic trend in which an increasing proportion of the population will have to be supported by a shrinking workforce. Sweden is not the only country in this situation; indeed the situation is similar in most European countries.

The tax system makes a great impact on the labour supply and the effectiveness of production, and these considerations should therefore be the main focus of attention when it comes to designing today's and tomorrow's taxes. Taxes must not distort the economic incentives for households' consumption decisions and enterprises' decisions concerning production. The lowest possible marginal tax rates can be achieved by making the tax base as broad as possible and avoiding reductions and tax exemptions wherever possible.

The total tax shortfall corresponds to about 4 per cent of GDP, or 8 per cent of tax revenue.

Two-thirds of this is attributable to the #black# sector, i.e. revenue not declared by companies and illicit work. One-third of the shortfall is due to various international transactions. The latter #new# tax shortfall, in particular, is likely to increase.

The Commission concludes that most of the increase in problems due to international factors is caused by enterprises transferring production to other countries, by cross-border shopping and by tax reductions required under international rules.

The Commission's proposals

Having reviewed all aspects of taxation the Commission presents a large number of proposals, some of which are quite radical. Some of the more important proposals are presented below.

A committee consisting of representatives of the parliamentary parties should review the capital tax sector. The main aims should be to achieve a tax system that is more rational in economic terms, more robust and more equitable by broadening tax bases, reducing marginal tax rates and simplifying certain features. A #new tax reform# should include the following changes:

- Abolishing inheritance and gift tax for tax class I (husband, wife and descendants).
- Broadening the wealth tax base to include all significant assets and substantially reducing the tax rate. If this gives rise to insoluble problems, the wealth tax should be abolished altogether.
- Raising the benefit levels under the unemployment, sickness and parental insurance systems.
- Anticipating future reductions of corporate tax in more and more EU countries, Sweden should prepare to reduce this tax to 25 per cent.

A general condition must be not to weaken vertical income distribution. High-income wage earners will have to pay for their own tax reductions.

Consequently, these and any other changes should be financed by abolishing tax deductions for pension premium payments and reductions in employer's contributions and by abolishing accrual funds.

Eventually, Sweden should prepare to reduce the gap between the VAT rates in Sweden and the minimum EU level. Probably, it will only be possible to reduce the general rate, say to 22 per cent, by making the VAT rates more uniform, i.e. abolishing the lower rates for specific sectors. In the long run, 20 per cent is a reasonable VAT rate.

Sweden should also actively propose that the EU allow member states to levy a special VAT rate on e-commerce and similar services, in which case the minimum rate should be 15 per cent. This should apply to all sectors that are exposed to international competition in which the EU applies the country of origin principle.

In 2004, when Sweden will have to start applying the EU's high alcohol and tobacco quotas in full, this will lead to loss of tax revenue. Sweden should therefore reduce its selective taxes to levels that are closer to the EU average. This would also be fairer to different groups of consumers and curb illegal activities in this area.

#### International efforts

Sweden should pursue a harmonization of the definitions of tax bases and minimum EU levels as regards the most rapidly changing tax bases. To achieve this aim, some member states would have to give up their veto in certain areas.

In the case of the more slow-moving tax bases, in particular household earnings and enterprises' wage costs, the EU should adopt the opposite strategy. Here, every effort should be made to defend and facilitate the member states' opportunities for maintaining different tax levels.

#### Effective and efficient administration

Sweden's tax administration is effective and resource-efficient by international comparison. Nevertheless, we consider it necessary to increase the appropriation to the tax administration authorities by 2 per cent for the implementation of measures in two areas:

- international cooperation on information exchange and controls;
- information with a view to raising public awareness about taxes and what they are used for.

An unprejudiced review should be made of the hearing of tax cases with a view to enhancing competence and simplifying the administrative structure. A realistic objective should be to ensure that the administrative courts can conclude all tax cases within two years.

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**PRESS RELEASE**

2002-11-19

Ministry of Finance

## Report on economic reform submitted to the EU

Sweden has today submitted this year's National Report on Economic Reform of the Product and Capital Markets to the Economic Policy Committee in the EU. The report is a part of the co-operation on economic reform in the EU.

The report describes the reform work in Sweden to render the goods, services and capital markets more efficient. Efforts to promote the knowledge-based economy and integrate environmental concerns into economic policy are also highlighted. The report outlines measures taken and the economic consequences of the reforms. A few examples of reforms described in the report are the improved legislation for fighting cartels, the improvements in public procurement and the strengthened legislation for financial markets.

From an international perspective Sweden has progressed well with work on economic reforms. It concerns for example electricity, telecom and transport, as well as investments in education and research and integrating environmental considerations into economic policy. The reforms have on the whole generated positive effects on the economy and for consumers.

But there are also areas that can be improved, for example the competitive situation in the markets for food trade and construction. The price level in Sweden is still higher than the EU average and the regional price difference for certain products is significant.

Economic reform is a central part of the work to attain the EU goal of becoming the most dynamic and competitive economy in the world by 2010. This goal was set at the European Council in Lisbon in the year 2000. Work to achieve the objective is therefore called the Lisbon strategy. The co-operation on economic reform in the EU is an important instrument to pursue reforms in the EU and reach the Lisbon objective.

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**PRESS RELEASE**

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Ministry of Finance

# The Budget for 2003: Welfare Reforms, Jobs and Health

The outlook for the Swedish economy is good despite the international downturn. The promises that have been made can be kept. The expenditure ceilings will be met. The gross domestic product (GDP) is forecast to rise by 2.1 per cent this year and 2.5 per cent next year.

Open unemployment is expected to reach 3.9 per cent this year, with a further fall to 3.8 per cent next year. The employment rate is forecast to be 78 per cent next year. The Government's target is that 80 per cent of the population aged 20-64 shall be employed on the regular labour market in 2004. Additional measures will be proposed to help achieve this target.

Public finances continue to show surpluses. A surplus of 1.7 per cent of GDP is forecast this year and 1.5 per cent next year. The target is a surplus of 2 per cent of GDP on average over the business cycle. As resource utilisation in the economy is judged to be below the potential level, the surplus is considered to be in line with the target. The financial position of the public sector is steadily improving. Net debt became net wealth last year. Central government debt and consolidated gross debt are declining as a proportion of GDP.

The central government expenditure ceilings are expected to be met, just as they have been met every year since they were introduced five years ago. One of the purposes of the expenditure ceilings is to prevent temporarily higher income being used to motivate permanently higher expenditure. The growing rate of ill health is cause for concern. The Government is monitoring developments closely and intends to intervene if the expenditure ceilings come under threat.

The Budget Bill for 2003 focuses on work and growth, the fight against ill health and a number of welfare reforms. Extra resources to a total value of over SEK 19 billion will be devoted to schools, the health service, pensioners, families with children and other areas in 2003. A green tax shift worth SEK 2.6 billion will also be implemented, bringing higher taxes on environmentally harmful activities and lower taxes on labour.

In order to keep costs down in 2003, it is proposed that SEK 4 billion of area payments to farmers should be paid early, in 2002. Expenditure constraints totalling SEK 1.9 billion are also proposed, in areas including the defence sector and road investments. A general requirement to make economies of 0.7 per cent is being imposed on most central government authorities.

## Work and growth

The Government's overall objective is full employment. Government programmes to promote growth and jobs build on a foundation made up of stable public finances, more education and research, improvements in tax legislation, increased construction of housing, investments in environmentally sound products and services and measures to ensure that Sweden continues to be an attractive country to invest in.

The Budget Bill includes the suggestion that a lowering of VAT costs for student accommodation and housing for the elderly should be tested. In addition, the Government intends to examine the possibility of implementing a similar VAT abatement for small rental apartments. Moreover, SEK 2.5 billion has been set aside at an earlier date to support rental housing construction in 2002-2006. The money available for investment grants for provision of student housing will be increased by SEK 125 million in 2003.

Efficient communications are an important ingredient in the Government's policy for growth. The Government presented an infrastructure bill in the autumn of 2001 announcing sharply higher investments SEK 364 billion in railways and roads between 2004 and 2015. A special type of support has been devised for municipalities to encourage the installation of a high-speed, high-capacity infrastructure for IT transmission in areas that are not commercially viable. This support will now be extended for an additional year.

Over SEK 350 million is being set aside for continued measures to promote more efficient energy

use in 2003. SEK 300 million is being committed to support municipal projects to reduce carbon dioxide emissions in 2003, rising to SEK 400 million in 2004.

The Government is proposing to allocate SEK 50 million for the implementation of proposals presented by the Bennet Group. This measure is conditional on other actors also being prepared to commit resources.

Special efforts are being made to enable more immigrants to find jobs. The appropriation for the Swedish National Labour Market Administration is to include special resources earmarked for extra staff whose specific role will be to strengthen the position on the labour market of people from foreign backgrounds.

