Sweden's convergence programme

2014

REGERINGSKANSLIET
Government Offices of Sweden

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Introduction

In accordance with Council Regulation (EC) No 1466/97, Sweden submitted its convergence programme in December 1998.[1] The programme was evaluated and approved by the Council in spring 1999. The Council Regulation stipulates that an update of the convergence programme is to be submitted annually; accordingly, this took place from 1999 to 2009.

Effective from 2010, the reporting as part of the Stability and Growth Pact has been adapted to the European Semester; the aim is to strengthen the surveillance of economic policies. Consequently, the convergence programme and the national reform programme are delivered each spring. This allows budgetary and structural policy to be assessed consistently and recommendations to be made to the member states while their budget proposals are still in the preparatory phase.

Sweden's convergence programme for 2014 is based on the Spring Fiscal Policy Bill of 2014 (Govt. Bill 2013/14:100), which the Government delivered to the Riksdag on 9 April 2014. The Parliamentary Committee on Finance was informed about the convergence programme on 15 April 2014. The Government approved the convergence programme on 16 April 2014.

The Parliamentary Committee on European Union Affairs studied the European Commission's proposals for country-specific recommendations concerning the convergence programme for 2013 on 20 June 2013.

[1] Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

1 Economic policy framework and targets

1.1 The fiscal policy framework

The central elements of the fiscal policy framework can, in accordance with pronouncements from the Government and the Riksdag (Comm. 2010/11:79, Rep. 2010/11:FiU42, Riksdag Comm. 2010/11:316), be summarised as follows.

The role of the fiscal policy framework in the political decision-making process

The overarching objective of fiscal policy is to create the greatest possible prosperity by contributing to a high, sustainable level of economic growth and employment (through structural policy), prosperity that will be shared by all (through redistribution policy) and stable resource utilisation (through stabilisation policy). Sustainable growth denotes economic growth that is achieved without unacceptable impact on the environment, the climate or human health. The sustainability of the general government finances in the long-term is fundamental to achieving the overall goal of fiscal policy.

Fiscal policy encompasses several different goals and means by which to achieve them. Determining which of the competing goals to aim for is something that must be dealt with by the Riksdag's elected representatives. The shape of fiscal policy will vary over time, depending on the composition of the Riksdag. For this reason, fiscal policy cannot be entirely mechanical. There are, however, a number of basic principles that fiscal policy should adhere to in order to be sustainable and transparent in the long-term. Combined, these principles form the fiscal policy framework.

The budgetary policy framework

The budgetary policy framework is a key component of the fiscal policy framework. The budgetary policy framework encompasses a surplus target for general government net lending, an expenditure ceiling for the central government expenditures, and the old-age pension system combined with a stringent central government budget process and a statutory requirement on municipalities and county councils to balance their budgets.

According to the Swedish Budget Act (2011:203), the Government is required to propose a target (surplus target) for general government net lending. The Riksdag has set a surplus target whereby net lending is to amount to an average of 1 per cent of GDP over the course of an eco-

nomic cycle. The Government believes that the current level of the surplus target (1 per cent of GDP over the course of an economic cycle) has served Sweden well; consequently, the target will remain unchanged throughout the next mandate period.

Because the surplus target primarily constitutes a prospective target for fiscal policy, it is mainly monitored prospectively. However, a retrospective analysis is performed in order to see whether there have been any systematic failures of fiscal policy that risk reducing the probability of achieving the target in future. Since it came to power in 2006, the Government has continually worked to improve the monitoring of the surplus target and make this more transparent. The introduction of indicators has been an important step in this work. In this context, it is important to point out the problems of an excessively mechanical application of indicators when monitoring the surplus target. Above all, there is a danger that fiscal policy will amplify rather than moderate fluctuations in economic activity if the application is overly mechanical. The Government's starting point is thus that the assessment of the direction of fiscal policy will have a broad approach in which a number of individual targets and restrictions are compared to one another. Consequently, the indicators for monitoring the surplus target only constitute one part of this overall assessment.

In the event of a deviation from the level of the surplus target, net lending will need to return to the target level. This, however, cannot be achieved mechanically. When assessing when and how a deviation will be corrected, an overall assessment must be conducted based on stabilisation policy, redistribution policy and structural policy. The Government Bill *An Improved Budgetary Process* (Govt. Bill 2013/14:173) proposes the introduction into the Swedish Budget Act of a requirement that the Government report how a return to target level will take place in the event of a deviation. Historical deviations from the surplus target do not need to be compensated for using equivalent contractions further down the line.

According to the Swedish Budget Act, the Government is obliged to propose an expenditure ceiling for the third additional year in the future in the Budget Bill. The expenditure ceiling is then set by the Riksdag. The expenditure ceiling serves the important purpose of creating the conditions in which the surplus target can be achieved. The level of the expenditure ceiling should also encourage the desired long-term development of central government expenditure. Together with the surplus target, the expenditure ceiling governs the total level of taxes and contributes to preventing a situation in which taxes must be gradually raised as a result of a lack of control over expenditure, or in which temporary increases in revenue are used for permanent increases in expenditure.

The expenditure ceiling should not be circumvented by reporting benefits that normally are funded by appropriations against revenue headings. The main principle is that expenses must be accounted for in

the year in which they are intended to be used. Any departures from these principles must be justified.

According to standard practice, there should be as a budgeting margin of a certain size under the expenditure ceiling. This is mainly to act as a buffer should the ceiling-limited expenditure increase in a way other than was estimated because of changes in economic activity, for example.

A well-organised, strict budgetary process has a central significance to achieving the budgetary policy goals. The expenditure ceiling is the all-embracing restriction for the budgetary process in terms of total expenditure. The budgetary process compares different expenses to one another and expenditure increases are tested based on a predetermined total fiscal space demarcated by the expenditure ceiling and the surplus target. The principal line is that the cost of proposed expenditure increases in any one expenditure area must be covered by proposed expenditure reductions in the same area.

It is also vital that the central government budget is transparent and comprehensive. The Government's proposed budget shall include all revenue and expenditure, as well as other payments that have an impact on the central government borrowing requirement. Furthermore, the main principle is that central government revenue and expenditure are budgeted and reported gross on income headings and appropriations. This means that expenses will be reported on the expenditure side of the budget, while revenues will be reported on the revenue side.

The Ministry of Finance has a unifying role and is responsible for the schedule, guidelines for the work to draw up the budget and the process of budget negotiations. Nevertheless, every ministry is responsible for ensuring there is significant data to enable overall prioritisations between different sectors within the general government and between different expenditure areas that are part of the central government budget, as well as to enable an examination of the general government commitment.

To reinforce the budgetary process at the local and regional levels, a statutory requirement for balanced budgets in the local government sector has been in force since the year 2000. This stipulates that each individual municipality and county council will budget for a balanced outcome, provided there are no special circumstances. If a deficit arises in a particular financial year, this must be corrected within three years. Municipalities and county councils also need to maintain good financial management of their operations.[2]

The Government is improving the budgetary process

Since it came to power in 2006, the Government has continually reinforced and developed the budgetary policy framework. As one aspect of this work, the Government submitted the Bill 'An Improved Budgetary

[2] Effective from 2005, municipalities and county councils set the financial goals that are significant to good financial management. A common measure is that a result corresponding to 2 per cent of revenue from taxation and general central government grants meets the requirement for good financial management.

Process' (Govt. Bill 2013/14:173) to the Riksdag on 18 March 2014. The Bill is based on the proposal in the final report from the Parliamentary Budgetary Process Committee (T.o.R. 2012:124). The committee's task was to determine how the budgetary framework could be reinforced and made clearer based on experiences from current legislation and practice. The committee delivered their final report (SOU 2013:73) to the Government on 3 October 2013; this has since been referred for consultation.

The proposals in the Bill primarily involve the codification of existing practice regarding how the Riksdag currently makes decisions on the central government budget within what is known as the framework decision-making process, a regulation of the decision-making process concerned with changes to the central government budget for the current financial year and a requirement that the Government monitor and evaluate the budgetary policy targets becoming law. The proposals in the Bill will involve regulation of the budgetary process becoming clearer and fairer. Work on the budget in both the Government and the Riksdag also becomes more stable and predictable thanks to practice becoming law.

The proposals in the Bill mean that the Riksdag Act is made clearer with regard to how the Riksdag makes decisions about the central government budget as part of the framework decision-making process. This means that decisions about the central government budget are made in two stages. The framework decision-making process has been used to make decisions on the central government budget since the budgetary process was altered in 1997. The decision-making model is well established and has broad parliamentary support. The Bill proposes that the framework decision-making process will be used to make decisions on the central government budget, provided the Riksdag has not decreed anything else through legislation. The Bill also makes it clear which decisions the Riksdag will take in the first and second stage of the decision-making process of the framework decision-making process.

The order in which changes to the central government budget for the current financial year will be proposed is currently almost totally unregulated and is governed by practice. The Bill proposes that proposals for changes to the budget normally be submitted, at the most, two times per year, in conjunction with the Spring Fiscal Policy Bill and the Budget Bill. It also proposes that decisions on changes to the central government budget be made through one single decision and that the Parliamentary Committee on Finance be made responsible for drafting all proposed changes.

The Bill also contains proposals concerning the monitoring and evaluation of the budgetary policy targets. The Swedish Budget Act (2011:203) makes it clear that the Government must take determined, proposed and announced budgetary policy measures into account in its reporting to the Riksdag. This is a codification of existing practice. Furthermore, the Bill proposes that a requirement be introduced into the

Swedish Budget Act stipulating that the Government report how a return to the target level will take place in the event of a deviation from the surplus target. Finally, it proposes that the Government ensure that an external evaluation of how the budgetary policy targets are achieved is performed annually. The Government's assessment is that the current order, in which the Swedish National Audit Office, the Swedish Fiscal Policy Council and the Swedish National Financial Management Authority analyse from on their own perspectives how the budgetary policy targets are observed, fulfils the proposed evaluation requirement.

It is proposed that the changes to the Riksdag Act and the Swedish Budget Act come into force on 1 September 2014.

Stabilisation policy

The most important contribution made to the stabilisation of the economy by fiscal policy is that of maintaining confidence in the long-term sustainability of the general government finances. If the financial markets, households and businesses lose confidence in the general government finances, the automatic stabilisation mechanisms and the active (discretionary) fiscal policy measures in the stabilisation policy may have a weaker impact. In addition, if the finances are not sustainable in the long-term, the Riksbank's will find it harder to maintain the stability of prices. Experience shows that periods of high inflation are often preceded by periods during which the general government finances were mismanaged.

During disruptions that have an impact on demand in the economy, there is not normally an antagonistic relationship between stabilising the employment rate and inflation. This normally means that the economy will be stimulated during recessions and reigned in during booms using monetary policy. During such disruptions, fiscal policy's contribution to the stabilisation of the economy primarily takes place through the automatic and semi-automatic stabilisation mechanisms.[3] In addition, fiscal policy, as opposed to monetary policy, has a role to play in dealing with problems that may arise in the economy in conjunction with an economic downturn. For example, this may involve reinforcing labour market policy measures of various kinds and managing the various conse-

[3] The automatic stabilisation mechanisms contribute to mediating fluctuations in the economy through automatic decreases (increases) in tax revenue and through automatic increases (decreases) in expenditure on unemployment insurance and certain benefits in an economic downturn (upturn). The so-called semi-automatic stabilisers are a hybrid between active decisions and automatic stabilisation mechanisms. It is primarily different types of labour market policy measures that are generally referred to as semi-automatic stabilisation mechanisms; that is, active decisions are made regarding a large proportion of these although it is more the rule than the exception that such measures are adjusted to the prevailing economic conditions. The system of working short hours that has been established may also come to be seen as a semi-automatic stabilisation mechanism.

quences for redistribution policy. During major disruptions to demand and to supply, fiscal policy may need to support monetary policy more actively. However, experience from the management of previous crises shows that it is not entirely possible to combat a sharp downturn in the economy without endangering the general government finances. On the other hand, these measures may contribute to limiting the rise in unemployment, decreasing the risk of unemployment becoming engrained and alleviating the consequences for specifically vulnerable groups.

It is important that the stabilisation policy measures are designed to contribute to returning net lending to a level in line with the surplus target when the utilisation of resources returns towards a balance. Experience shows that it can be politically difficult to withdraw certain temporary stabilisation policy measures. Consequently, such stabilisation policy measures should be avoided. In order to avoid stabilisation policy itself becoming a source of longer-term problems for the general government finances, temporary measures must remain only temporary.

If permanent measures are taken to alleviate a downturn (on condition that there is scope for such measures), they should mainly be measures that make a long-term contribution to lasting increases in employment and GDP. This may also involve a permanent increase in a grant or transfer payment that is justified by redistribution policy, but which does not have a negative impact on lasting increases in employment. These examples show that it is neither meaningful nor desirable to make stabilisation policy decisions without also considering the structural policy and redistribution policy targets.