The committee report proposing a reform of the Chapter 3, Section 12 regulations is still being circulated for comment. The Government wishes to reform the regulations so as to increase financial returns to people who take the risk of starting their own company and/or expanding their business. The Government also intends to introduce more generous tax rules in connection with generational changes at companies.

#### Vigorous measures to fight ill health

The Government has earlier presented an 11-point programme of measures in response to the sharp increase in the number of people on sick leave and disability pensions. This programme is now being further developed and will be followed up on a continuous basis. The cooperation of the social partners will be sought in the fight against ill health.

The Governments objective is to halve absence from working life due to sick leave between 2002 and 2008. Concurrently, the number of new cases of activity allowances and sickness benefits (early retirements) is to decline.

The Government has announced that it proposes to amend the regulations to give employers stronger economic incentives to take responsibility for working conditions and for preventive measures and rehabilitation. The principal purpose is to reduce the incidence of long-term sick leave. The aim is for a proposal to enter into force on 1 July 2003.

Everyone is to have their own personal contact at the social insurance office. The social insurance offices will receive an extra SEK 500 million per year in 2003 and 2004.

Preventive work environment efforts need to be reinforced. In 2003 SEK 45 million will be provided to the regional work safety representatives and to educational programmes for occupational health services. The supervisory function of the Swedish Work Environment Authority will also receive a boost of SEK 30 million.

Early retirement will always be subject to a time limit of three years. At the expiry of this period extension will be possible subject to a new examination. A person who has been granted early retirement but wants to test his or her capacity to work will be entitled to a dormant early retirement pension for two years instead of the present one.

Part-time sick leave shall be the first option when a person is granted sick leave. Employers are to face a more stringent obligation to provide rehabilitation documents after an employee has been on sick leave for 60 days. The responsibility of the employer to adapt the employees working duties is to be clarified.

A proposal will be put forward to introduce political and financial coordination encompassing social insurance offices, health and medical services, social services and the labour market authorities. Pending this measure, the Government proposes to allow the use of no more than five per cent of the estimated expenditure on sickness benefits for cooperation in the field of rehabilitation. This is equivalent to about SEK 2 billion.

One necessary condition for better health is prompt treatment by the health and medical services. Accordingly, additional resources are being made available to shorten queues and increase access, as presented in greater detail below.



The public sector must be an exemplary workplace. For this reason staffing ratios must increase and the working environment must improve. All employers with more than 10 employees will be required to submit health and working environment reports. Special trials are taking place at some of the major public sector employers aimed at preventing and reducing sickness absence.

#### Families with children

The final stage of the maximum childcare charges reform will be taken in 2003 when universal pre-school will be brought in for all 4-5-year-olds. This will mean that all children will have the right to attend pre-school free of charge for three hours a day.

The parental insurance system will be further reinforced. The minimum daily allowance will be raised to SEK 150 per day in 2003 and SEK 180 per day in 2004. On 1 July 2003, the ceiling on qualifying income in the sickness and parental insurance systems will be raised from 7.5 to 10 price base amounts, i.e. from SEK 24 000 to SEK 32 000. This will reduce the number of wage earners with incomes above the ceiling from about 1,2 million to about 490 000.

The upper secondary study grant will be extended from 9 to 10 months per year, giving a family with a teenager attending upper secondary school SEK 950 more per year.

#### The elderly

The new pension system that is coming in at the beginning of next year will give the pensioners with the lowest pensions about SEK 300-600 more each month. A new system of maintenance support for the elderly will be introduced in 2003 so as to guarantee all persons over the age of 65 who are resident in Sweden a certain minimum standard of living. Also in 2003, the means testing of widows pensions will be discontinued.

A total of SEK 50 million is being allocated to reinforce the supervision of elder care by introducing special safety representatives for the elderly.

#### Health and dental services

The special health care initiative already adopted by the Riksdag will be further pursued. In all, this will involve additional funds of SEK 9 billion between 2001 and 2004. These resources have been freed up mainly from the total defence. Furthermore, SEK 1.25 billion per year will be committed in 2002-2004 to reducing waiting times in the health service. In total this will mean extra resources of SEK 4.25 billion in 2003 and SEK 5.25 billion in 2004. As a step in the improvement of dental care support for the elderly, the available resources will be boosted by a further SEK 300 million in 2003.

#### More resources for schools

The school system will receive augmented resources to allow more staff to be employed. In the coming years, the level of support allocated to schools and after-school centres will be raised by SEK 1 billion per year until 2005 in an effort to put more teachers and other staff into the school system. In 2006 and subsequent years, the schools initiative will be worth SEK 5 billion.

#### Higher education will be strengthened

A special commitment is being made to strengthening higher education. The Government's long-term goal is that at least half the young people born in any year shall have embarked on university level studies by the age of 25. The expansion of higher education will have made room for nearly 100 000 more students between 1997 and 2003.

Beginning in 2003 a new system of adult study support will be brought in to replace the special education allowance. The estimated cost is SEK 2 billion per year. The support targets people over the age of 25 who have relatively little previous education, who either are or risk becoming unemployed or who have disabilities.

Central government allocations to research and postgraduate education will be raised by a total of SEK 1.5 billion between 2000 and 2004.

Higher education programmes in the humanities, social sciences, law and theology will receive an extra SEK 102 million for quality enhancement purposes, while health and social care programmes

will receive SEK 193 million to improve quality. SEK 50 million per year is being allocated in 2002 to 2004 to encourage cooperation between universities, colleges and municipalities, aimed at boosting recruitment to higher education and generating sustainable growth in the regions.

#### Global solidarity

The budget for development assistance will increase by SEK 4.8 billion between 2002 and 2004. This years Budget Bill raises development assistance from 0.74 per cent of gross national income (GNI) in 2002 to 0.81 per cent in 2003 and 0.86 per cent in 2004. Development assistance is forecast to rise from SEK 12 billion in 1998 to SEK 21 billion in 2004. The Governments ambition is to increase development assistance to 1 per cent of GNI during this term of office, the state of central government finances permitting.

SEK 155 million in 2003 and SEK 135 million in 2004 will be provided for processing of asylum applications by the Swedish Migration Board and the Aliens Appeals Board, so as to shorten the length of time applicants are kept waiting.

#### Law and order

The Government will follow through with its investment in the police force and judiciary. The police will receive SEK 170 million in 2003 and a further SEK 600 million in 2004 to finance a continued strengthening of the police force. The Swedish Prison and Probation Service will receive SEK 250 million per year in 2003 and 2004 to enable it to cope with the need for increased capacity and for other purposes. A special initiative will be undertaken to fight drugs in the prison and probation system, as part of the action plan on drugs. SEK 100 million is being set aside for this purpose during 2002-2004.

The Swedish Customs will receive additional resources SEK 15 million in 2003 and SEK 10 million in 2004 to enable it to take more effective measures against drug smuggling and other cross-border crime.

#### Support to local authorities

A large part of the welfare sector is organised by local authorities (municipalities and county councils), including schools, health care, child care and elder care. Apart from targeted support to schools and health care, local authorities will also receive some SEK 4 billion extra next year. The SEK 200 that everyone is to pay in state income tax in 2003 will be transferred to the municipalities and the county councils and the special employment support that has been given this year is to be extended so as to apply in 2003 as well. One of the intended applications of these extra resources is to help bring down long-term sick leave.

Moreover, to strengthen local authorities in areas with heavy population losses special government grants to a total value of SEK 400 million will be brought in for 2003 and 2004.

#### Taxes for environmental management the green tax shift

A continuation of the green tax shift is a key element in the Governments strategy for transforming Sweden into an ecologically sustainable society. The Budget Bill proposes a tax shift of SEK 2.6 billion in 2003. Total tax reductions and total tax increases are equal in size.

#### Tax increases

- The tax on carbon dioxide will go up by SEK 0.10 per kilogram of CO<sub>2</sub> to reach SEK 0.74 per kilogram.
- The energy tax on electricity will go up by SEK 0.021 to SEK 0.223 per kWh.
- The tax on waste will be raised by SEK 82 per tonne to SEK 370 per tonne.
- The tax on natural gravel will be increased by SEK 5 per tonne to SEK 10 per tonne.

The first two tax increases will not apply to the mining and manufacturing and transport sectors.

#### Tax reductions

- Most of those who earn between SEK 53 600 and SEK 264 200 per year will be entitled to a higher basic deduction on their income tax return. The maximum possible increase will be SEK 3 600, equivalent to tax relief of approximately SEK 1 000 per year.

Alongside the green tax shift, another tax change is to be implemented for environmental reasons. To improve the conditions for electricity and heat production at thermal power stations, it is proposed that the tax on fuels at such plants should be lowered to the same reduced tax levels as apply to mining and manufacturing. At the same time, certain rules for thermal power taxation will be changed to limit the scope for unwanted tax avoidance.

The strategy for reduced taxation of alternative motor fuels will be further pursued. This will make abatements of both energy and carbon dioxide taxes possible for special pilot projects. In addition, general exemption from carbon dioxide taxation is proposed for carbon dioxide neutral fuels. The Government is awaiting EU approval. Pending such approval, terms that are competitive but do not distort competition must be guaranteed in 2003 in order to safeguard the supply of alternative fuels.

#### Changes in regulations for bringing in alcohol

Personal allowances for bringing in alcohol from EU countries are being upped in accordance with earlier decisions. From the beginning of next year onwards, travellers will be allowed to bring in 5 litres of spirits, 6 litres of fortified wine, 52 litres of wine and 64 litres of strong beer. The allowance for strong beer is also being changed for imports from countries outside the EU, so as to reach the intra-EU level of 64 litres.

#### Higher taxes on low-priced cigarettes

For reasons of public health it is important that the price of cigarettes is not too low. Low-priced cigarettes enjoy a substantial advantage under the present tax system, in which most of the tax is determined by the retail price. The introduction of a minimum tax on cigarettes is now proposed. The proposed level of the minimum tax is 90 per cent of the tax on cigarettes in the price category for which demand is strongest. This would mean an expected price increase of about SEK 3.50 per packet for low-priced cigarettes.

#### Halving the need for social welfare allowances

The Government has set the target of halving the need for social welfare allowances between 1999 and 2004, from a level corresponding to 115 200 individuals to 57 600 individuals. A progress report on this target is presented in a special appendix to the Budget Bill. The need fell by a level corresponding to some 25 000 individuals between 1999 and 2001. This means that the target is in reach. The need for social welfare allowances has declined most in groups where the need has been high (immigrants and young people). People born in other countries accounted for 60 per cent of the reduction between 1999 and 2001.

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## **PRESS RELEASE**

2002-10-08

Ministry of Finance

# Swedens Economy 20022004

Swedens gross domestic product (GDP) is expected to increase by 2.1 per cent this year and 2.5 per cent next year. The Swedish economy performed well during the first half of 2002. The global economic recovery slowed somewhat during the summer, but is expected to strengthen again in the near future. The Swedish business sector has a good competitive position, enabling continued favourable export growth. Household consumption will continue to be stimulated in the future by rising incomes. Next year, open unemployment is expected to be 3.8 per cent. General government net lending is estimated at 1.7 per cent of GDP this year and 1.5 per cent next year. Unease on global financial markets has increased uncertainty regarding future economic developments.

### International developments

Following the recovery at the end of last year and the beginning of this year, the global economy has slowed somewhat. Substantial stock market falls and irregularities in the corporate sector in the United States have reduced household and business confidence. In the United States, the expansionary economic policy will nevertheless contribute to growth of 2.3 per cent this year and 2.7 per cent next year. In the EU, an export-driven recovery is expected to lead to growth of 1.0 per cent this year and 2.3 per cent next year. The underlying problems in the Japanese economy remain and GDP will fall this year. Overall, global GDP growth is estimated to amount to just over 2.5 per cent this year and just over 3.5 per cent next year. Uncertainty regarding the development of the global economy is considerable.

### Developments in Sweden 20022003

Exports have shown a marked increase so far this year. During the remainder of the year, exports of goods are expected to rise at a slightly slower rate. The

Swedish krona is expected to strengthen to 127 according to the TCW index at the end of 2003 and then remain at around this level in 2004. Despite the anticipated strengthening of the krona, Swedish firms are expected to remain competitive thanks to strong productivity growth. Next year, global market growth is expected to approach the historical average level and exports of goods are forecast to rise by 6.4 per cent, compared with 5.3 per cent in 2002. Good export growth combined with weak imports will contribute to foreign trade making a significant contribution to GDP growth this year. Next year, when destocking is completed, imports will rise relatively sharply and net foreign trade will dampen GDP growth somewhat.

Household consumption also developed strongly at the beginning of the year and is expected to be stimulated in the future, as previously, by high increases in disposable income and a stable real wealth position. Recent developments on the stock market may dampen the increase in consumption. Household consumption is estimated to rise by 2.0 per cent this year and 2.6 per cent next year.

Business sector investment will fall across the board this year. During the second half of the year, resource utilisation will gradually rise and business sector investment will increase again next year. Housing construction has accelerated and is expected to continue increasing at a good rate both this year and next year, while general government investment will rise, partly as a result of central government infrastructure investment. Total investment is expected to fall by 1.5 per cent this year, but to increase by 4.6 per cent next year.

General government consumption is estimated to increase by 1.7 per cent this year. Next year, central government consumption will decline, partly as a result of the proposed reduction in compensation for price and wage increases to central government authorities. Increasing tax revenues combined with the proposed grants to the local government sector mean that total general government consumption will nevertheless rise by 0.8 per cent in 2003.

The number of persons employed and open unemployment are both expected to remain at more or less the same level this year as in 2001. The anticipated economic strengthening will lead to a gradual increase in the demand for labour. This will be met, to some extent, by increasing overtime and reduced absence. Employment, measured in the number of persons, is forecast to rise by 0.2 per cent next year and open unemployment to fall to 3.8 per cent.

Since the temporary effects of last years supply problems have disappeared, inflation has declined to around 2 per cent. The anticipated reduction in import prices and the assumed dampening of the wage growth will contribute to restraining the forecast inflation. The gradually strengthening demand situation and higher trade margins are expected to have the opposite effect. Overall, consumer prices are expected to continue to increase in the future in line with

the Riksbanks inflation target of 2 per cent.

#### Public finances

In 2001, general government net lending amounted to SEK 105 billion or 4.8 per cent of GDP. The high net lending last year was partly due to the incomplete allocation of tax revenue in the National Accounts, which overall increased reported net lending by just over SEK 50 billion or 2.5 per cent of GDP. The accounting practice arises primarily as a result of variations in corporate profits and capital gains. Taxes on these are reported in the National Accounts with a one-year time lag. The exceptionally high level of tax revenue from corporate profits and capital gains in 2000 was consequently not reported in the National Accounts until 2001. Net lending is expected to fall sharply from 2001 to 2002, largely due to the substantial effect of accounting practice with tax revenue raising net lending in 2001. According to the National Accounts, net lending is expected to amount to 1.7 per cent of GDP this year, 1.5 per cent in 2003 and 1.6 per cent in 2004.

Adjusted for tax accruals, the business cycle and other temporary effects, a measure of the underlying, structural level of net lending is obtained. Structural net lending has gradually declined from 4 per cent in 2000 to 1.8 per cent in 2002. This development reflects tax cuts and other reforms, but also a sharp fall in tax revenue from corporate profits and capital gains. Structural net lending is estimated at 2.0 per cent of GDP in 2003 and 1.8 per cent in 2004, which is in line with the average surplus target of 2 per cent of GDP over the business cycle.

Tax revenue as a percentage of GDP will fall sharply between 2001 and 2002. This is partly due to tax cuts and partly to the substantial effect of accounting practice with tax revenue in 2001. The expenditure ratio, i.e. expenditure as a percentage of GDP, has fallen continuously since 1994 and was 54.4 per cent last year, which is the lowest level since 1976. The expenditure ratio is expected to rise slightly this year. In 2003, both revenue and expenditure will fall as a percentage of GDP, despite the fact that the change to a taxed guaranteed pension will raise both taxes and expenditure by 0.5 per cent of GDP. The fall in revenue and expenditure will continue in 2004.

The allocation of net lending between central government and the old-age pension system was affected in 2001 by the substantial transfer from the National Pension Funds to central government, as part of the financial phasing-in of the reformed old-age pension system. In 2002-2004, net lending in the pension system, i.e. the National Pension Funds and the premium pension system, is estimated to amount to over 2 per cent of GDP. This means that a sum in excess of the total surplus target for the whole general government sector will be used to build up the pension funds in preparation for the strain on resources expected in the future as a result of the demographic development. At the same time, central government net lending will show a deficit, while local

government net lending will be in balance.

The surpluses in the general government sector will lead to a steady improvement in the financial position. Net debt was replaced last year by a positive balance. Central government debt and consolidated gross debt will fall as a percentage of GDP.

#### Medium-term estimates and alternative scenarios

For 2004, no assessment of the business cycle situation is made. Instead, three scenarios, differing already for 2002, are presented. In the base scenario, which is based on the short-term forecast discussed above, the recovery continues in 2004, when GDP is estimated to increase by 2.5 per cent. Open unemployment is forecast to remain at 3.8 per cent and the regular employment rate among people aged 20-64 is forecast to be 78.0 per cent in 2004, i.e. below the government's target of 80 per cent.

In a high-growth scenario, wage formation in particular is assumed to function better than in the base scenario, and GDP growth can therefore be relatively high without inflation rising. In this scenario, the government's employment target is met in 2004. The effects of weaker international developments are illustrated in a low-growth scenario.