Central government intervention in the financial markets

Well-functioning financial markets are also vital to stable economic development and an effective stabilisation policy. If central government intervention in the financial markets is to be effective, it is important that the roles of different governmental agencies are clearly defined and that there are clear principles for how the general government finances will be protected in such interventions.

During financial crises, the Government may need to take specific steps to maintain financial stability and thus prevent the crisis from having a powerful negative effect on the entire economy. If the Government need to take such steps, the starting point is the limitation of the consequences for the general government finances. It is important that the credit institutes themselves, primarily their shareholders and others who have injected venture capital, bear the brunt of any losses. If the central government provides an injection of capital to a credit institute that has serious financial problems, the central government may, according to the Government Support to Credit Institutions Act (2008:814), temporarily take over ownership of the institution, provided its financial position is very weak or the institute fails to adhere to rea-

sonable conditions attached to the support. When the institution's owners are aware that the central government has the opportunity to take over ownership and change the management and that they themselves may bear the losses, they have a greater incentive to build buffers and also less desire to take excessive risks.

Openness and clarity

The Spring Fiscal Policy Bill normally indicates the direction of fiscal policy and budgetary policy for the forthcoming year. The Bill contains the Government's view of the current economic situation, the structural, stabilisation and redistribution policy challenges currently faced, an assessment of an appropriate level of the expenditure ceiling for at least three years ahead, a follow-up of the budgetary policy targets, estimates of the effects of measures and an assessment of the current fiscal space. The Spring Fiscal Policy Bill also usually contains a separate report on redistribution policy, an assessment of the local government sector's finances, employment and indebtedness, an assessment of the long-term sustainability of the general government finances and a report on general government investments and capital volume.

The Budget Bill contains the Government's concrete policy proposals for, above all, the forthcoming financial year and the proposed expenditure ceiling for the third additional year. There is also a report on financial equality.

The Central Government Annual Report follows up on both the budget and the fiscal policy targets for the past financial year.

The Spring Fiscal Policy Bill and the Budget Bill both contain forecasts for the four forthcoming years. Forecasts must be calculated using the best available methods and the largest amount of information possible. The impact on GDP, employment and income distribution must be estimated for measures that may be judged to have a greater impact on the economy. Forecasts and impact estimates must be based on data of the highest possible quality and, where possible, on current research.

Assessments of the general government finances' long-term sustainability will be complemented with generational analyses at regular intervals. Long-term investigations will also be carried out at regular intervals. These represent an important basis from which to analyse future challenges facing fiscal policy.[4]

[4] Long-term investigations are directed from the Ministry of Finance on the basis of extensive investigation data produced by governmental agencies, organisations and individual experts. The plan is to publish the next long-term investigation in 2015.

Swedish Fiscal Policy Council

In 2007, the Government established a Fiscal Policy Council with the task of assessing whether fiscal policy targets are achieved and submitting its observations in an annual report.

The overarching task of the Fiscal Policy Council is to support general government finances that are sustainable in the long term. The Council's mandate is the following:

- The Council shall analyse how well the Government meets budget policy targets and whether the public finances are sustainable in the long term.
- The Council shall also assess the effects on growth, employment, and the distribution of welfare, and how the focus of fiscal policy relates to the general economic trend. The Council shall also review the clarity of the Spring Fiscal Policy Bill, particularly in relation to the stated bases for fiscal policy and the reasoning behind proposed measures.
- The Council may also review and assess the quality of the forecasts submitted and the models on which those forecasts are based.

Sweden's medium-term budgetary objective

As a member of the EU, Sweden must adhere to the regulations concerning general government finances in the Stability and Growth Pact. In addition to the deficit limit of 3 per cent of GDP, all EU members are required to set up what is known as a medium-term budgetary objective (MTO), defined in structural terms. According to earlier calculations by the European Commission, Sweden should have an MTO of at least minus 1 per cent of GDP.[5]

Sweden's MTO has been set at minus 1 per cent of GDP in accordance with the European Commission's calculations. The MTO specified by Sweden in the convergence programme will be regarded as a minimum requirement for net lending that Sweden is encompassed by as a member of the EU.

1.2 The objective of monetary policy

The Riksbank is responsible for monetary policy in Sweden In accordance with the Sveriges Riksbank Act (1988:1385), the objective of monetary policy is to maintain a fixed monetary value. Changes to the Sveriges Riksbank Act adopted in 1999 gave the Riksbank greater autonomy. The constitution states that no other governmental agency may deter-

[5] See Public Finances in EMU, European Commission, 2007.

mine how the Riksbank make decisions on monetary policy issues The independence of the decision-making Executive Board is also underscored by the Sveriges Riksbank Act, which states that the members of the Board must not seek or receive instructions when performing their monetary policy tasks.

According to the Sveriges Riksbank Act, the objective of monetary policy is to maintain a fixed monetary value. The Riksbank has specified this as an inflation target of an annual change in the consumer price index (CPI) of 2 per cent.

At the same time as monetary policy is focused on achieving the inflation target, it must support the objectives of general economic policy with the aim of achieving sustainable growth and a high level of employment. This is achieved by the Riksbank, in addition to stabilising inflation around the inflation target, also striving to stabilise production and employment around long-term sustainable development paths. Consequently, the Riksbank conducts what is termed a flexible inflation target policy. This does not mean that the Riksbank renounces the primacy of the inflation target.

It takes time for monetary policy to achieve its full impact on inflation and the real economy. Monetary policy is therefore guided by economic trend forecasts. Among other things, the Riksbank publishes an assessment of how the repo rate will develop in future. The course of interest rates is a forecast, not a promise.

When each monetary policy decision is made, the Executive Board makes an assessment of which course the repo rate needs to take for the monetary policy to be well balanced. This normally entails finding a suitable equilibrium between stabilising inflation near the inflation target and stabilising the real economy.

There is no general answer as to how quickly the Riksbank aims to return inflation to 2 per cent if it deviates from this target. In certain situations, a rapid return may have undesired effects on production and employment, while a slow return can weaken the credibility of the inflation target. In general, the ambition has been to adjust interest and the interest path such that inflation is expected to be relatively close to the target in two years' time.

In September 2003, Sweden held a referendum on the introduction of the euro. The result of the referendum, which was "no", did not lead to any changes in monetary or exchange rate policy. The Government is responsible for overall exchange rate policy matters and decides on the exchange rate system, while the Riksbank is responsible for the application of the exchange rate system. The current monetary and exchange rate policy regime stands firm. Sweden's experience of an inflation target and a floating exchange rate is very favourable. Pegging the Swedish krona to ERM2 is not under consideration.

1.3 The Government's economic policy

Measures in the Budget Bill for 2014

In the Budget Bill for 2014, the Government chose to prioritise investments that aim to combat the high level of unemployment – resulting from the financial crisis – becoming engrained, without risking the long-term sustainability of the general government finances.

In order to strengthen household finances, increase the level of long-term employment and the number of hours worked, and make education more attractive, the Government proposed a further increase in the working tax credit and an increase in the level at which national income tax begins to apply. The Government came forward with a number of proposals that aim to make it easier for young people to enter the labour market and encourage an increase in employment among young people. Amongst other things, the Government proposed financial support for vocational introduction jobs. It was proposed that the central government grant for organisers that is paid to workplaces that take on apprentices be raised in order to increase the number of workplaces that offer apprenticeships. In addition, the Government proposed a greater reduction in social security contributions for those young people who will be entering the labour market in order to make these reductions more effective. The Government proposed a number of measures that aim to improve the adaptability and flexibility of the labour market. In addition, proposals were submitted for central government support for working short hours, which is thought will be used in a particularly deep financial crisis.

The Government announced a proposal for new start zones in the Budget Bill for 2014. The proposal involves allowing businesses within these zones, provided they fulfil certain conditions, e.g. concerning where their employees live, to make deductions when calculating social security contributions. It was proposed that the differentiated unemployment fee be scrapped. This proposal means that 2.2 million people who are members of unemployment benefit funds, who have previously paid fees that were higher than the average, will receive a reduction in the fees of a total of SEK 3 billion.

It must be worthwhile to be a good teacher and to become a better teacher. Additional finds were therefore proposed for the career development reform. In recent years, the Government has implemented several initiatives to ensure Sweden's future as a prominent research country. A targeted easing of taxation is justified for, above all, smaller businesses that conduct research and development for the purpose of giving these businesses even greater opportunities to conduct such activities. For this reason, the Government proposed that employers' social security contributions be reduced for people who work in research and development.

An increase of the special grant in housing allowance was proposed to improve the finances of those families with children who have the lowest economic standard. The Government also indicated that it has considered introducing recreational grants for children in financially disadvantaged households. The Government proposed a certain increase in the housing supplement for old-age pensioners with employment income, as well as an establishment supplement and housing benefit for people with a right to establishment benefits.

Financial crises have shown themselves to be very costly and thus constitute a serious threat to the general government finances and a country's economic development. Consequently, the work to ensure the stability of the financial system in the aftermath of the financial crisis is high on the Government's list of priorities. As one aspect of this work, the Government proposed that the Swedish Financial Supervisory Authority assume the primary responsibility for the tools of financial stability, e.g. what is known as the cyclical capital buffer. The Government also announced the establishment of a formal financial stability council consisting of the Minister for Financial Markets and the directors of the Swedish Financial Supervisory Authority, the Riksbank and the Swedish National Debt Office. The council will provide the opportunity for consultation and information exchange, as well as covering both crisis prevention and, potentially, crisis management.

The Government also proposed a number of environmental and climate initiatives such as additional resources for the Toxin-free Everyday Environment initiative, new funds for local water protection projects (LOVA). Aiming to stimulate the use of biofuels in transport, the Government proposed the introduction of a compulsory quota system for low admixtures of biofuels, the extension of the temporary reduction in taxable value of certain eco-friendly cars for an additional three years. In order to increase the proportion of renewable energy, the Government announced that a tax reduction is being introduced in 2014 for the micro generation of electricity from renewable sources.

Table 1 shows the combined impact on the budget of decreed and announced reforms, including the funding of these, in relation to the previous year.[6] The table indicates the Government's overall priorities. The reforms included in Table 1 relate to both the expenditure and revenue sides of the central government budget. Indirect effects of expenditure reforms on the central government budget's revenue side are not included.

In total, general government net lending is projected to decrease in 2013–2014 by about SEK 40 billion, whereas SEK 21 billion is attributable to the decrease in 2014. In the subsequent year, the fiscal policy announced so far for 2015 is contractionary, but then expansionary for 2016–2018.

[6] The proposals presented in the Spring Adjustment Budget for 2014 (Govt. Bill 2011/12:99) are also included. 2013/14:99).

Table 1 Impact on expenditure and revenue 2013–2017 in relation to the previous year of previously decreed and announced, as well as now proposed and announced measures and funding. Impact on general government net lending

SEK billion. Impact on the budget in relation to the previous year

	2013	2014	2015	2016	2017
Expenditure changes[1]					
Change in ceiling-limited expenditure	12.9	1.4	-6.7	3.0	-0.2
Adjustment for differences between the accounting principles in the central government budget and the National Accounts	-4.8	2.0	-1.2	2.0	3.0
of which, infrastructure investments funded by borrowing[2]	-2.9	-0.1	-1.8	2.0	3.0
of which, capital contributions to state-owned companies	-1.5	2.5	0.0	0.0	0.0
Total expenditure changes	**8.1**	**3.3**	**-8.0**	**5.0**	**2.9**
Revenue changes[3]					
Taxes, gross	-11.4	-15.2	1.0	0.6	0.1
Indirect impact of taxes	1.1	0.0	0.2	0.5	0.7
Other revenue reforms	0.0	-2.9	0.0	0.4	0.0
Total revenue changes, net	**-10.2**	**-18.1**	**1.2**	**1.5**	**0.8**
Changes in expenditure and revenue, impact on general government net lending[1,3]	**-18.3**	**-21.4**	**9.2**	**-3.5**	**-2.1**
Per cent of GDP	*-0.5*	*-0.6*	*0.2*	*-0.1*	*0.0*

[1] For expenditure reforms, a minus sign reflects a decrease in an appropriation or the cessation or reduction in scope of temporary programmes. For revenue reforms, a minus sign reflects a decrease in tax revenues. For the combined budget effects of expenditure and revenue reforms, a minus sign indicates a weakening in general government finances compared with the preceding year.

[2] This item shows the change in net borrowing for road and rail needs. Net borrowing consists of the difference between new borrowing and amortisation.

[3] Excluding the indirect impact of expenditure reforms on the revenue side.

Sources: Own calculations.

The Government's continued reform ambitions

The Swedish economy displayed a high level of resilience when the financial and debt crisis affected the global economy. A significant explanation of why Sweden has survived the crisis better than many comparable countries is that we went into the crisis with a large surplus in the general government finances. This has meant that the Government has been able to take action to maintain employment and welfare. During the crisis, the Government has supported growth with both temporary economic stimulus measures and measures to improve the potential for long-term growth.