Sweden's gross domestic product (GDP) is expected to increase by 2.1 per cent this year and 2.5 per cent next year. The Swedish economy performed well during the first half of 2002. The global economic recovery slowed somewhat during the summer, but is expected to strengthen again in the near future. The Swedish business sector has a good competitive position, enabling continued favourable export growth. Household consumption will continue to be stimulated in the future by rising incomes. Next year, open unemployment is expected to be 3.8 per cent. General government net lending is estimated at 1.7 per cent of GDP this year and 1.5 per cent next year. Unease on global financial markets has increased uncertainty regarding future economic developments.

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## **PRESS RELEASE**

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Ministry of Finance

Ministry for Foreign Affairs

# Sweden makes a new contribution to Debt Relief for the Poorest Countries

Sweden today announced an additional contribution to the International Monetary Fund#s (IMF) and the World Bank#s special initiative for debt relief for the poorest countries, the so called HIPC-initiative (Heavily Indebted Poor Countries).

#This is a concrete way to support poor and highly indebted countries that have decided to come to terms with their debt problems, says Minister for Development Cooperation Jan O. Karlsson. The debt cancellations are an important step in the efforts to reach the common goal to halve poverty by 2015#, he says.

Jan O. Karlsson is in Washington D.C. this weekend to participate in the World Bank#s Annual Meeting and represent the Nordic and Baltic countries in the Development Committee meeting of the International Monetary Fund and the World Bank.

Sweden now pledges to make a further contribution, of SEK 200 million (approx. USD 21,3 million), to the HIPC Trust Fund. This contribution comes on top of the SEK 700 million (approx. USD 74,7 million) already disbursed.

#Sweden will continue to assume full responsibility for our share of the financing of the initiative, says Bosse Ringholm, Minister of Finance. #We urge others to do the same and place great importance on a reasonable burden-sharing of the costs. Disbursement of this contribution will be conditional upon similar commitment being made by major donors and creditors.#

The Swedish pledge is made in view of the upcoming IMF and the World Bank#s Annual Meetings in Washington.

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## **PRESS RELEASE**

2002-06-10

Ministry of Finance  
Tax Base Commission

# Expert reports to the Tax Base Commission

The Commission on the significance of internationalisation for Swedish tax bases and the future tax structure (Fi 2000:05) has recently presented the expert reports that have been written by a number of leading Swedish tax experts, at the request of the Commission. The expert reports are published in the form of two appendixes to the Commissions Report.

The two appendixes contain a total of 13 reports: Expert Report 1 and 2 were written by Annika Persson and Katrin Wallberg, respectively. Both are analysts at the National Tax Board (RSV). These reports contain a thorough review of tax fraud in Sweden compared to other countries, tax administration, the compliance strategy of the tax offices and assessments of the internationally-related areas of risk for the future, as well as the difficulties and opportunities relating to international monitoring. Report 3 is written by Lars Emanuelsson Korsell, Counsel at the Crime Prevention Council (BRÅ). This report deals with the risk and causes of economic crime, with emphasis on tax crime.

Report 4 is written by Leif Mutén, professor emeritus in international tax law. This report deals with the principles that have generally determined the emergence of bilateral tax treaties between countries. Expert Report 5 is written by Associate Professor Kristina Ståhl and Associate Professor Roger Persson Österman. This report provides a description of the current effect of European Community law on Swedish tax law, and what we might expect in the future. Report 6 is written by the Director of Tax Policy at the Confederation of Swedish Enterprise, Krister Andersson, and deals with the ongoing international cooperation in the tax area, especially within the EU. Report number 7 deals with cross-border e-commerce, both within and outside of the EU. This report is written by Professor Sven-Olof Lodin. Report number 8 contains a thorough review of energy taxation and its principles, and highlights how Swedish energy tax revenues are affected by internationalisation. The

author of this report is fil. dr. Karl-Axel Edin. Report 9 is written by Hans Olsson at of the Swedish Association of Local Authorities, and deals with the taxation of wages and the collection of social security contributions, as these relate to the international mobility of labour. Associate Professor Joakim Palme and fil. dr. Ola Sjöberg have co-authored Report 10, which discusses the financing of the Swedish social welfare system from the European perspective.

The last section contains three reports that deal with alternative ways of designing a tax system. Professor Sven-Olof Lodin has written about the pros and cons of the expenditure-based tax system in Report 11. Director at the Ministry of Finance, Anders Kristoffersson, discusses cash-flow taxes and other kinds of taxation in Report 12. Finally Report 13, authored by Jan Bröms, describes a proposed reformed taxation system.

The conclusions of each of the reports are those of the respective authors, and do not necessarily agree with the opinions of the Commission.

The Tax Base Commission (Fi 2000:05) was appointed in July 2000.

The general task of the Commission is to provide a comprehensive assessment of how to structure the Swedish tax system in a world with internationalised markets for goods, services and production factors, while retaining the social welfare objectives at current levels. The purpose of this work is to achieve an improved basis for future tax policy prioritisations.

The conclusions and proposals of the Commission will be presented in the Final Report, with a planned date of publication of November 2002.

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## PRESS RELEASE

2002-04-15

Ministry of Finance

# The Spring Fiscal Policy Bill: Sweden's Position is Strong Reform Policy Defies Economic Downturn

In spite of the international economic slowdown, Sweden's position remains strong. The Government is keeping the promises made. GDP is forecast to rise 1.4 per cent this year. The Government expects the international economic recovery to gather pace in the second half of the year. The growth rate is expected to climb to 2.8 per cent in 2003.

Open unemployment has been halved from 8 to 4 per cent since 1996. On the Government's assessment, there is a possibility of it rising to 4.3 per cent this year before falling back to 4 per cent the following year. However, considerable uncertainty remains.

The Government has set as its target that 80 per cent of the population aged 2064 shall be employed

on the regular labour market in 2004. Additional measures will be proposed to help achieve this target.

Public finances continue to show a surplus. The target is a surplus of 2 per cent of GDP on average over the business cycle. The surpluses in 2000 and 2001 were 3.7 and 4.8 per cent respectively. A surplus of 1.8 per cent is forecast for this year. In last autumn's budget bill, the Government stated that a surplus of less than 2.0 per cent would be acceptable in 2002 if the economic trend proved less favourable than expected. Given the sharp downward readjustment of the growth forecast, the present deviation from the target is considered to be acceptable and well in line with the overall target. A surplus of 1.8 per cent is also forecast for 2003.

Public debt has been substantially reduced during the present term of office. There is no longer any net public sector debt; instead Sweden have net assets, which this year amount to approximately SEK 50 billion. The consolidated gross debt ratio is expected to decline to 53 per cent this year. For the sake of comparison, in 1998 it was over 70 per cent, while the EU reference level is 60 per cent. The tax ratio is forecast to fall from about 53 per cent in 1998 to 50.6 per cent in 2003.

Expenditure is forecast to remain below the ceiling this year too. One of the purposes of the expenditure ceiling is to prevent temporarily higher income being used as a basis for permanently higher expenditure. The expenditure ceilings have been met every year since their introduction. However, the Government is keeping a close eye on developments and will propose new measures if the expenditure ceiling comes under threat.

#### No new expenditure ceilings

This year's spring fiscal policy bill differs from previous years since the Riksdag has decided to concentrate long-term budgetary work to a single occasion each year, in the autumn. Consequently the present bill does not contain any proposals for new expenditure ceilings. On the other hand, as in previous years, it does contain a budget statement describing the direction of the Government's economic policy, a forecast for the Swedish economy, an account of distribution policy aspects and a supplementary budget for 2002.

#### Supplementary budget for 2002 higher costs for sick leave

During the current year a number of changes are being made in estimates of Government expenditure and income, as well as some adjustments of priorities. Expenditure is expected to remain below the ceiling this year too. There is a budgeting margin of SEK 0.9 billion. The Government is keeping a close eye on developments and will propose new measures if necessary.

The Government considers that unemployment benefits should be raised in 2002. However, this issue will require further preparation. Spending on sickness benefits and rehabilitation is expected to be higher than indicated in the budget, due to a continuing rise in sickness absence. An increase of SEK 2.5 billion is therefore proposed in the relevant appropriation.

Spending on development assistance in 2002 is forecast to exceed allocated funds by about SEK 1 billion. This is due to withdrawals from reserves set aside in previous years. Migration policy is to be allocated a further SEK 680 million in all in 2002. The Swedish Migration Board's reception system will receive an additional SEK 560 million to enable it to cope with the increased influx of refugees. SEK 60 million will go to the Swedish Migration Board and SEK 20 million to the Aliens Appeals Board, with a view to reducing processing times. The Office of the Ombudsman against Ethnic Discrimination will receive an increment of SEK 2 million.

The Swedish Prison and Probation Service is being allocated a further SEK 150 million in response to the need for increased capacity. In addition, an allocation of SEK 10 million is being made to combat drug abuse in the prison and probation system.

The Adult Education Initiative will receive sufficient funds to pay for 6 000 more study places in autumn 2002 (SEK 108 million). This investment will primarily target municipalities and regions that have been affected by the cutbacks in manufacturing employment announced this winter or that have particularly weak labour markets for other reasons.