When the economic situation is improving, the need to support the economy using fiscal policy gradually decreases. Returning to a surplus is vital to enable jobs and welfare to be protected in a small open economy such as that of Sweden. Sustainable general government finances provide the leeway to pursue an active fiscal policy in the next recession.

Any reforms proposed in the Budget Bills for both 2015 and 2016 will be funded krona for krona by revenue and/or expenditure measures. Given the current forecast, new reforms that may be proposed in the Budget Bills for 2017 and 2018 also need to be fully funded in order to achieve a surplus of at least 1 per cent of GDP when the utilisation of

resources heads towards a balance in 2018. This applies on condition that there is no new serious disruption to the economy. In its work to draft the Budget Bill for 2015, the Government is focusing on the following areas:

A policy to improve knowledge

Swedish school results have been declining since the mid-1990s. The Government takes this development very seriously and, since 2006, has pursued an extensive series of reforms to improve knowledge in schools. Through measures such as increasing the amount of teaching time, clearer and clearer evaluation of pupils' results and reinforcing teachers' expertise, role and status, the level of knowledge in schools is raised. It is vital that these reforms continue. In total, the Government intends to propose in the Budget Bill for 2015 that SEK 3.8 billion be allocated in 2015 to improving conditions in schools, with particular focus on the early years, and that this amount be gradually increased to SEK 6.9 billion in 2018.

In order to invest in higher quality in pupils' education using measures such as smaller class sizes and more remedial teachers, based on local needs, the Government intends to implement a boost to primary schools of SEK 2 billion per year beginning in 2015. The Government also intends to extend the length of compulsory schooling to ten years, in order to make it possible for more pupils to achieve goals in school. The aim is for it to be possible to begin implementing the extension beginning in school year 2017/18.

The Government intends to undertake investments in summer schools and homework assistance in order to increase the opportunities of pupils who have not achieved or are in danger of not achieving the required knowledge targets. These investments amount to a total of c. SEK 2.2 billion over the course of 2015–2018.

Grades provide clear information to pupils and parents about school performance and place the focus on results. Therefore, the Government intends to introduce grades in every school year in middle school.

An important prerequisite for preschool is that the groups of children, particularly the youngest children, are of an appropriate size. It is the organisations responsible that must ensure this is the case. In order to support the organisations responsible, the Government intends to propose that targeted resources, amounting to SEK 125 million per year, be made available in the period 2015–2017.

There is a significant lack of trained preschool teachers and teachers in certain subjects. To meet the need for additional teachers, the Government intends to increase the number of places in training programmes for preschool teachers, compulsory school teachers specialising in the preschool class to year 3 (F–3), remedial teachers and subject teachers in mathematics and the sciences. The Government also intends to introduce a tax-free degree bonus for students who graduate with a Postgraduate Diploma in Special Needs Training, Postgraduate Diploma in Spe-

cial Educational Needs or Bachelor of Arts in Education in mathematics, biology, chemistry, physics or technology by 2021.

To further improve students' chances of focussing on their studies and thus also create opportunities to increase the throughput of universities and university colleges, the Government intends to increase the student loan so that student finance is increased by c. SEK 1 000 per month of the student's studies.

A policy for full employment

The Government's policy for full employment covers measures that not only stimulate the supply of and demand for labour, but also ensure that the skills offered match those required. The focus has been primarily on measures to improve the supply side. The Government's policy of increasing the supply of labour has had an effect. Since 2006, the number of people employed has increased by over 250 000. At the same time, the labour force has increased even more. Accordingly more people have found work, but even more are actively looking for work and are thus close to employment.

Within the scope of the tripartite dialogue, the Government conducts a dialogue with the parties involved in the labour market at the industrial level about what are known as vocational introduction contracts. The Government assesses that vocational introduction contracts may, in the long-term, be significant in facilitating young people's entry into the labour market and have, as a result of this dialogue, introduced financial support for employers who offer positions that are within the scope of these contracts. A number of contracts have been signed between the parties, e.g. within trade, the metals industry and the chemicals industry, as well as within municipal health and social care. The Government welcomes this dialogue and that vocational introduction contracts have been signed within other areas.

Validation can be very important in shortening the path into work. As one aspect of the work to improve validation, the Government has tasked Arbetsförmedlingen with developing methods for validating the knowledge of people born abroad and the extent to which this takes place as part of its establishment commission. The Government is also involved in a dialogue with the parties involved in the validation system.

A policy for more homes and an efficient, sustainable transport provision

Increased construction and more efficient infrastructure increases the chances of matching the supply of labour to the demand. The measures implemented and that are being prepared, aimed at increasing the construction of homes and infrastructure, provide broader pathways to employment. This takes place partly through additional job opportunities, partly through greater opportunities for employees to move to find work, commute longer distances and for business to establish themselves in the whole of Sweden.

Construction of homes has not matched the increased population in growth regions. There is a lack of homes, which affects many who have recently moved to these areas. This affects growth and new jobs. To a certain extent, the problem can be alleviated by utilising the existing housing stock more efficiently, but the production of new homes also needs to increase.

In order to streamline the planning and construction process and increase the production of new homes, the Government has undertaken a range of initiatives. The Government has recently submitted proposals for simplifications to the Planning and Building Act (2010:900), including more measures for which building permission is not required, limitations in the powers of municipalities to impose their own technical requirements, and clearer rules for municipal land allocation. The Government has proposed simplification to the building regulations that would make it easier to construct small apartments. It also needs to be possible to appeal a decision according to the PBA in a quick and legally-binding way in order to make the planning process smooth. The commission of inquiry into PBA appeals has submitted proposals to make the scrutiny of municipal decisions that have been appealed more efficient, for example through changes to the hierarchical precedence of the agencies involved. The Government will be analysing the commission of inquiry's proposals and will weight up supplementary measures.

Utilisation of the capacity of certain parts of the transport system is periodically high. This is particularly evident in the major city regions, on the densely-trafficked railway tracks and along the major transport thoroughfares. The resulting congestion leads to high costs for society. In recent years, the problem in the railway system has become marked and has shown the need to reinforce operations, maintenance and reinvestments in this infrastructure. The Riksdag has, in accordance with the Government's proposals, approved the allocation of SEK 522 billion to infrastructure measures in the period 2014–2025. This framework means a sharp increase in the resources allocated to transport infrastructure. The aim of this plan is to ensure that transport provision for citizens and enterprise in the entire country is economically efficient and sustainable in the long-term.

A policy to improve the climate for business and innovation

To succeed in creating additional jobs in a highly competitive world economy, there is an ongoing need to improve the climate for business and innovation. The Corporate Tax Committee constitutes a strategic part of the Government's work to improve the tax conditions for businesses.

The competitiveness of Swedish businesses can be promoted further by providing businesses with greater opportunities to attract and retain key expertise. Awarding key individuals with financial instruments such as options and other share-related incentives increases businesses' ability

to attract and retain key expertise. The Government has therefore decided to appoint a committee of inquiry to review the tax regulations for such instruments.

Favourable long-term conditions that stimulate and encourage an innovative and creative business climate demand a broad approach and an openness to the reappraisal of policy. In the light of this, the Government has decided to appoint a committee on an improved climate for entrepreneurship and innovative enterprise, which will conduct a wide-ranging review of the conditions for starting, running, developing and owning businesses in Sweden.

The current protection against high sick pay costs is based on the average sick pay costs for all employers and thus does not take into account that smaller businesses generally have a lower rate of absence due to sickness than larger businesses. This means that the current protection against high costs does not benefit smaller businesses as was envisioned. Therefore, a proposal will be submitted in spring 2014 to make this benefit more favourable to smaller business. The aim is for the proposal to come into force on 1 January 2015. The cost of the new compensation is judged to be SEK 360 million per year, i.e. c. SEK 300 million more than the current system.

Certain businesses, primarily those in the financial sector, conduct activities that are largely exempt from value added tax. With the aim of reducing the fiscal distortion resulting from group registration for value added tax, the Government intends to abolish this opportunity.

To improve the conditions for living and doing business in rural areas, the Government intends to provide a boost of SEK 2.8 billion in total to the rural development programme for the period 2014–2020, SEK 400 million of which is proposed to be made available subsequent to proposals in the Spring Adjustment Budget for 2014. The Government intends to invest SEK 700 million in 2014–2020, equivalent to SEK 100 million per year, in providing good accessibility to commercial services in sparsely-populated and rural areas. The Government also intends to boost measures that help the development of rural areas such as the expansion of broadband in the period 2014–2020. The Government's total investment in broadband, including EU grants, amounts to SEK 3.25 billion. Increase broadband speeds, coverage and more robust networks improve the opportunities for the business community, for example.

A policy that gets more people into work results in reduced income disparity

The income distribution in a society is determined, to a great extent, by how the human capital is distributed. A well-functioning school system and good conditions in which to grow up are thus of the utmost importance to protect cohesion. Therefore, the Government has begun an extensive reform effort and intends to implement further measures aimed at improving the quality and equivalence of the Swedish school

system. These measures are expected to contribute in the long-term to levelling out people's life chances and opportunities in the labour market.

A stronger economy and more people in work creates the conditions for a positive development of pensions in years to come. Pensions are expected to develop favourably in the years ahead and a review of the pensions system is currently taking place to avoid the relatively high level of irregularity in the development of pensions.

Weak ties to the labour market are the main cause of economic vulnerability. The core of the Government's redistribution policy strategy will therefore continue to be increased employment, better education and reduced exclusion.

A policy for increased accessibility and expertise in healthcare

The Government has sharply increased the number of places on medical and nursing programmes. However, there is still a lack of, amongst others, midwives and specialist nurses. Consequently, the Government intends to increase the number of places on specialist nursing and midwifery programmes from 2015.

Despite waiting times having decreased significantly in recent years, there are still large variations between different county council areas. The regional differences are large in cancer care. In the light of this, the Government intends to allocate SEK 500 million per year in the period 2015–2018 to increasing the accessibility of cancer care.

A policy for increased efficiency in the judicial system

The positive development in the clear up rate for crimes of recent years has slackened off. Consequently, there needs to be an intensified, constant effort to increase the efficiency and further improve the quality of the judicial system. Against this background, the Government intends to come back to this with measures to further improve the fight against crime and increase public security.

A policy to meet the global environmental and climate challenges

Climate change is the Government's highest priority environmental issue. The preservation of biodiversity, ocean and aquatic environments and the development of a toxin-free environment are also among the more important areas for environmental policy. The Government's environmental efforts are based on the system of environmental objectives decreed by the Riksdag in 2009. The Government's efforts aim to fulfil these objectives and it is against these that the Government reports its progress.

In addition to ecological sustainability, competitiveness and a secure energy supply are important prerequisites for sustainable, long-term prosperity and growth. As a result, the energy system needs to develop in a balanced way that meets the need for sustainable energy at internationally competitive prices.

A policy for financial stability and reduced household vulnerability

Financial crises, as a rule, have negative consequences for the national economy and the general government finances. Aside from the loss of production that normally occurs in conjunction with financial crises, these negative consequences can also lead to production and employment becoming significantly lower for long periods.

Consequently, the Government has, for example, increased the amount covered by the deposit insurance scheme and has placed significantly higher capital and liquidity requirements on banks and other credit institutions. The Government has also sharply increased the oversight of the financial sector. In addition, a stability fund financed by the banks has been established. The intention is to use the fund in the event of a financial crisis. On a national level, the Swedish Financial Supervisory Authority has come to an agreement with the industry on voluntary repayment plans.

The Government continues to monitor changes to the level of household debt and is prepared to take further steps if indicators show that indebtedness could increase in a way which increases the danger of the economy becoming imbalanced.

The general government finances must return to a surplus and reforms must be funded krona for krona.

Since the financial and debt crisis started, Sweden has used its strong general government finances to stimulate the economy. This has been the right thing to do and a necessity in a situation in which unemployment increased in an internationally harsh economic environment. At the same time, the stimulus measures have been designed to prioritise structural reforms, which also promote employment and growth in the long term. In 2014 it has been necessary to implement a structurally-correct fiscal policy that stimulates the economy as unemployment has remained high and there a plenty of resources available in the economy. It is from this perspective that the increased working tax credit needs to be regarded: a tax reduction that both provides a greater incentive to work and stimulates consumption in the economy in a situation where demand for Swedish exports has not yet taken off and the utilisation of resources continues to be low.

In the next electoral period, the conditions for policy will change as resource utilisation gradually picks up, employment increases and unemployment declines. As a result, fiscal policy is now entering a phase in which the focus is to gradually reach balance and surplus in the public finances. This means that reforms that continue to be necessary, whether on the expenditure or on the revenue side of the budget, will need to be funded krona for krona.

Fiscal policy should gradually become more restrained when the economic situation is improving, partly so as not to reinforce economic fluctuations and partly to also create the space in which to meet the next

crisis with powerful fiscal policy measures. In line with increasing and normalising the utilisation of resources, stabilisation policy will come to be primarily managed through monetary policy.