Further efforts will be made to support the restructuring of municipal housing companies in municipalities where there are vacant dwellings and large-scale out-migration. On a provisional estimate, about SEK 3 billion more will be committed over the period 2002-2004. This year SEK 240 million will be dedicated to this purpose. A special housing authority will be established to this end, beginning its operations on 1 July 2002.

A redistribution of study places and funds is proposed to achieve better utilisation of capacity in the undergraduate education system. The redistribution will enable volume to grow in 2002, with more places becoming available at Uppsala University, Lund University, Göteborg University, Stockholm University, Linköping University, Örebro University, Mälardalen University, the University College of Borås, the University of Gävle and some private education providers. The Royal Institute of Technology, Växjö University, Mid Sweden University, Blekinge Institute of Technology, Kalmar University, Dalarna University and Södertörns University College will receive lower allocations.

An additional SEK 15 million will be put into preventive measures to combat alcohol and drug abuse. To make possible the rapid building up of a new animal protection authority, the relevant appropriation will be expanded by SEK 15 million. An additional SEK 50 million is being allocated to car allowances for persons with disabilities. Women's shelters will receive a further SEK 10 million.

With a view to boosting the historically low electoral turnout among immigrant groups, the Government is making a special allocation of SEK 30 million to the parties represented in the Riksdag to enable them to provide better election information to immigrants ahead of the election this autumn. The Swedish postal service (Posten) will receive further compensation of SEK 25 million to ensure that the ambitious targets for postal voting can be maintained.

Expenditures that are now expected to be lower than budgeted include the EU membership contribution, expenditure on study support and housing allowances, and interest payments on central government debt.

Follow-up of the 11-point programme for better health in working life

The Government has presented an 11-point programme of measures in response to the sharp increase in the number of people on sick leave and disability pensions. The spring fiscal policy bill includes follow-up on this programme and the Government will present new proposals in connection with the budget bill in the autumn.

The Government intends to give employers stronger economic incentives to take responsibility for working conditions and for preventive measures and rehabilitation. The principal purpose is to reduce the incidence of extended sick leave. There is no intention of imposing higher costs on employers collectively. Employer responsibility must be designed to take into account the terms and conditions under which small enterprises operate. The situation of persons who have earlier had extended periods on sick leave or who may be regarded as being at higher risk of requiring sick leave in future must also be considered.

The agenda for the future: families with children, the elderly and the health service

A number of reforms are already on the agenda for the next term of office. The final stage of the maximum charges reform in child care will be taken in 2003 when universal pre-school access will be brought in for all 4-5-year-olds. This will mean that all children will have the right to attend pre-school free of charge for three hours a day. The parental insurance system will be further reinforced. The minimum daily allowance will be raised to SEK 150 per day in 2003 and SEK 180 per day in 2004. On 1 July 2003, the ceiling on qualifying income in the sickness and parental insurance systems will be raised from 7.5 to 10 price base amounts, the state of central government finances permitting. The upper secondary study grant will be extended from 9 to 10 months, giving a teenager attending upper secondary school SEK 950 more per year.

As a step in the improvement of dental care support for the elderly, the available resources will be

boosted by a further SEK 300 million in 2003. A new system of maintenance support for the elderly will be introduced in 2003 so as to guarantee all persons over the age of 65 who are resident in Sweden a certain minimum standard of living. Also in 2003, the means testing of widow's pensions will be discontinued.

The special health care initiative already adopted by the Riksdag will be further pursued. In all an extra injection of SEK 9 billion over the 2001-2004 period is involved resources that have been freed up mainly from the total defence. In 2002-2004, SEK 1.25 billion per year will be committed to reducing waiting times in the health service. In the near future, the Government will also inaugurate a trial scheme to facilitate recruitment of personnel for the health and social services. Recruitment incentives will be payable when unemployed people are appointed to positions in the health and social services.

On the agenda: schools and higher education

The school system will receive augmented resources to allow more staff to be employed. The additional support this year will amount to SEK 1.5 billion. The National Agency for Education estimates that the extra resources this year will be enough to employ a further 3 000 teachers and other school staff. Major investments will also be required in the next term of office. In the coming years, the level of support allocated to schools and after-school centres will be raised by SEK 1 billion per year until 2005 in an effort to put more adults into the school system. In 2006 and subsequent years, the schools initiative will be worth SEK 5 billion.

A special commitment is being made to strengthening higher education. The Government's long-term goal is that at least half the young people born in any year shall have embarked on university level studies by the age of 25. Between 1997 and 2003, the university system will add capacity for about 100 000 more students. Beginning this year, programmes in arts and humanities, the social sciences, theology and law will also receive additional resources to enhance the quality of undergraduate courses. This year's increment will be SEK 100 million, rising in 2003 to SEK 200 million.

Beginning in 2003 a new system of adult study support will be brought in to replace the special education allowance at an estimated cost of SEK 2 billion per year. The support targets people over the age of 25 who have relatively little previous education, who either are or risk becoming unemployed or who have disabilities. Central government allocations to research and postgraduate education will be raised by a total of SEK 1.5 billion between 2000 and 2004. Among other measures, over the period 2001-2003, SEK 214 million will be provided to sixteen new schools of research.

To develop lifelong learning, a system for individual continuing professional development is needed. This spring the Government has presented a system that can enter into force in 2003, which is based on saving by individuals in their own professional development savings accounts. Employers must also be encouraged to participate.

On the agenda: housing, development assistance and the police

The money available for investment grants for provision of student housing will be increased by SEK 125 million in 2003. A sum of SEK 2.5 billion has been set aside to support the building of rental accommodation in 2002-2006.

Development assistance has gone up sharply during the present term of office. It is estimated that payments in 2002 will be equivalent to 0.8 per cent of the gross national income (GNI). Development assistance is forecast to rise from SEK 12 billion in 1998 to SEK 21 billion in 2004. The Government's aspiration is to return Swedish development assistance to a level of 1 per cent of GNI when the state of central government finances permits.

Justice will receive additional resources SEK 100 million in 2003 and SEK 600 million in 2004 for a further strengthening of the police service.

A policy for full employment growth throughout the country



The Government's overall objective is full employment. The best policy for enhanced welfare is for more people to have jobs. Tax cuts for low and medium earners combined with the maximum charges reform in child care have brought lower marginal effects, which in turn stimulates the labour supply. This year's reforms and tax cuts worth about SEK 20 billion each will also help to stimulate the economy and so sustain employment levels. Moreover, the Government has proposed special support of SEK 3 billion to municipalities and county councils to enable them to bring forward new appointments this year.

An important element of the policy for growth is efficient communications. In autumn 2001 the Government presented an infrastructure bill containing substantially higher commitments SEK 364 billion to railways and roads between 2004 and 2015. A special type of support has been devised for local authorities to encourage the installation of a high-speed, high-capacity infrastructure for IT transmission in areas that are not commercially viable.

The investments in education and labour market policy will enhance competence and increase the supply of well-qualified labour. Labour market policy focuses on combating bottlenecks and intensifying efforts to help those who experience the greatest difficulty in obtaining work, such as people who have long been unemployed, people with disabilities that affect their ability to work and immigrants.

The Government has proposed more effective competition regulations to put the Swedish Competition Authority in a better position to fight cartels.

The Government has set aside funds over a three-year period for a national programme to promote entrepreneurship. The aim is to create a better climate for business, foster positive attitudes towards entrepreneurial activities and boost entrepreneurial undertakings. A national programme to promote the development of innovation systems and clusters is being established to run from 2002 to 2004. Another programme is being set up to strengthen the tourist industry. A special programme is being set up for the 2002-2004 period to increase IT use at enterprises located in category A development areas.

SEK 50 million per year is being allocated for the years 2002-2004 to encourage cooperation between universities, colleges and municipalities, aimed at boosting recruitment to higher education and generating sustainable growth in the regions.

To strengthen local authorities in areas with heavy population losses a special central government subsidy to a total value of SEK 400 million will be brought in for 2003 and 2004.

Results during this term of office:

more people in work and lower day care charges

Major reforms have been implemented during the 1998-2002 term of office while keeping to budget targets. Employment has increased and more resources have been invested in education. In 2002 it is estimated that 240 000 more people will be employed than in 1998. Between 1997 and 2003, the university system will have added capacity for about 100 000 more students. Open unemployment has been halved. In addition, there has been a sharp drop in the number of people taking part in labour market measures.

There has been a rise in employment in the school system, health care and social services. The local government sector is expected to have a balance sheet total in 2002 that is SEK 84 billion higher than in 1998. Over the same period, there will have been a rise of 40 000 in the number of people employed by municipalities and county councils.

The child allowance has been raised to SEK 950, as has the upper secondary study grant. The supplementary child allowance for additional children has gone up by a corresponding amount. A maximum charge has been introduced in child daycare and after-school care. Children are now entitled to attend pre-school even if their parents are unemployed or on parental leave. Parental insurance has been extended by an extra month of benefits for either the mother or father.