A responsible fiscal policy is to allow net lending to decrease to deficit in a serious crisis and then allow them to increase as the economic situation improves. Returning to surplus is vital, not only to the ability to protect jobs and welfare in a small open economy such as Sweden's, but also to enabling households and businesses to work in an environment characterised by security and predictability.

In the light of this, the Government's overall assessment is that the measures proposed in the Budget Bill for 2015 should, as a whole, neither increase nor decrease net lending. In accordance with the current forecast, net lending should return to a surplus of over 1 per cent of GDP in 2018. The rate at which the general government finances are strengthened should be adapted to the situation in the labour market and the development of the utilisation of resources.

A great deal of restraint is required when the utilisation of resources returns towards a balance if the surplus target is to be achieved. It is important to carefully scrutinise and maintain good control of expenditure, as well as to reprioritise different expenditure items. Any reforms proposed in the Budget Bill for 2016 should, as with reforms in the Budget Bill for 2015, be funded krona for krona by revenue and expenditure measures. Given the current forecast, new reforms that may be proposed in the Budget Bills for 2017 and 2018 also need to be fully funded in order to achieve a surplus of over 1 per cent of GDP when the utilisation of resources heads towards a balance in 2018. This applies on condition that there is no new serious disruption to the economy.

Revenue increases and expenditure reductions

Over the course of the forthcoming mandate period reforms will need to be considered in relation to measures that increase revenue or reduce expenditure in other areas. When it comes to revenue increases, it is important that these are designed either to have the smallest possible damaging effects on the economy and competitiveness or to reduce activities that harm health or the environment where the current level of the tax levy does not fully take into account these damaging effects. Tax changes that combine to hinder work, enterprise or investments must be avoided.

Changes to the tax system must preserve and reinforce the system's legitimacy. Consequently, changes to the tax system should also be made to ensure that its supervision can be maintained and that changes contribute to future reductions in errors and the protection of the Swedish tax base.

On the revenue side, the Government intends to fund future reforms in the Budget Bill for 2015 by limiting the deduction for private pension savings, increasing excise duty on alcohol and tobacco, increasing vehicle tax for light vehicles and the abolition of the opportunity for businesses

to group register for value added tax, primarily within the financial sector. Furthermore, the Government intends to come back in 2015 with a proposal to completely abolish the right to deduct private pension savings from 2016.

These tax proposals are being processed by means of consultations on a memorandum drawn up in the Government Offices. The consultation process is necessary to enable an overall assessment of tax proposals and budget impacts in the next budget bill. This provides time for the Council on Legislation to review the proposals. Since the reforms that the Government intends to propose in the Budget Bill for 2015 will be funded krona for krona, the budget impacts of the tax proposals restrict the scope of the reforms. If the tax proposals need to be adjusted as a result of the consultation process so that revenues turn out lower than estimated, the reforms presented may also need to be adapted correspondingly. Consequently, the reforms and financing presented have not been included in the calculation of public sector finances in this bill

On the expenditure side, the Government is intent on proposing in future budget bills that the contributions for 2015 and 2016 across the entire central government be 25 per cent lower than should result from price and wage recalculation. Funding welfare in the long-term requires more people to work longer. Therefore, it is also reasonable for student loans to be paid by those who are older. The Government intends to take additional steps in this direction in that student finance that is taken out from 2015 will no longer be written off at the beginning of the year in which the borrower becomes 67 years old. The Government also intends to increase the Swedish Board for Study Support's reminder and service charges.

The impact of Government policy

The Government's policies to improve the functioning of the labour market are a combination of measures that stimulate the supply of and demand for labour and to stimulate the matching of job-seekers and vacancies. The Government has also implemented targeted measures to increase the employment rate among groups with a weaker position in the labour market. The most important reform in strengthening the labour supply is the in-work tax credit, which has provided greater incentives to work by making employment more profitable. If it is more profitable to work, more people will enter the labour market. Accordingly, durable employment (i.e. average employment over the course of an economic cycle) may increase in the long-term. In addition, the Government has reformed the unemployment insurance system in order to increase the supply of labour and to shorten periods spent in unemployment.

To reduce the incapacity rate and to increase employment, the Government has also implemented extensive reforms within the sickness

insurance system intended to strengthen the capacity for work among those on leave due to sickness, create incentives to work and to strengthen labour demand for those who have been unemployed for a long time, who have been in leave due to sickness for an extended period or who have received sickness or activity benefits. To ensure that the measures that stimulate supply quickly lead to increased employment and reduced unemployment, the Government has also taken steps to increase the status of and demand for people with a weak position in the labour market. Labour market policy has been realigned. Among other things, the Swedish Public Employment Service has been given a clearer assignment to mediate jobs and labour market policy resources are being directed, to a greater extent, at those in greatest need. New start jobs are available to help those who have been out of work for a certain amount of time to become more attractive in the labour market. Other measures to increase the demand for people with a weak position in the labour market are reduced employers social security contributions for young people and seniors. In addition, the Government has introduced a tax credit for household services and RMI (repair, maintenance and improvement) and reduced VAT for restaurants to stimulate both the supply of and demand for labour.

The Government assesses that the structural reforms implemented between 2006 and 2014 have permanently increased employment by approximately 250 000 people in the long term. Not only do the Government's reforms affect employment, they are also expected to increase the number of people in work by reducing the number of people absent due to sickness. Furthermore, measures such as the in-work tax credit encourages those already in work to work more, e.g. by switching from part-time to full-time work. In total, the structural reforms implemented so far are assessed to have permanently increased the number of hours worked by an equivalent of approximately 267 000 annual full-time employees. The in-work tax credit is estimated to contribute about half of this increase (see table 2).

The Government's assessment is based on available research on the impact of different measures; for example, how changes in the tax system, social insurance and labour market policy affect labour supply and employment. However, knowledge about the size of the impact and, in particular, the pace at which the reforms achieve an impact is far from complete. The assessments reported in table 2 are thus uncertain.

Table 2 Expected long-term impact of Government policy 2006–2014

Change in per cent, unless otherwise stated

	Annual full-time equivalent employees[1]	Employed[2]	Labour force	Unemployment rate[3]	GDP
In-work tax credit	137 000	120 000	1.8	-0.8	2.5
Increased in-work tax credit for older people	6,000	10,000	0.2	0.0	0.1
Taxation threshold	6 000	0	0.0	0.0	0.1
Unemployment insurance	40 000	45 000	0.2	-0.7	0.7
Labour market policy	11 000	14 000	0.1	-0.2	0.2
Sickness insurance	20 000	17 000	0.9	0.5	0.4
Reduced social security contributions	18 000	21 000	0.2	-0.2	0.3
RMI/household service	27 000	25 000	0.2	-0.3	0.4
Reduced restaurant VAT	6 000	4 000	0.0	-0.1	0.1
Raised housing benefits	-2 000	-2 000	-0.05	0.0	0.0
Total structural reforms	**267 000**	**254 000**	**3.5**	**-1.8**	**4.8**

[1] Hours worked recalculated as annual full-time equivalent employees. One annual full-time equivalent employee corresponds to 1 800 hours worked.

[2] Number of people in age group 15–74 years.

[3] Change in percentage points.

Source: Own calculations.

The Government's view of the Council's recommendations from 2013

The formal Council decision of 09 July 2013 recommended that Sweden:

1. Implement the measures necessary to pursue a growth-friendly fiscal policy and preserve a sound fiscal position ensuring compliance with the medium-term objective over the programme horizon.
2. Continue addressing risks related to private debt by reducing the debt bias in housing taxation by phasing out tax deductibility of interest payments on mortgages or/and increasing property taxes. Take further measures to foster prudent lending by measures promoting amortisation of mortgages. Further reduce the debt bias in corporate taxation.
3. Improve the efficiency of the housing market by continued reforms of the rent setting system and strengthening the freedom of contract between individual tenants and landlords. Promote increased competition in the construction sector and review the planning, zoning and approval processes with the aim of increasing transparency, shortening lead times and reducing entry barriers for construction companies.
4. Reinforce efforts to improve the labour-market integration of low-skilled young people and people with a migrant background by stronger and better targeted measures to improve their employability and the labour demand for these groups. Step up efforts to facilitate the transition from school to work, including via a wider use of worked-based learning, apprenticeships and other forms of contracts combining employment and education. Complete the Youth Guar-

antee to better cover young people not in education or training. Complete and draw conclusions from the review of the effectiveness of the current reduced VAT rate for restaurants and catering services in support of job creation.

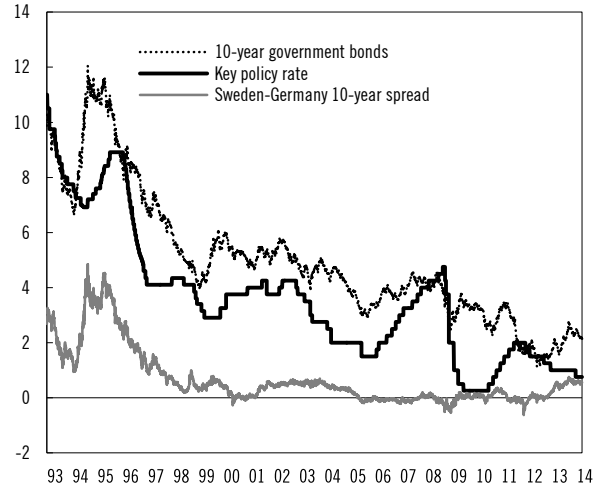
The Government welcomes the country-specific recommendations. The recommendations concerning Sweden are largely in line with Government's own policies[7]. With regard to the first recommendation, this is addressed in Section 3. The second and third recommendations are addressed in Section 2.3 and in the national reform programme. The fourth recommendation is addressed in the national reform programme.

1.4 Monetary policy

Diagram 1 shows the trend in a selection of interest rates in Sweden from 1993. Starting in October 2008, the Riksbank cut the repo rate from 4.75 to 0.25 per cent to mitigate the effects of the financial crisis and to check the decline of the real economy. As the Swedish economy recovered and inflationary pressure began to rise, the Riksbank gradually raised the repo rate in the second half of 2010 and the first half of 2011. In December 2011 and February 2012, the Riksbank again lowered the repo rate to 1.75 and 1.50 per cent respectively. As a result of the weak economic situation, the Riksbank made two further cuts of 0.25 per cent to the repo rate in autumn of 2012. The repo rate then remained at 1.0 per cent until December 2013, when, as a result of the continued weak economic situation it was reduced by a further 25 points. The current repo rate is 0.75 per cent.

Diagram 1 Interest rates in Sweden

Per cent



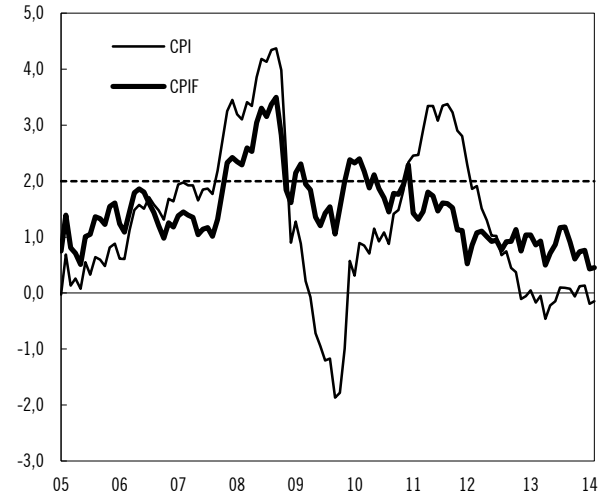
Source: Reuters.

[7] A summary report on the measures proposed in the Budget Bill for 2014 and the 2014 Spring Fiscal Policy Bill is provided in Section 1.3 (above). This indicates that Government policy largely responds to the recommendations.

Interest on ten-year government bonds fell in autumn 2008, but then rose somewhat in 2009 in response to uncertainty regarding the central government's future finances. As the financial worries eased over the course of 2010, and investors began to look for assets with a greater yield, long-term bond rates in Sweden rose. However, risk aversion intensified in 2011 when the financial crisis turned into a sovereign debt crisis and interest rates subsequently fell to record lows in the summer of 2012, as did German and US government bonds. After strong pledges from the ECB to do whatever was necessary to hold the euro area together, risk aversion decreased once more, contributing to Swedish, German and US bonds premiums for riskier asset classes beginning to regress.