Results: higher pensions and 5 billion more to law and order

Pensions and housing allowances have gone up during this term of office. The full price base amount is now used in adjusting pensions. The housing allowance for pensioners has been put up during the present term of office from 83 per cent to 91 per cent of the cost of housing. In elder care, a ceiling on charges and minimum guaranteed income after charges have been introduced. A system is being launched on 1 July to protect against high dental care costs.

Law and order has been allocated some SEK 5 billion more during this term of office. A large proportion of these additional resources has gone to the police.

Major investments have been made to create an ecologically sustainable society. Development assistance has been put up. Conditions for students have been improved. Both the minimum level and ceiling for unemployment benefits have been raised. The work injury insurance system is being reformed.

Results: lower taxes on incomes and businesses

Tax cuts targeting low and medium earners have been implemented in the present term of office in the shape of a tax reduction equivalent to three-quarters of the personal contribution in the pensions system. Pensioners have also received a tax cut of about SEK 100 per month. Pensioners with incomes so low that they do not pay tax also share in the tax cut via a credit to their tax accounts. A tax reduction has been introduced for trade union dues, so that the dues paid by wage earners to their professional organisations are now treated in the same way as dues paid by employers to employers' organisations. For an employee in retail and wholesale trade, this can mean about SEK 100 less in taxes each month.

Real estate tax has been lowered from 1.5 to 1.0 per cent of the tax assessed value on detached and semi-detached houses and from 1.5 to 0.5 per cent on apartment buildings. At the same time, a limit rule has been introduced for real estate tax, which means that households with normal income and wealth pay no more than 5 per cent of their income in real estate tax. The wealth tax exemption has gone up from SEK 900 000 to SEK 1.5 million for single people and SEK 2 million for couples taxed jointly.

A number of business taxes have been lowered. The period for which income may be deferred by using tax allocation reserves has been lengthened from 5 to 6 years. Virtually all the special tax rules governing transactions between the company and its shareholders applying to close companies have been cancelled. A standard deduction for increased living expenses in connection with travel has been introduced for business operators so as to give equal treatment of employees and entrepreneurs. More generous deductions are now allowed in connection with conversion and alteration of business premises. The maximum allocation to tax allocation reserves has been raised by five percentage points. The standard income assessment for investment companies has been lowered from 2.0 to 1.5 per cent. VAT on passenger transport has been halved from 12 to 6 per cent. To stimulate local small-scale enterprise a regional stimulus has been introduced in category A development areas (Värmland, Dalarna and the interior parts of Norrland). In these areas, the general reduction of employers' social security contributions 5 per cent of payroll expenses up to SEK 852 000 goes up to 15 per cent.

Next year all natural persons reporting income from business activities will receive a pre-printed tax return and the same date for filing tax returns will apply to everybody. In normal cases, the penalty for late filing of tax returns is being halved from SEK 1 000 to SEK 500.

Additional steps have been taken on behalf of a green tax shift, i.e. the system whereby taxes on environmentally harmful activities are put up and taxes on labour down. In 2000/2002 the green tax shift involves about SEK 6.7 billion. A range of energy taxes have been raised while on the other hand the basic income tax deduction has been put up by about SEK 2 100, employers' social security contributions have been lowered by 0.1 per cent and funds have been set aside for individual continuing professional development, among other measures.

Distribution policy

An account of distribution policy aspects is published as an appendix to the spring fiscal policy bill.

This account shows the trend in income distribution during the 1990s. Income dispersion showed no signs of appreciable changes in the first half of the decade but grew in the second half. This widening of the spread is mainly attributable to higher capital incomes in the shape of capital gains in higher income brackets. The proportion of households with weak economies was broadly constant during the 1990s, which indicates that social safety nets have functioned well.

The account also contains an analysis of the impact of the value of subsidised public services on household economic standards. Public services help to even out both the economic standard enjoyed by individuals over their lifetime and the relative positions of households with different economic standards. Families with children and pensioners benefit, as also do women as a group.

The levelling that takes place can be illustrated by the fact that if only income from wages, business activities and capital is counted, the fifth of the Swedish population that has the highest economic standard has an income ten times as high as the income of the fifth that has the lowest standard. Adjusting for taxes, transfers and consumption of public services, the ratio falls to 2.3. Welfare policy makes a difference. Public services redistribute large sums of money. The value of individual public services used by households came to SEK 330 billion. (The analysis is based on public services child care, education, health and medical care and elder care in 1999.)

Another important factor in combating income gaps and dispersion is the fight against unemployment. The figure below shows the effect on income distribution of halving open unemployment from 8 to 4 per cent. The columns show the change in disposable income in the population, divided into fifths (quintiles), with the first column representing the quintile with the lowest economic standard and the last the quintile with the highest standard.

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## **PRESS RELEASE**

2002-04-15

Ministry of Finance

# Swedens Economy 20022004

Swedens gross domestic product (GDP) is expected to increase by 1.4 per cent this year and 2.8 per cent next year. Swedish exports were hard hit by the substantial weakening of the international economy and the global downturn in the ICT sector in 2001. The effects on the economy were dampened, however, by a highly expansionary fiscal policy. The latest statistics indicate that a recovery has now begun, both in Sweden and internationally. Despite the economic recovery and the expansionary fiscal policy, open unemployment is expected to rise slightly this year as a repercussion of the economic downturn in 2001. Next year, unemployment is once again expected to reach 4.0 per cent. General government net lending is estimated to amount to 1.8 per cent of GDP in the years 20022004.

## International developments

The downturn in the global economy last year was prolonged by the terrorist attacks in the United States, but there are now growing signs of a recovery. Confidence among households and firms has strengthened and forward-looking indicators are pointing upward. The improvement is particularly evident in the United States, where GDP growth began to recover as early as the fourth quarter of last year.

In the United States, the expansionary fiscal policy is forecast to contribute to growth of 1.8 per cent this year and almost 4 per cent next year. In the EU, an export-driven recovery is expected to lead to growth of just below 1.5 per cent this year and just over 2.5 per cent next year. The underlying problems in the Japanese economy are expected to cause GDP to fall this year. Overall, global GDP growth is estimated to amount to just over 2.5 per cent this year and around 4 per cent next year. Uncertainty regarding the development of the global economy has eased considerably compared with the situation that prevailed immediately after the events of 11 September. However, the latest developments in the Middle East, and not least the effects on the price of oil, constitute a risk factor.

## Developments in Sweden 20022003

The expected upturn in the international economy will entail a gradual strengthening of the Swedish economy and a recovery in exports. Another important factor fuelling growth in Sweden is an expansionary fiscal policy, which will cause household real disposable income to increase by almost 10 per

cent overall in the years 2001-2003.

Despite the fact that the Swedish export industry became more competitive in 2001, Swedish exports of goods declined. This is mainly due to the fact that exports of telecommunication equipment plummeted. The initially strong competitive position and the improved international economy are expected to contribute to accelerated growth in exports in the future. Exports of telecommunication equipment are gradually picking up. Overall, exports of goods are estimated to increase by 1.5 per cent this year and almost 8 per cent next year.

There was a significant fall in imports last year. This year, imports are expected to rise as exports and household consumption pick up. However, due to the low level of imports at the end of 2001, the growth rate this year is expected to be around zero. Next year, imports are estimated to increase by 8.5 per cent.

Industrial investment decreased as a result of the weak industrial activity in 2001. This year, industrial activity is expected to strengthen. Initially, the growth in demand will be met by excess capacity utilisation but towards the end of the year and during next year, an upturn in industrial investment is forecast. The rollout of third generation mobile phone networks, increased housing investment and extensive central government investment in infrastructure will contribute to investment growth in the future. Overall, investment is estimated to increase by just over 2 per cent this year and by 5 per cent in 2003.

Significant destocking took place in both trade and industry last year. It is estimated that the destocking in industry is not yet complete and will thus dampen GDP growth also this year. Next year, some voluntary stockbuilding is expected to take place, making a positive contribution to GDP growth.

The sharp growth trend in household consumption in recent years was broken last year. Strong growth in disposable income, increased confidence in the future and a good wealth position are expected to have a positive effect on developments in the future. Consumption growth is forecast at 1.7 per cent this year and almost 3 per cent next year.

The local government sector is expected to adjust its consumption to meet the balanced budget requirement. Consumption expenditure is estimated to increase by 0.7 per cent this year and 0.5 per cent in 2003.

Despite the weak economic development last year, the number of employed increased by almost 2 per cent between 2000 and 2001 and open unemployment fell to 4.0 per cent, measured as an annual average. However, both employment and unemployment showed a weak development during the year. There was also a significant drop in average hours worked. The effects of the increased activity in the economy are expected to become apparent in the labour market towards the end of this year and during next year. The number of employed is

forecast to fall by 0.4 per cent this year and to grow by the same amount next year.

Last year, hourly wages grew at a slightly higher rate than what is considered to be compatible with balanced economic development. An anticipated slower rate of wage increase combined with a reduction in the effects of temporary price increases on inflation are expected to cause inflation measured as the change in the consumer price index (CPI) to drop to around 2 per cent at the end of 2002 and to remain at this level in 2003.

#### Public finances

For the year 2001, general government net lending amounted to SEK 105 billion, or 4.8 per cent of GDP, according to the National Accounts. The high level of net lending last year was partly due to the incomplete periodization of tax revenue, which added SEK 42 billion to reported net lending. The periodization effect arises primarily as a result of variations in corporate profits and capital gains. Taxes on these are reported in the National Accounts with a one-year time lag. The exceptionally high level of tax on corporate profits and capital gains in 2000, as well as the tax on the distributed funds from the insurance company, Alecta (formerly SPP), were consequently not reported until 2001. Adjusted for the accounting practice with tax revenue, net lending last year amounted to SEK 62 billion, or 2.9 per cent of GDP. Net lending with periodized taxes better reflects the underlying trend in public finances.

Tax revenue as a percentage of GDP will fall sharply in 2002. This is partly due to the tax cuts and partly to the substantial effects of the accounting practice with tax revenue in 2001. As a percentage of GDP, expenditure has fallen continuously since 1994, and the expenditure ratio last year was 54.4 per cent, which is the lowest level since 1976. The expenditure ratio is expected to remain virtually unchanged in 2002. Net lending is estimated at SEK 41 billion, or 1.8 per cent of GDP. Taking the periodization effects into account, net lending will fall this year by SEK 27 billion to 1.6 per cent of GDP. This underlying reduction is largely equivalent to the tax reductions for the year.

In 2003, income and expenditure as a percentage of GDP will fall, despite the fact that the change to a taxed guaranteed pension will raise both tax revenue and expenditure by 0.5 per cent of GDP. Net lending is estimated at 1.8 per cent of GDP. In 2004, the reduction in income and expenditure as a percentage of GDP will continue; the estimate for net lending for that year is also 1.8 per cent of GDP.

In 2001, the allocation of net lending between central government and the old-age pension system was affected by the major transfer from the National Pension Funds to the central government, as part of the financial phasing-in of the reformed old-age pension system. For the years 2002-2004, it is estimated that net lending in the pension system, i.e. the National Pension Funds and the

premium pension system, will amount to over 2 per cent of GDP. This means that a sum in excess of the financial surplus target for the whole general government sector will be used to build up the pension funds in preparation for the strain on resources which is expected in the future as a result of the demographic development. At the same time, central government net lending will show a small deficit, while the local government sectors finances will be in balance.

The surplus in the general government sector will lead to a steady improvement in the financial position. In 2001, net debt was replaced by a positive balance. For 2002-2004, this positive balance will grow in pace with the surplus in net lending. Central government debt and the consolidated gross debt will fall as a percentage of GDP.

#### Medium-term estimates and alternative scenarios

Despite a relatively strong recovery next year, resource utilisation is expected to remain lower than normal. This means that the recovery can continue in 2004, when GDP is estimated to increase by 2.5 per cent. Open unemployment is expected to continue to fall slightly and the regular employment rate among people aged 20-64 is forecast to rise to 78 per cent.

Two alternative scenarios present the effects on economic developments of other assumptions regarding the level of resource utilisation and the functioning of the labour market and wage formation. In a high-growth scenario, the labour market functions better than in the base scenario and the government meets its employment target (80 per cent of the population in the 20-64 age group employed in the regular labour market in 2004). In a low-growth scenario, the labour market and wage formation function less well than in the base scenario and the resource situation is assumed to be considerably more strained initially, resulting in a weaker economic development.

Sweden's gross domestic product (GDP) is expected to increase by 1.4 per cent this year and 2.8 per cent next year. Swedish exports were hard hit by the substantial weakening of the international economy and the global downturn in the ICT sector in 2001. The effects on the economy were dampened, however, by a highly expansionary fiscal policy. The latest statistics indicate that a recovery has now begun, both in Sweden and internationally. Despite the economic recovery and the expansionary fiscal policy, open unemployment is expected to rise slightly this year as a repercussion of the economic downturn in 2001. Next year, unemployment is once again expected to reach 4.0 per cent. General government net lending is estimated to amount to 1.8 per cent of GDP in the years 2002-2004.

#### International developments

The downturn in the global economy last year was prolonged by the terrorist attacks in the United States, but there are now growing signs of a recovery. Confidence among households and firms has strengthened and forward-looking indicators are pointing upward. The improvement is particularly evident in the United States, where GDP growth began to recover as early as the fourth quarter of last year.

In the United States, the expansionary fiscal policy is forecast to contribute to growth of 1.8 per cent this year and almost 4 per cent next year. In the EU, an export-driven recovery is expected to lead to growth of just below 1.5 per cent this year and just over 2.5 per cent next year. The

underlying problems in the Japanese economy are expected to cause GDP to fall this year. Overall, global GDP growth is estimated to amount to just over 2.5 per cent this year and around 4 per cent next year. Uncertainty regarding the development of the global economy has eased considerably compared with the situation that prevailed immediately after the events of 11 September. However, the latest developments in the Middle East, and not least the effects on the price of oil, constitute a risk factor.

#### Developments in Sweden 2002/2003

The expected upturn in the international economy will entail a gradual strengthening of the Swedish economy and a recovery in exports. Another important factor fuelling growth in Sweden is an expansionary fiscal policy, which will cause household real disposable income to increase by almost 10 per cent overall in the years 2001/2003.

Despite the fact that the Swedish export industry became more competitive in 2001, Swedish exports of goods declined. This is mainly due to the fact that exports of telecommunication equipment plummeted. The initially strong competitive position and the improved international economy are expected to contribute to accelerated growth in exports in the future. Exports of telecommunication equipment are gradually picking up. Overall, exports of goods are estimated to increase by 1.5 per cent this year and almost 8 per cent next year.

There was a significant fall in imports last year. This year, imports are expected to rise as exports and household consumption pick up. However, due to the low level of imports at the end of 2001, the growth rate this year is expected to be around zero. Next year, imports are estimated to increase by 8.5 per cent.

Industrial investment decreased as a result of the weak industrial activity in 2001. This year, industrial activity is expected to strengthen. Initially, the growth in demand will be met by excess capacity utilisation but towards the end of the year and during next year, an upturn in industrial investment is forecast. The rollout of third generation mobile phone networks, increased housing investment and extensive central government investment in infrastructure will contribute to investment growth in the future. Overall, investment is estimated to increase by just over 2 per cent this year and by 5 per cent in 2003.

Significant destocking took place in both trade and industry last year. It is estimated that the destocking in industry is not yet complete and will thus dampen GDP growth also this year. Next year, some voluntary stockbuilding is expected to take place, making a positive contribution to GDP growth.

The sharp growth trend in household consumption in recent years was broken last year. Strong growth in disposable income, increased confidence in the future and a good wealth position are expected to have a positive effect on developments in the future. Consumption growth is forecast at 1.7 per cent this year and almost 3 per cent next year.

The local government sector is expected to adjust its consumption to meet the balanced budget requirement. Consumption expenditure is estimated to increase by 0.7 per cent this year and 0.5 per cent in 2003.

Despite the weak economic development last year, the number of employed increased by almost 2 per cent between 2000 and 2001 and open unemployment fell to 4.0 per cent, measured as an annual average. However, both employment and unemployment showed a weak development during the year. There was also a significant drop in average hours worked. The effects of the increased activity in the economy are expected to become apparent in the labour market towards the end of this year and during next year. The number of employed is forecast to fall by 0.4 per cent this year and to grow by the same amount next year.

Last year, hourly wages grew at a slightly higher rate than what is considered to be compatible with balanced economic development. An anticipated slower rate of wage increase combined with a reduction in the effects of temporary price increases on inflation are expected to cause inflation



measured as the change in the consumer price index (CPI) to drop to around 2 per cent at the end of 2002 and to remain at this level in 2003.

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The bill in full text, summary and further info is available at [www.finans.regeringen.se](http://www.finans.regeringen.se)

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Key word: 6033 National economy and budget Bosse Ringholm

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## PRESS RELEASE

2002-04-12  
Ministry of Finance

# Central Government's Annual Report for 2001 presented today

The Government today presented the Annual Report for the Central Government Sector for 2001 to the Riksdag. The aim of this communication is to give an overall picture of developments in the financial results and economic position of the central government sector over the course of the year.

The Annual Report shows that the central government sector strengthened its economic position in 2001. The budget policy targets were met. The surplus in public finances came to 4.8 per cent of the gross domestic product, the highest level in over a decade. For the sake of comparison, the target set by the Riksdag for 2001 was 2.5 per cent. Expenditure remained SEK 4.7 billion below the SEK 791 billion expenditure ceiling set by the Riksdag. The surpluses both in the central government budget and in the income statement have helped make it possible to pay off central government debt for the fourth year in a row. At the end of the year, central government debt was 53.3 per cent of GDP, which is a return to the level seen at the beginning of the 1990s.