Diagram 2 Inflation measured as CPI and CPIF

Annual percentage change

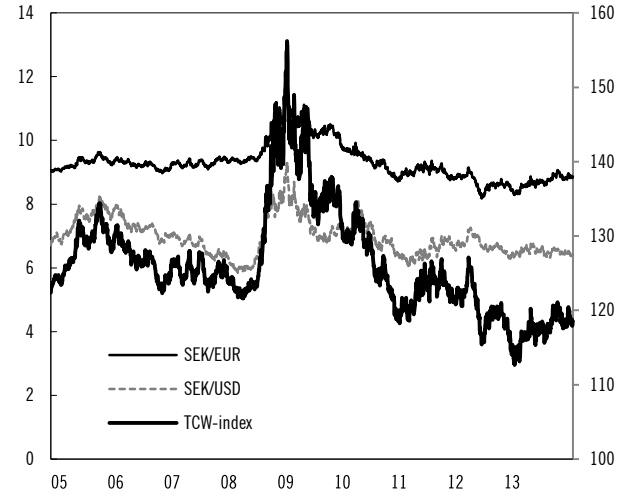


Source: Statistics Sweden.

Inflation, measured as the percentage change in the consumer price index (CPI), fell rapidly in autumn 2008. This dramatic decline was mainly attributable to lower mortgage interest rate costs, but also to lower energy costs. From the end of 2010, CPI inflation rose and amounted to 3.0 per cent in 2011. This is largely due to the sharp increase in interest rates in 2010 and 2011. Underlying inflation measured as CPIF (CPI at a fixed interest rate) was 1.4 per cent in 2011. In 2012, CPI inflation regressed as a result of lower interest rate costs and the subdued economic situation. CPI inflation remained at around the same level throughout 2013, while CPIF inflation has decreased somewhat in recent months. In December 2013, CPI inflation was 0.1 per cent, while CPIF inflation was 0.8 per cent.

Diagram 3 Development of the Swedish krona against the TCW index, the euro and the US dollar

TCW index (left scale), EUR/SEK, USD/SEK (right scale)



Source: Reuters.

Sweden has had a floating exchange rate since November 1992. Diagram 3 shows the development of the Swedish krona against the TCW index[8], the euro and the US dollar in the period 2005–2013. The uneasy situation in the financial markets caused the krona, like many other small currencies, to weaken in 2008. The krona has since strengthened considerably. In TCW terms, the Swedish krona is as strong now as it was before the outbreak of the financial crisis.

2 The macroeconomic trend

2.1 International and financial economy

Global activity on the increase

The international economic recovery that started in 2013 looks set to continue. Expansionary monetary policy in large parts of the world and reduced fiscal austerity are expected to contribute to relatively high growth rates internationally.

At the end of 2013, the euro area was marked by stronger economic development compared with recent years and, at the beginning of 2014, there are clear indications of a widespread upturn in economic activity. The rate of growth in the American economy changed up a gear in 2013 and is expected to be relatively high going forward.

Half of the world's GDP now consists of emerging economies. Many of these countries are still growing rapidly, for example large parts of Africa. However, growth did slow in 2013 in a number of large coun-

[8] The TCW index (Total Competitiveness Weights) measures the value of the Swedish krona against a basket of other currencies.

tries, e.g. Russia, India, Turkey and Brazil. Uncertainties concerning the path of American monetary policy and apprehensions about the potential weakening of growth in China have contributed to this. The growth prospects of the emerging economies appear generally hard to assess.

2.2 The Swedish economy

Scope for higher rates of growth in Sweden

Activity in the Swedish economy increased in the second half of 2013, in line with improvements in the rest of the world. However, the growth in GDP for the whole of 2013 was subdued. It was primarily private and general government consumption that contributed to the growth of GDP. Foreign trade has been developing weakly for a longer period.

Swedish GDP is expected to grow at a higher rate in 2014 than in 2013 (See table 3). The confidence of both businesses and households has increased since summer 2013, which points to increased activity in the Swedish economy in 2014. Exports are expected to grow again as a result of higher rates of growth in the rest of the world. Investment requirements in industry are also expected to increase when the economic outlook improves. A favourable improvement in disposable incomes, an increasingly better labour market and an initially high level of household savings offer scope for a strong increase in household consumption. This means that household consumption is expected to provide a relatively large contribution to growth in 2014 and 2015. If international demand also takes off, the conditions are set for a relatively high rate of growth of GDP over the course of 2016–2018 (see table 3).

Table 3 Key indicators

Annual percentage change, unless otherwise stated

	2013	2014	2015	2016	2017
GDP	1.5	2.7	3.3	3.5	2.5
GDP gap[1]	-2.9	-2.4	-1.5	-0.5	-0.2
Employed[2]	1.0	1.2	1.2	1.2	1.0
Employment rate[3]	79.8	79.9	80.2	80.7	81.1
Hours worked[4]	0.4	1.4	1.2	1.4	1.1
Productivity[4.5]	1.7	1.8	2.2	2.1	1.9
Unemployment rate[6]	8.0	7.7	7.3	6.7	6.3
Wages[7]	2.5	2.7	2.9	3.2	3.4
CPI[8]	0.0	0.2	1.6	2.5	2.8

[1] The difference between actual and potential GDP as a percentage of potential GDP.
[2] 15–74 years.
[3] According to the EU2020 target, that is, those in employment as a percentage of the population in the age bracket 20–64 years.
[4] Calendar-adjusted.
[5] Business sector productivity.
[6] Per cent of the labour force, 15–74 years.
[7] Measured according to the short-term wage statistics.
[8] Annual average.
Sources: Statistics Sweden and own calculations.

Increased employment and gradually decreasing unemployment

The higher rate of economic growth is expected to lead to the rate of employment increasing somewhat faster than the growth in the labour force in 2014 and 2015. Consequently, the unemployment rate is expected to decrease. The increase in employment is estimated to primarily take place in the service industries. This increase is a result of the rising domestic demand for services, in particular due to an increase in the consumption of services by households. Employment in the goods industries is expected to develop slowly.

Should Swedish fiscal policy be reconfigured, for example with tax rises that increase the thresholds for working, enterprise and investments, development of the Swedish labour market will be markedly poorer than in this forecast.

2.3 Potential macroeconomic imbalances

Imbalances in general

The emergence of macroeconomic imbalances, for example in the form of persistent differences in competitiveness, has created large problems for many countries in the aftermath of the financial crisis. In the economically-favourable years, good access to cheap capital caused consumption and investments to rise to levels that were not sustainable in the long-term and asset prices to soar. Initially high levels of debt and ineffective allocation of capital have, as a result of falling asset prices, made it hard for many businesses in many countries to make new investments in maintaining competitive production. Falling asset prices have also contributed to weak household demand.

In order to ensure a favourable economic development in the long-term, it is desirable to primarily implement measures that prevent macroeconomic imbalances from occurring and, secondly, to identify and at an early stage correct any imbalances that do occur. It is hard to provide a precise definition of macroeconomic imbalance; however, an imbalance reflects an underlying problem in a market that has the potential to lead to a rapid and significant correction and in turn affect the entire economy. Examples of areas in which imbalances can arise are international competitiveness and labour costs, asset prices and the private sector's and general government's indebtedness.

The macroeconomic imbalance procedure

Within the framework of the EU's Macroeconomic Imbalance Procedure (MIP), the European Commission published in-depth reviews of the macroeconomic situation in 17 member states on 5 March 2014. Sixteen of these countries has been identified on 13 November 2013 in the Alert Mechanism Report (AMR) as potentially having macroeconomic imbal-

ances. Sweden's issues included a high current account surplus, falling shares of export markets and a high level of private debt. In addition to the member states identified in the AMR, Ireland was also subject to an in-depth review following the conclusion of its macroeconomic adjustment programme. [9]

The European Commission is of the opinion that macroeconomic imbalances existed in 14 of the 17 member states reviewed, three of which had excessive imbalances. Consequently, the Commission will be submitting proposals on the recommendations for measures to address these imbalances. These proposals will form part of the package of recommendations to be presented at the beginning of June 2013 within the scope of the European Semester. The proposals on country-specific recommendation will take into account the information provided in the member states' national reform programmes and convergence or stability programmes.

However, the situation is more serious for the three countries[10] European Commission assessed as having excessive macroeconomic imbalances. If the Commission assesses that the measures taken by these countries are not sufficiently vigorous, the Commission may then recommend that the Council initiate the Excessive Imbalance Procedure (EIP), which is the corrective arm of the MIP.

In its 2014 in-depth review of Sweden, the European Commission assessed that Sweden continues to experience macroeconomic imbalances, which require monitoring and policy action. In particular, the Commission indicate that the development of household debt, coupled with inefficiencies in the housing market, continue to warrant attention. Although the current account surplus is not being judged as constituting a macroeconomic imbalance, the Commission will follow the development of Sweden's current account balance in the context of the European Semester.

Household debt

A high level of debt, regardless of whether this is in the private or the general government, risks leading, sooner or later, to problems for both financial and macroeconomic stability. Developments in Europe and in large parts of the rest of the world in recent years provide a clear illustration of this.

In the years from 1997 to 2010, Swedish household debt increased significantly (see diagram 4). At the aggregated level, this development can be described in terms of debt-to-income ratio and interest-to-income ratio, where the debt and the interest payments after tax, respec-

[9] The countries that are currently involved in adjustment programmes – Cyprus, Greece, Portugal and Romania – have not been subject to in-depth reviews within the scope of the MIP.

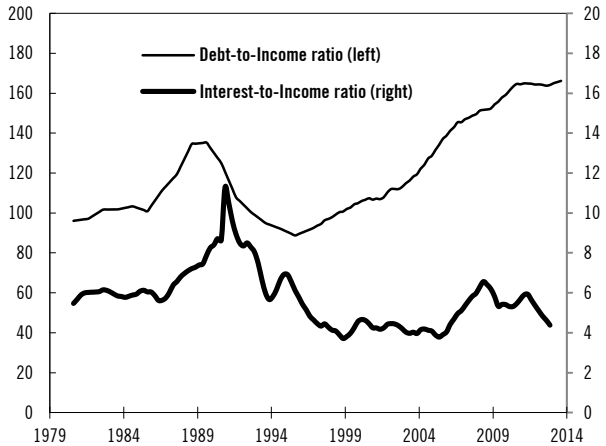
[10] Italy, Croatia and Slovenia.

tively, are compared to households' disposable incomes. Despite the debt-to-income ratio being at a historically high level, the interest-to-income ratio is close to the average for the past 30 years. Lower interest rates have thus resulted in households being able to take on larger amounts of debt without higher interest payments suppressing the potential to consume, invest or save.

Following several years with increases of around 6 percentage points, the debt-to-income ratio currently amounts to close to 170 per cent of households' disposable incomes. Over the last three years, the annual increases in the household debt-to-income ratio have been on average 0.5 percentage points. This lower rate of increase may be a sign that households in general consider their debt is appropriate in relation to their income. However, there is plenty of scope for alternative interpretations. It may also be an effect of the limitations on loan-to-value ratio and changes to the principles used by the banks to grant credit.

Diagram 4 Household debt-to-income and interest-to-income ratios

Percentage of disposable income



Note: The interest-to-income ratio is calculated using the benchmark for Swedish five-year mortgage bonds plus an interest rate margin of two percentage points, less tax deductions for interest payments. The increase in 1991 is mainly explained by the value of household interest deductions declining from an assumed average of 50 to 30 per cent of interest payments.
Sources: Reuters, Statistics Sweden, own calculations.

The increase in the household debt-to-income ratio over the past two decades can, to some extent, be explained by increased rates of home ownership and by a greater proportion of these homes being in urban areas where prices are highest. In addition, the costs of mortgages and home ownership have decreased as a result of lower interest rates and reduced property tax. This means that households can, in general, deal with a higher individual debt-to-income ratio. The increase in the aggregate debt-to-income ratio is thus explained both by more households having loans and by households having larger loans on average.

Provided that the underlying changes persist, the increase in the debt-to-income ratio that has been the result will, in all likelihood, continue. The future development of certain underlying factors is relatively straight forward to affect through political decisions, for example property tax. This can be more difficult for other factors. Even though the

Riksbank controls the repo rate, it can be more difficult to affect the average level of mortgage interest rates, particularly over longer periods. Naturally there may be additional, currently more or less unknown, underlying factors that may have affected the level of the household debt-to-income ratio. The uncertainty in known and unknown factors that affect the debt-to-income ratio make it hard to determine what can be regarded as a sustainable level in the long-term, which contributes to the uncertainty about future developments.

In order to assess whether or not household debt constitutes an imbalance, it is necessary to investigate various factors that could lead to a rapid and significant correction. It is, in this respect, appropriate to analyse households' chances of keeping up with their current interest payments in the long-term, and of dealing with any potential amortisation requirements. Sweden's earlier convergence programmes demonstrated that very few households have high interest payments and that these payments will remain modest, even in a situation with normal interest rates. The Swedish Financial Supervisory Authority has conducted stress tests in its analyses of the Swedish mortgage market to look at households' sensitivity to interest rate increases, decreased income and falling housing prices. Based on these, the conclusion was that the majority of households that have taken out new mortgages have a good ability to repay them and are resilient to interest rate increases. Despite the risk of financial instability being judged as low, vigilance concerning the macroeconomic developments is justified. For example, higher interest payments for households may lead to reduced consumption and suppressed domestic demand, which in turn can stifle the economic growth and the increase in GDP.

Accordingly, there are several explanations for the increased debt-to-income ratio. At the same time, excessive household debt carries with it risks for both financial and macroeconomic stability. Consequently, the Government and the Swedish Financial Supervisory Authority have implemented a wide range of measures aimed at strengthening the banks' resilience to financial crises and to curb the rate at which household debt is growing. In addition, the Government soon intends to decide on a bill containing proposals that increase the banks' capital adequacy ratio and make the banks better able to withstand losses. Despite a somewhat more subdued development, there is cause to remain vigilant. Household debt has increased mildly in recent years, probably as a result of decreasing interest rates. If debt starts to increase sharply again, the Government is prepared to take further measures.[11]

[11] The national reform programme contains a report on measures already implemented.

3 General government finances

3.1 Accounting principles

This section details the forecast for the general government finances given in the 2014 Spring Fiscal Policy Bill (Govt. Bill 2013/14:100). Accounts of general government net lending are, as in the Spring Fiscal Policy Bill, in accordance with European System of Accounts (ESA 95). Revenue and expenditure are thus reported in the format used for some time by both the Ministry of Finance and the National Institute of Economic Research (NIER). This accounting principle is somewhat different from the principles used by the EU for monitoring general government finances in conjunction with the Excessive Deficit Procedure (EDP) and the Stability and Growth Pact (SGP).[12] Table 4 shows the general government finances in accordance with ESA 95 and EDP. A detailed account of the general government finances in accordance with EDP is provided in Table C.2a in Appendix C.

Table 4 General government finances in accordance with ESA 95 and EDP

Per cent of GDP

	2013	2014	2015	2016	2017
ESA 95 and SFPB14					
Revenue	49.8	48.5	48.6	48.5	48.6
Expenditure	51.2	50.1	48.9	48.3	48.0
Net lending	-1.3	-1.6	-0.3	0.2	0.7
EDP and SGP					
Revenue	51.5	50.2	50.3	50.1	50.2
Expenditure	52.6	51.6	50.4	49.8	49.4
Net lending	-1.1	-1.4	-0.2	0.3	0.7

Note: SFPB14 = 2014 Spring Fiscal Policy Bill.
Sources: Statistics Sweden and own calculations.

3.2 The development of the general government finances

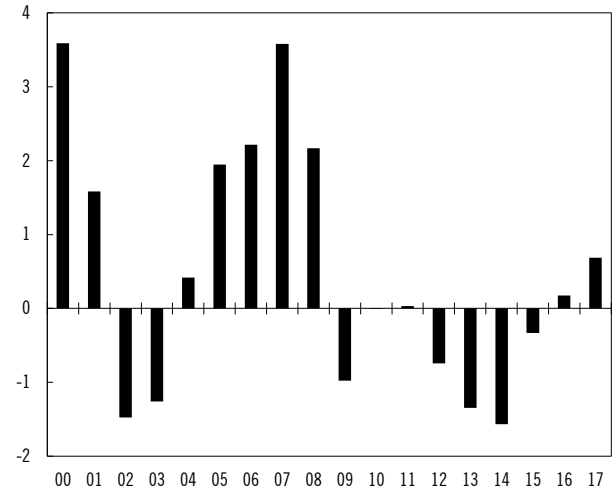
For 2009, the general government showed a deficit in net lending of 1 per cent of GDP. This is actually a smaller deficit than that caused by the relatively limited recession at the beginning of the 2000s. It is mainly due to the characteristics of the downturn and the reforms to the labour market and social insurance system, implemented by the Government

[12] In the calculation according to the convergence criteria, somewhat different rules apply than those used in the ordinary national accounts. When calculating net lending, what are known as swaps (interest on debt-exchange agreements and forward rate agreements) must be included in the interest, which is not the case in the ordinary calculations. Gross debt is calculated at nominal value (face value), since this is the amount to be paid when the debt matures. In the ordinary financial accounts, debt is valued at market value, corresponding to the value at which it can be rescheduled. In addition to the above, there are currently certain minor differences compared with the ordinary financial accounts.

since 2006, that the deficit did not become any larger. The severe recession in 2008 and 2009 was mainly caused by declining exports, which normally involves smaller impacts on the general government finances than recessions resulting from reduced domestic demand. Furthermore, the labour market and social insurance reforms implemented by the Government meant both reduced expenditure and an increased number of hours worked in the economy. This has resulted in significantly lower expenditure and a structural reinforcement of various tax bases, which coincided with the recession and contributed to maintaining the level of net lending.

Diagram 5 General government net lending 2000–2017

Per cent of GDP



Sources: Statistics Sweden and own calculations.

The economic recovery contributed to the strengthening of the general government finances in 2010 and 2011, with net lending that was largely balanced in both years.

The subdued economic situation in 2012 led to net lending once again being turned to a deficit, which amounted to 0.7 per cent of GDP. Repayments of insurance premiums from AFA Försäkring to municipalities and county councils totalling about SEK 11 billion contributed to mitigating the deterioration in net lending.

Table 5 General government finances

Per cent of GDP, unless otherwise stated

	SEK, billions					
	2013	**2013**	**2014**	**2015**	**2016**	**2017**
Revenue	**1 811**	**49.8**	**48.5**	**48.6**	**48.5**	**48.6**
Taxes and charges	1 607	44.2	43.8	43.7	43.7	43.8
Household direct taxes	575	15.8	15.6	15.6	15.8	15.9
Corporate direct taxes	96	2.6	2.7	2.7	2.8	2.9
Employers' contributions	444	12.2	12.2	12.1	12.0	12.0
Indirect taxes	492	13.5	13.3	13.3	13.1	13.1
Income from capital	74	2.0	1.6	1.9	1.8	1.8
Other revenue	131	3.6	3.1	3.1	3.0	3.0
Expenditure	**1 861**	**51.2**	**50.1**	**48.9**	**48.3**	**48.0**
Transfer payments	709	19.5	18.7	18.2	18.0	17.9
Consumption	998	27.5	27.2	26.7	26.2	26.0
Investments	122	3.4	3.3	3.2	3.2	3.2
Interest expenditure	31	0.9	0.9	0.9	0.9	0.9
Net lending	**-49**	**-1.3**	**-1.6**	**-0.3**	**0.2**	**0.7**
Primary net lending	-18	-0.5	-0.6	0.6	1.1	1.6
Consolidated gross debt	**1 475**	**40.6**	**41.3**	**39.7**	**37.3**	**34.8**
Net debt	**-911**	**-25.1**	**-22.4**	**-21.2**	**-20.2**	**-20.0**

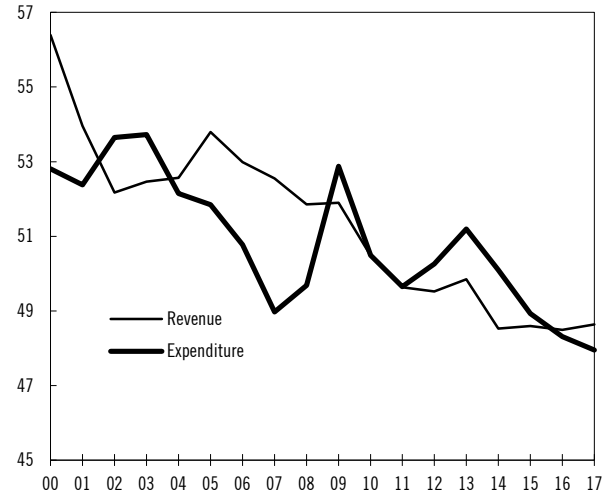
Sources: Statistics Sweden and own calculations.

Revenue increases in line with GDP

Tax revenue increased in 2013 as a proportion of GDP, despite the tax cuts implemented the same year. This is due to the most important tax bases developing more strongly than GDP. The tax ratio (tax revenue as a proportion of GDP) is estimated to decrease in 2014, which can be largely explained by the increased in work tax credit. The tax ratio for 2015–2017 is estimated to remain largely unchanged as around 44 per cent.

Diagram 6 General government revenue and expenditure 2000–2017

Per cent of GDP



Sources: Statistics Sweden and own calculations.

Expenditure decreases as a proportion of GDP

The expenditure ratio (expenditure relative to GDP) amounted to 51.2 per cent in 2013. The continues weak economy, the reforms that had been decided on for 2013 and higher expenditure on, for example, income pensions, reception of asylum seekers and sickness benefits meant that the expenditure ratio increased by close to 1 percentage point compared to 2012.

The stronger growth in 2014–2017, in combination with unemployment decreasing from 2014, means that expenditure will decrease relatively sharply in relation to GDP (see diagram 6). The expenditure ratio will decrease by about 0.7 percentage points per year in the period 2014–2017[13].

Both general government consumption and transfers to the private sector are increasing slower than GDP in the period 2014–2017. Of the transfers, the pensions, amongst others, are growing slower at the start of the forecast period, while unemployment-related expenditure is decreasing as a proportion of GDP throughout the latter part of the period. The reduced central government debt, together with gradual increases in interest rates, means that interest expenditure is estimated to be pretty much stable as a proportion of GDP (see table 5).

The improvement in net lending takes place at the central government level

The improvement in the general government finances from 2015 takes place primarily at the central government level (see table 6), even though net lending at the central government level is only expected to become positive from 2016. The old-age pensions system is judged to have weak positive net lending during 2014 and 2015, but net lending will become negative again from 2016. The local government sector reports negative net lending over the course of the forecast period, but a positive result according to the accounting principles that apply to local government's balanced budget requirement (further information in Section 3.7).

Table 6 Net lending and the central government budget balance

Per cent of GDP

	2013	2014	2015	2016	2017
General government net lending	-1.3	-1.6	-0.3	0.2	0.7
Central government	-1.0	-1.4	-0.2	0.5	1.2
Old-age pensions system	-0.2	0.1	0.1	-0.2	-0.4
Local government sector	-0.2	-0.2	-0.2	-0.1	-0.1
Central government budget balance	-3.6	-1.4	0.0	1.0	1.4
Central government debt	34.0	34.3	32.6	30.1	27.3

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

[13] This expenditure forecast assumes that policy will be unchanged in the period 2015–2018. Significant parts of the expenditure forecast do not contain any automatic compensation for wage and price changes.

3.3 Net financial wealth and consolidated gross debt

Consolidated gross general government debt decreases

Consolidated gross debt, known as Maastricht debt, is defined by EU regulations and is used to assess of member states' general government finances. For the conditions in Sweden this definition means that the debt consists of the consolidated central government debt and the local government sector's debts in the capital markets, with deductions for the Swedish National Pension Funds' holdings of government bonds.

Prior to Sweden's accession to the EU on 1 January 1995, the consolidated gross debt amounted to SEK 1 216 billion, corresponding to 72 per cent of GDP. Since then, the nominal value of the debt has fluctuated, amounting to SEK 1 475 billion at the close of 2013. The debt thus increased between 1994 and 2013 by SEK 259 billion, despite the surplus in net lending accumulated between 1995 and 2013 amounting to SEK 64 billion. This is mainly due to the fact that the surpluses in the National Swedish Pension Funds have been invested in shares and other assets, while the Funds have reduced their holdings of government bonds.

However, the debt has decreased considerably as a proportion of GDP, amounting to 40.6 per cent of GDP at the end of 2013, which can be compared with the reference value for the EU of at most 60 per cent of GDP (see table 5).

Between 2012 and 2013, the debt increased relatively sharply as a proportion of GDP; 2.3 percentage points. Central government's (the Swedish National Debt Office's) loans to the Riksbank to reinforce currency reserves increased the debt as a proportion of GDP by 2.9 percentage points, while sales of the central government's share holdings reduced the debt ratio by 1.2 percentage points.

The debt continues to increase in 2014, both nominally and as a proportion of GDP. In 2015 the debt again begins to decrease as a proportion of GDP, and in 2017 the debt ration is estimated to amount to 34.8 per cent of GDP.

The general government's net worth is weakening

In 2013, the general government's net worth amounted to SEK 751 billion, corresponding to 25.1 per cent of GDP. In the National Accounts, this measure is reported exclusive of the central government and most of the local government sector's commitments concerning defined-benefit pensions. The liabilities for the consolidated defined-contribution occupational pensions, similarly to the premium pension system, are also not accounted for as part of the general government, but are instead accounted for in the insurance sector.

Since 2005, net worth has been positive, i.e. financial assets exceed liabilities. The general government's capital revenues, in the form of interest and dividends, also exceed its interest expenditure. Net worth increased in 2013 by the equivalent of 2.8 per cent of GDP, which must be compared with the deficit in net lending. Value changes etc. provided

a positive contribution of close to 5 percentage points to the change in net worth. The increase in GDP reduced net worth in proportion of GDP by 0.5 percentage points.