There are a number of explanations for the positive results. The crucial factor is budgetary

discipline, preventing expenditure from exceeding the ceiling approved for the central government sector. Some major individual factors that have otherwise affected the outcome of both the central government budget and the balance sheet and income statement include higher tax revenues, an extra payout from the Riksbank and the redistribution of resources between the national pension funds and the central government budget in connection with the phasing in of the new pension system. The largest changes on the costs side have occurred in the social insurance system, where costs for both sickness benefits and pensions have gone up.

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Key word: 6006 National economy and budget Bosse Ringholm

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## **PRESS RELEASE**

2002-03-12

Ministry of Finance

Commission on Stabilisation in EMU

# Stabilisation policy in the monetary union

The Government Commission on Stabilisation Policy for Full Employment in the Event of Swedish Membership in the Monetary Union (Fi 2000:07) today delivered its final report to the Minister for Finance.

Membership in the monetary union means a change in the stabilisation policy regime because domestic monetary policy disappears as an instrument to stabilise the economy. Instead, Sweden will become a participant in a common European monetary and exchange rate policy. Sweden thereby loses the opportunity to counteract macroeconomic shocks that specifically affect the Swedish economy with the help of changes in the interest rate level. This increases the demands on the labour market to adjust, and on fiscal policy. The primary purpose of this investigation is to analyse the problems which may arise in this new stabilisation policy regime and to propose how fiscal policy is best pursued under these new conditions.

Adjustments of relative wage costs will become essential to stabilise employment in case of large shocks to aggregate demand that hit Sweden differently from other member countries. EMU membership may to some extent strengthen the incentives of the labour market parties to achieve an increased nominal wage flexibility, for example through shorter contract periods, clauses that tie wage growth to macroeconomic developments, more frequent renegotiations of existing agreements and less resistance to low nominal wage increases. However, there is reason to believe that changes in nominal wage flexibility will be rather limited and only to a minor extent will compensate for the

loss of national monetary policy as an instrument of stabilisation policy.

In the debate, special interest has been attached to so-called buffer funds as a means to increase wage cost flexibility. The view of the Government Commission is that a system with buffer funds, under the auspices of the labour market parties and constructed properly, could contribute to increasing the economy's ability to adjust, thereby moderating cyclical fluctuations. An agreement among the labour market parties on such a system should therefore be welcomed, but the advantages are not so significant that they justify government subsidies.

In the case of a Swedish participation in the monetary union, the need for a domestic anchor for the long-term rate of inflation disappears. Fiscal policy should instead have as a primary stabilisation policy target to counteract major fluctuations in the level of activity both in the short and medium term. Such a stabilisation should be pursued under the restriction of the target for general government net lending over the business cycle. Price and wage cost developments relative to other countries are particularly relevant indicators of the possibilities to stabilise the level of activity in the medium term and should therefore be given a prominent role when formulating fiscal policy. Discretionary fiscal policy, that is, a policy of active decisions to change taxes and public expenditures, should only be used for stabilisation purposes in the event of major macroeconomic shocks. The motives for this are that fiscal policy has a tendency to be too expansionary, that the fiscal policy decision process is slow, and that measures of the cyclical state of the economy (the output gap) are uncertain. In case of small shocks, fiscal policy stabilisation should be achieved through the automatic stabilisers, whereas discretionary fiscal policy should be focused on attaining the target for general government net lending over the business cycle, as laid down by the parliament.

The institutional framework of fiscal policy has in recent years been reformed in a way that decreases the risk of stabilisation policy failures. However, since EMU membership will entail increasing importance of fiscal policy as a stabilising tool, further steps are justified to ensure that fiscal policy is pursued in a way that is desirable from the perspective of stabilisation policy.

The Government Commission presents the following proposals:

- The parliament (the Riksdag) should determine a basic framework for pursuing fiscal policy in the case of Sweden's participation in the monetary union, with the following guidelines:
  - The objective of fiscal policy as regards stabilisation policy shall be to counteract major deviations from the sustainable level of output in the short and medium term. This is equivalent to stabilising employment and unemployment near their equilibrium levels.
  - Discretionary fiscal policy shall only be used for stabilisation purposes in the case of major shocks, roughly equivalent to an output gap of at least plus or minus two per cent.
  - To create room for automatic stabilisers and discretionary fiscal policy in the event of major shocks, general government net lending should amount to 2.5, or alternatively, 3 per cent of GDP on average over the business cycle.
  - To ensure enough room for stabilisation policy, the budget margin below the central government expenditure ceiling should be divided into a margin for cyclical expenditure and a planning margin. The margin for cyclical expenditure must not be utilised for anything besides such increases in expenditure that follow automatically from cyclical developments, including labour market policy measures, or for discretionary fiscal policy decisions to stabilise the economy during major shocks. The margin for cyclical expenditure should amount to approximately three per cent of the expenditures restricted by the ceiling. The planning margin is to cover planned reforms and uncertainty in forecasts that are the result of factors other than the business cycle, to the extent that the government does not wish to balance increases in expenditure of this type with changes that decrease other expenditures.
- An advisory body, a fiscal policy council, should be set up with the task of analysing macroeconomic developments and making fiscal-policy recommendations based on the guidelines determined by the Riksdag. The fiscal policy council should be an authority under the auspices of the government, but independent. The recommendations of the council are to be strictly focused on stabilisation policy. The council's analyses and recommendations should be presented twice a year, once in the beginning of March to serve as a basis of government and Riksdag work on the Spring Budget Bill, and then in early August to serve as a basis for the work on the Budget Bill. The government should take a stand on the recommendations of the council and motivate deviations

from them.

· In order to facilitate the decision process the government should select a small number of appropriate fiscal policy measures in advance for use as policy tools during major macroeconomic shocks. These instruments should, as far as possible, have general aggregate-demand effects and have as small effects as possible on income distribution and resource allocation. The measures should be used for a limited time period fixed in advance. The instruments that according to the Government Commission primarily should be considered are:

- a proportional #business cycle tax# or #business cycle tax reduction# in the income tax system
- temporary changes in the value-added tax
- variations in payroll taxes
- variations in public consumption and public investment

· Local government income should be stabilised over the business cycle. This could be achieved by calculating the local government tax base on the basis of an average of taxable incomes over several years. Alternatively, central government grants can be formulated so that they automatically compensate for the effects of the business cycle on the local government tax base.

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Key word: 5167

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## PRESS RELEASE

2002-03-12

Ministry of Finance

# Bosse Ringholm comments on EMU report

Minister for Finance Bosse Ringholm has the following comments to make on the final report of the Commission on Stabilisation Policy for Full Employment in the event of Swedish Membership in the Monetary Union, which was presented today.

"The report is a contribution to the discussion on the conditions that may apply in the event of Sweden joining the monetary union. It will now be circulated for comments, after which the Government will take a more detailed position on the proposals.

"With regard to the question of establishing a council of experts # a financial policy council # I do not believe that the existence of one more public authority would do anything to strengthen financial policy. It is rather unclear what role a council of this kind could play that is not already covered by some other body", says Bosse Ringholm.

The Government Commission has come in for criticism from various quarters even before presenting its report, on the one hand for concentrating on the problems associated with EMU and on the other hand for assuming that Sweden will in fact join the monetary union.

"The task of the Commission has not been to take a position on whether or not Sweden should join the monetary union. Its brief has been to discuss the changes that should be made in the framework for financial policy so as to make it possible to safeguard full employment in the event of EMU

membership. This is why the report takes a problematising approach. Regardless of whether or not we are in EMU, jobs are an absolutely central issue for the Social Democratic Government", says Bosse Ringholm.

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Key word: 5165

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## **PRESS RELEASE**

2002-03-07

Ministry of Finance

Commission on Stabilisation in EMU

# Invitation to the press to meet EMU Commission

The Commission on Stabilisation Policy for Full Employment in the event of Swedish Membership in the Monetary Union (Fi 2000:07) is to deliver its final report on Tuesday 12 March. The report will be presented to journalists at a press conference in which the chairman and members of the Commission will participate.

The press conference will be held in Swedish but a summary of the report will be available in English.

Time: Tuesday 12 March at 10.00

Venue: Bella Venezia, Rosenbad

Please bring your press credentials!

Ambassador Bengt K. Å. Johansson has served as Chairman of the Commission. The other members have been Professor Lars Calmfors, Director-General Ingemar Hansson, Dr Nils Lundgren, Professor Inga Persson and Chief Economist Irma Rosenberg.

The Commission was appointed in autumn 2000. Its assignment is to analyse the ways in which participation in the monetary union would change the conditions for Sweden to pursue a stabilisation policy. It has been instructed to pay special attention to the role of fiscal policy, and to examine the need for new economic and political instruments as well as the institutional changes that can be made in order to promote an effective stabilisation policy. A particular task for the Commission has been to study ways of increasing the flexibility of real wage costs. The Commission has previously submitted an interim report and seven expert reports.

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Key word: 5139