In the absence of appreciation, the continued weak finances lead to net worth continuing to decrease as a proportion of GDP in 2014 and 2015. The surplus in net lending in 2016 does not compensate for the decrease in net worth in relation to GDP resulting from the increase in GDP. In 2017, the contribution of net lending to net worth as a proportion of GDP will be greater than the negative contribution of the rising GDP. Net worth is estimated to amount to 20 per cent of GDP in 2017. This forecast includes no other changes in value other than the impact of predicted foreign exchange fluctuations on central government debt.

3.4 Reconciliation against the surplus target

The surplus target involves general government net lending being equivalent to 1 per cent of GDP on average over the course of an economic cycle. Formulating the target as an average instead of an annual requirement of 1 per cent of GDP is justified for reasons of stabilisation policy. If the target were to be 1 per cent each individual year, fiscal policy would need to be contractionary in an economic downturn to ensure that the annual goal is fulfilled. Fiscal policy would thus become procyclical, meaning that it would accentuate the economic fluctuations instead of stabilising them. Consequently, there is good reason to formulate a net lending target as an average across an economic cycle. However, this makes it harder to track whether fiscal policy is on target.

As the surplus target primarily constitutes a prospective objective for finance policy it is primarily monitored prospectively. However, a retrospective analysis is conducted in order to see whether there have been any systematic failures of fiscal policy that run the risk of reducing the probability the target will be achieved in future.

The indicator used for the retrospective monitoring is the average net lending over the course of the past ten years, currently 2004–2013. The assessment of this average also takes into account the average economic situation, expressed as a GDP gap, over the period in question.

The structural balance and what is known as the seven-year indicator are used in the prospective monitoring of the surplus target. The structural balance aims to show how large net lending should be in a balanced economic situation. In the Government's calculation of the structural balance, net lending is adjusted to the current economic situation and also for major one-off effects and extraordinary levels of household capital gains. The seven-year indicator is a seven-year moving average for general government net lending. The indicator for any given year includes net lending (adjusted for major one-off effects) for that year, the three previous years and the three subsequent years. To a certain extent, the indicator takes into account the economic situation as it is an

average over several years. Nonetheless, there is a risk that the calculation will include more years of economic boom than recession, or the reverse. In such cases the indicator provides an inaccurate picture of the budgetary scope or of the need for savings. The economic situation must therefore be taken into account in order to correctly evaluate the seven-year indicator.

Calculating the structural balance is associated with a high level of uncertainty, even if the certainty of the net lending forecast is ignored. Firstly, the assessment of resource utilisation is uncertain. No outcome is ever reported for potential GDP; instead, each assessor comes up with their own estimate of its historic and future values. The view of the GDP gap is frequently revised both retro- and prospectively, not simply because of a changed view of the economic situation, but also due to revised outcome statistics for actual GDP. Secondly, the assessment of the sensitivity of general government net lending to the economic situation is uncertain. The assessment builds on an appraisal of an average relationship over a long period of time. However, each change in the economic situation has characteristics that make it deviate from the average historic trend. For example, an increase in demand in the economy led by exports results in a smaller increase in tax revenues than a commensurate increase in demand due to increased domestic private consumption. The general government finances' sensitivity to the economic situation can also be affected by structural reforms, although this is not reflected in historic temporal data series. All in all, this means that assessments of the structural balance are uncertain and that different assessments made at a single point in time can vary relatively widely, both historically and for the years ahead.

Since coming to power in 2006, the Government made continual efforts to improve the monitoring of the surplus target and make this more transparent. The introduction of indicators has been an important step in this work. In this context, it is important to point out the problems of an excessively mechanical application of indicators when monitoring the surplus target. Above all, there is a danger that fiscal policy will amplify rather than moderate fluctuations in the economy if the application is overly mechanical. The Government's starting point is thus that the assessment of the direction of fiscal policy will have a broad approach in which a number of individual targets and restrictions are compared to one another. Consequently, the indicators used to monitor the surplus target only constitute one part of the overall assessment of the direction of fiscal policy.

The ten-year retrospective average

Over the course of 2004–2013, general government net lending was equivalent to an average of 0.7 per cent of GDP (see table 7). In other words, net lending was somewhat below the target level. Over the course of the same period, the average GDP gap was -1.3 per cent of potential

GDP. If the ten-year average is adjusted by the elasticity used by the Government for general government net lending with regard to the GDP gap of 0.55 and the average GDP gap over the period, the retrospective ten-year average amounts to 1.5 per cent of GDP. This indicates that the average general government net lending in the period 2004–2013 was in line with the target level once the average economic situation is taken into account, and that the retrospective analysis does not point to any systematic failures in the assessment of the direction of fiscal policy that may impact on achieving the target in future.

The seven-year indicator

The seven-year indicator is -0.6 per cent of GDP in 2013 and then rises to -0.5 per cent of GDP in 2014. (see table 7). As the negative GDP gap is assessed to be large in the years the seven-year indicator for these years is based on (i.e. 2010–2016 and 2011–2017, respectively), the seven-year indicator adjusted for the economic situation is significantly stronger than the unadjusted indicator, but still indicates net lending of under 1 per cent. If significance is attached to both the unadjusted and the adjusted seven-year indicator, net lending is somewhat under 1 per cent according to this indicator.

Table 7 General government net lending and indicators for reconciliation against the surplus target

Per cent of GDP, unless otherwise stated

	2013	2014	2015	2016	2017
Net lending	**-1.3**	**-1.6**	**-0.3**	**0.2**	**0.7**
Retrospective ten-year average	0.7				
Adjusted for the economic situation[1]	1.5				
The seven-year indicator	-0.6	-0.5	-0.4		
Adjusted for economic situation[1]	0.5	0.4	0.4		
Structural balance	0.0	-0.2	0.5	0.4	0.8
GDP gap, per cent of potential GDP	**-2.9**	**-2.4**	**-1.5**	**-0.5**	**-0.2**
Retrospective ten-year average	-1.3				
Seven-year moving average	-2.0	-1.6	-1.4		

[1] The adjustment is made by decreasing the indicator's value by the GDP gap during the corresponding period, multiplied by an elasticity of 0.55.

Sources: Statistics Sweden and own calculations.

Structural balance

The structural balance is 0.0 per cent of potential GDP in 2013, -0.2 per cent of potential GDP in 2014 and then gradually rises to 0.7 per cent of potential GDP in 2017 (see table 7). Accordingly, this indicator also shows net lending below 1 per cent in the period 2013–2016.

Overall assessment

The Government is of the opinion that its economic policy is well-balanced, is in line with the fiscal policy framework and fulfils the surplus target. To stabilise the economy, net lending, in accordance with the fiscal policy framework, varies according to the economic situation, provided that there is confidence in the long-term sustainability of the general government finances. For this reason, the surplus target of 1 per cent is formulated as an average over an economic cycle. When resource utilisation is low and unemployment is high, net lending should be lower than 1 per cent, while it should be around 1 per cent when resource utilisation is balanced and in excess of 1 per cent when resource utilisation is high. The finance and debt crisis has been both exceptionally deep and protracted, which has provided justification for fiscal policy measures that have resulted in net lending decreasing into deficit. When resource utilisation heads towards a balance, net lending should return to the target level thanks to reforms being fully funded. This is conditional on there being no new serious disruption to the economy.

Sweden's MTO of a structural balance that does not fall below minus one per cent of GDP is fulfilled throughout the entirety of the period reported.[14]

3.5 Fiscal policy's impact on demand

One indicator of fiscal policy's direction that is often used is structural balance. This is a rough measure of fiscal policy's impact on demand, covering not just fiscal policy in the central government budget, but also a number of other factors.

A change in the structural balance of zero indicates that fiscal policy, disregarding the effect of the automatic stabilisation mechanisms, has a neutral effect on the resource utilisation in the economy. If the structural balance instead increases or decreases, this indicates that fiscal policy has a contractionary or expansionary effect, respectively, on resource utilisation.

Table 8 The GDP gap and structural balance during the stabilisation policy's three phases

	2006–2008	2009–2014	2015–2017
Change in structural balance[1]	0.9	-3.0	0.3
GDP gap, per cent of potential GDP	1.5	-3.1	-0.7

[1] Refers to the difference in structural balance as a proportion of GDP between the first and the last year in the time interval.
Source: Own calculations.

Stabilisation policy since the Government came to power in 2006 can be divided into three main phases (see table 8). A first phase in which

[14] The European Commission uses its own assessment of structural balance as a basis for evaluating fulfilment of the MTO. According to the Commission's latest forecast (Feb. 2014) Sweden fulfil its MTO in every year of the forecast period (2013–2015).

resource utilisation was high up until 2008. During this phase, fiscal policy was contractionary, measured as the change in structural balance, because the structural balance was strengthened by 0.9 per cent of GDP between 2005 and 2008. The second phase lasts from 2009 to 2014, when the financial and debt crisis meant there was a large requirement to support the economy via an active fiscal policy. Resource utilisation is expected in future to get close to a balance and stabilisation policy will then go into a third phase in which the structural balance is strengthened, provided that future reforms are fully funded. All in all, this shows that the Government has adapted fiscal policy to suit the economic trend since it came to power. The Government has pursued a fiscal policy that actively combated economic fluctuations while maintaining the low central government debt and confidence in the long-term sustainability of fiscal policy.

A more disaggregated analysis of the change in net lending from 2014 to 2017 is presented below. This provides a more comprehensive picture of the impulse to demand from fiscal policy in future. However, it should be noted that, in many case, there is a large level of uncertainty in the figures reported.

Table 9 Indicators of impulse to demand

Annual change, per cent of GDP

	2014	2015	2016	2017
Net lending	**-0.2**	**1.2**	**0.5**	**0.5**
Automatic stabilisation mechanisms	0.3	0.5	0.6	0.2
One-off effects	-0.3	0.0	0.0	0.0
Extraordinary capital gains	0.0	0.0	0.0	0.0
Structural balance	**-0.2**	**0.7**	**-0.1**	**0.3**
Discretionary fiscal policy[1]	-0.6	0.2	-0.1	0.0
Capital income, net	-0.5	0.2	-0.1	0.1
Local government finances	0.3	0.1	0.0	0.0
Other	0.5	0.2	0.0	0.3
GDP gap, change in percentage points	0.5	0.9	1.0	0.3

[1] Refers to expenditure and revenue changes between 2014 and 2017 in relation to reforms adopted, proposed and announced in previous years.

Sources: Statistics Sweden and own calculations.

In 2014, resource utilisation is expected to increase somewhat and the negative GDP gap to increase by the equivalent of 0.5 per cent of potential GDP (see the last line in table 9). An increase in resource utilisation such as this normally strengthens the general government finances by the equivalent of c. 0.3 per cent of GDP (see the second line of table 9). This is the effect of the automatic stabilisation mechanisms. The difference between the change in net lending and the net effect of the automatic stabilisation mechanisms, one-off effects and extraordinary capital gains corresponds to the change in the structural balance.

Tax revenue normally rises at about the same rate at GDP at current prices, while general government expenditure increases somewhat more

slowly. Certain expenditure items are, for example, set nominally in kronor, while others are price indexed. Appropriations to central government authority do not completely compensate for rising wages. Consequently, the general government finances are automatically strengthened in the absence of new active decisions, which largely explains the positive value in line 9 of table 9.

The discretionary fiscal policy in the central government budget (line 6 in table 9) leaves an expansionary contribution equivalent to 0.5 per cent of GDP in 2014 and a contractionary contribution equivalent to 0.2 per cent of GDP in 2015.

The change in structural balance in 2015 and 2016 is also affected by the indexing of old-age pensions holding back old-age pension expenditure in 2015 and increasing them a relatively large amount in 2016. Accordingly, the pension system's balancing mechanism reinforces the contractionary effect of the automatic budget increase in 2015 and counteracts it in 2016, which explains the weak expansionary impulse in that year.

3.6 Monitoring of the expenditure ceiling

The multi-year expenditure ceiling serves to foster the credibility of economic policy and is an important budgetary policy commitment for the Riksdag and the Government. All expenditure in the central government budget is subject to the expenditure ceiling, with the exception of interest payments on central government debt. In addition, expenditure on the old-age pensions system is encompassed by the expenditure ceiling. Ceiling-restricted expenditure consists of actual expenditures rather than budgeted, meaning that the authorities' utilisation of appropriations savings and appropriations credit is included. The difference between the expenditure ceiling and the ceiling-restricted expenditure is termed the budgeting margin. As a rule, if the budgeting margin is utilised, the general government finances worsen.

According to the Swedish Budget Act, the Government is obliged to propose an expenditure ceiling for the third additional year. This proposed level forms the basis for the Riksdag's decision on expenditure ceiling. In the Budget Bill for 2015, the Government will, in accordance with the Swedish Budget Act, propose a level for the expenditure ceiling for 2017. In the Spring Fiscal Policy Bill for 2014, the Government made an assessment of the expenditure ceiling's levels for 2017 and 2018. An assessed level is not subject to a Riksdag decision.

Table 10 Expenditure ceiling 2012–2016

SEK billions, unless otherwise stated

	2012	2013	2014	2015	2016
Expenditure ceiling	1,084	1,095	1,107	1,127	1,167
Per cent of GDP	30.5	30.1	29.3	28.4	28.0
Ceiling-limited expenditure	1,022	1,067	1,091	1,108	1,132
Per cent of GDP	28.8	29.4	28.8	27.9	27.1
Budgeting margin	62	28	16	19	35
Per cent of GDP	1.7	0.8	0.4	0.5	0.8

Note: The budgeting margin is the difference between an expenditure ceiling and the ceiling-restricted expenditure.
Sources: Swedish National Financial Management Authority and own calculations.

It is the Government's assessment that the budgeting margin below the expenditure ceiling for 2014–2016 is sufficient to manage the uncertainty in the expenditure trend. The budgeting margin for 2014 is calculated to be SEK 16 billion. The marginal then grows to SEK 19 billion in 2015 and SEK 35 billion in 2016. The size of the budgeting margin is in line with, or larger than, the Government's guideline for the budgeting margin's minimum size in each of these years.[15]

3.7 Monitoring good financial management and the local government balanced budget requirement

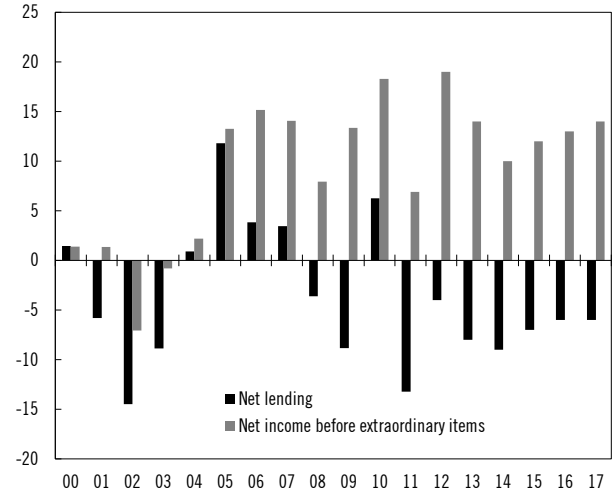
The surplus target for general government finances also includes net lending in the local government sector, i.e. in municipalities and county councils. However, no explicit target has been stipulated for local government net lending.

The general government surplus target is expressed in terms of net lending as defined in the National Accounts. However, it is net income, not net lending, that determines whether municipalities and county councils comply with the balanced budget requirement of the Swedish Local Government Act (1991:900). According to this requirement, municipalities and county councils must draw up budgets in which gross income exceeds expenditure. Only in exceptional cases may deviations from the balanced budget requirement be made. A negative net income in the closing accounts must be redressed within three years, unless there are exceptional grounds. This requirement represents the lowest acceptable short-term net income.

[15] According to the Government's guideline, the budgeting margin's minimum size should amount to at least 1 per cent of ceiling-limited expenditure in the current year t (2014), at least 1.5 per cent in year t+1 (2015) and at least 2 per cent in year t+2 (2016). The necessary buffer for t+3 (2017) and for t+4 (2018) are assessed to be at least 3 per cent of ceiling-limited expenditure.

Diagram 7 Local government net income and net lending

SEK billions



Sources: Statistics Sweden and own calculations.

There are differences in accounting methods between the local government accounts and the National Accounts that may amount to several billion kronor for a particular year (see diagram 7). These discrepancies are due to the fact that local government accounting is based on the same theoretical principles as apply to accounting in the business sector. If, for example, investment expenditure were to rise substantially between two years, this would have an immediate impact on net lending, while the net income would only be affected by the depreciations.

According to the Swedish Local Government Act, municipalities and county councils must also maintain good financial management in their operations. Effective from 2005, municipalities and county councils set the financial goals that are significant to good financial management. A commonly used measure is that a net income corresponding to 2 per cent of revenue from taxation and general central government grants meets the requirement for good financial management. Municipalities and county councils' annual reports must contain an assessment of whether the balanced budget requirement has been met. They must also include an evaluation of whether the requirement for good financial management has been achieved.

As of 1 January 2013, municipalities and county councils can build up balancing funds within the scope of their equity. Surpluses can be set aside in good times to be utilised if deficits arise as a result of an economic downturn. The introduction of balancing funds can be seen as a clarification of the overall objective of good financial management.

The development of net income in local government

The local government sector reported a preliminary net income before extraordinary items of SEK 14 billion in 2013 (see diagram 7). This strong result is largely explained by the repayment of about SEK 11 billion in health insurance premiums by AFA Försäkring that took place

in 2013. In addition, municipalities and county councils increased the average tax rate by a total of 13 öre, contributing to the strengthening of net income.

3.8 Central government guarantees

A central government guarantee undertaking entails the central government providing a surety for someone else's payment commitment, which incurs a financial risk for the central government. General rules for the management of central government guarantees are set out in laws and ordinances.

According to the Swedish Budget Act, the Government may issue credit guarantees and enter other similar commitments for the purpose and not exceeding the amount determined by the Riksdag. A guarantee charge is to be imposed corresponding to the central government's risk and other costs associated with the commitment, unless the Riksdag decides otherwise. The charge shall cover the expected costs associated with the guarantee, consisting of expected losses (or possible recoveries) should the beneficiary of the guarantee be unable to meet their commitments, as well as administration costs. This model for central government guarantees was created to ensure that guarantees are self-financed in the long term. Examples of major guarantee commitments covered by this guarantee model are export credit guarantees and credit guarantees for infrastructure projects. Alongside the Swedish Budget Act, there are guarantees that are regulated by specific acts. The deposit insurance scheme, investor compensation scheme and the bank guarantee programme are all examples of guarantees managed outside of the guarantee model.

Composition of the guarantee portfolio

Table 11 provides a summary of the guarantees and pledges issued by the Government and various agencies. The central government's guarantee portfolio amounted to SEK 1 668 billion at the close of 2013. The largest commitment was the deposit insurance scheme (SEK 1 313 billion as of 31 December 2012), followed by credit guarantees and guarantees for capital injections. Pension guarantees and other guarantees amounted to a total of SEK 10 billion.

Table 11 Central government guarantee commitments and pledges, 31 December 2013

SEK billions

	Guarantees	Pledges	Expenditure area
Deposit insurance scheme[1]	**1 312.8**		2 Economy and financial administration
Investor compensation[2]			2 Economy and financial administration
Credit guarantees	**233.4**	**117.8**	
of which			
Bank guarantee programme	8.9		2 Economy and financial administration
Export credit guarantees[3]	194.7	117.6	24 Industry and trade
Credit guarantees in foreign aid	0.9	0.1	7 International development cooperation
Independent guarantees	1.2	0.2	7 International development cooperation
Infrastructure	19.7		22 Transport and communications
Housing credits	1.7		18 Planning, housing provision, construction and consumer policy
International commitments	6.3		2 Economy and financial administration 7 International development cooperation
Automotive industry	0		24 Industry and trade
Guarantees for capital injections	**111.6**		
of which			
Capital cover guarantees[4]			22 Transport and communications
Subscription guarantees	0.4		22 Transport and communications
Guarantee capital	111.2		2 Economy and financial administration 7 International development cooperation
Other	0		
Pension guarantees[5]	**8.2**		2 Economy and financial administration 16 Education and university research 22 Transport and communications 24 Industry and trade
Other guarantees	**1.9**		
of which			
Guarantees for public enterprises etc.	1.9		
Total	**1 667.9**	**117.8**	

[1] The commitment for the deposit insurance scheme is as of 31 December 2012.
[2] For the investor compensation scheme there is a lack of data regarding the scope of the protected assets.
[3] Refers to both restricted and unrestricted pledges.
[4] There are two capital cover guarantees for which no values have been estimated since the guarantees are not limited in terms of time and amount.
[5] The commitment for pension guarantees is as of 31 December 2012.
Source: Swedish National Debt Office.

Expected costs in the central government's guarantee portfolio

To measure the risk of the guarantee commitments that are managed according to the guarantee model, the authorities issuing these guarantees continuously assess the expected losses. The authorities make provisions on the debt side of their balance sheets for the expected costs, which consist of expected losses and the administrative costs of managing the guarantees. The deposit insurance scheme, investor compensation scheme and the bank guarantee programme are not regulated by the Swedish Budget Act, but by specific legislation. Consequently no assessment is made of, or provision made for, the expected losses.

To assess how well the guarantee scheme is expected to manage future redemptions, an analysis is made of the relationship between the provisions for expected costs and the assets (in the form of paid-in and future guarantee fees and administrative costs).

The debt and asset sides of the guarantee operations are shown in table 12. The comparison is made at authority level. The deposit insurance scheme, investor compensation scheme, bank guarantee programme and guarantee capital for the international financing institutes are not included in table 12 since the expected costs of these guarantees have not been estimated.

Table 12 Comparison between provisions for expected costs and assets in the guarantee operations as of 31 December 2013 (excluding the deposit insurance scheme, investor compensation scheme, bank guarantee programme and guarantee capital)

SEK billions

Authority	Guarantee commitment	Provisions for expected costs	Guarantee assets	Current value of future fees
Swedish National Debt Office	34.6	0.8	1.8	0.0
The Swedish Export Credits Guarantee Board	185.8	6.2	27.4	2.1
Swedish International Development Cooperation Agency	2.3	0.2	1.9	0.0
BOVERKET - The Swedish National Board of Housing, Building and Planning	1.7	0.1	2.2	0.0
Total	**224.4**	**7.4**	**33.3**	**2.2**

Source: Swedish National Debt Office.

4 Alternative scenarios and comparison with Sweden's Convergence Programme 2013

4.1 Alternative scenarios

This section discusses possible risks in the forecast for economic development and the general government finances presented in Sections 2 and 3. In addition, three alternative scenarios for the development of the Swedish economy are presented.

Risks for weaker development dominate

The financial and political turbulence in the euro area has decreased since 2012. That the markets are now relatively calm is largely due to the European Central Bank's pledge to purchase bonds to support the markets if necessary. The borrowing costs of many countries in the euro area have been falling in 2013 and Spain and Ireland have been able to end their support programmes.

Agreement has been reached at the EU level to centralise decisions on the liquidation of banks in crisis and creating a common fund for financing this. However, doubts remain as to whether the fund is sufficiently large. The limited resources could lead to a scenario in which the ability to deal with the capital requirement is called into question. This could contribute to reducing the financial markets' confidence in the European banks. This can, in turn, lead to a lower rate of credit growth and worse conditions for recovery in several euro area countries. Alternative Scenario 1 contains an analysis of how the Swedish economy would develop if the recovery in the rest of the world was weaker than in the forecast.

Despite an exceptionally expansionary monetary policy pursued over several years, the core inflation in the USA and the euro area has fallen since 2012 and is a good deal below the respective central banks' inflation targets. Deflation, or unexpectedly low inflation, increases the real debt of central governments, households and businesses. In countries that have a high level of debt and weak income growth, e.g. Italy and Spain, there is a risk that this leads to the debt burden increasing. In additions, a situation involving generally falling prices risks leading to several years of weak real growth and a delayed labour market recovery.

At the beginning of 2014, relations between Russia and Ukraine have become dramatically worse and there is a significant risk of long-term conflict. The political situations in other parts of the world are also marked by significant instability. Above all, there is a danger that supplies of certain raw materials, not least Russian gas, decrease rapidly. Crises in the Middle East, for example, are usually followed by sharply rising oil prices.

Swedish exports have, for some time, been growing more slowly than the underlying demand in those countries that are important for Swedish exports. If structural factors contribute to explaining this weak growth in exports, e.g. if the competitiveness of Swedish businesses is worse than assessed in the forecast, there is a danger that exports will not grow to the extent predicted, despite an international recovery.

In the longer term, the change in house prices and the comparatively high level of household debt constitutes a risk. House prices and household debt have increased since the middle of the 1990s and have now reached very high levels. The forecast predicts that house prices continue to increase at a moderate rate over the next few years. The Government, together with the governmental agencies concerned, has already taken a number of steps to achieve sustainable development of house prices and indebtedness, as well as to increase the resilience of the banking system. This work continues in the governmental agencies and within the Financial Stability Council with the aim of further reducing the risks.

Productivity has grown at a relatively slow average rate since this start of the financial crisis in 2008, and appears to have also affected the productivity development trend. However, the forecast predicts potential productivity to rise in the long-term, but there is a danger that the

potential productivity rises slower than in the forecast. This could, for example, take place through development and introduction of new technologies being slowed even further, in combination with the fact that the long period after the financial crisis in which investments were at a low level has had a more far-reaching effect on the utilisation of, primarily, capital goods. On top of that, a structural change may mean that an increasingly large proportion of production in the less productive service industries has a negative impact on the average rate of productivity growth. Alternative Scenario 2 contains a more detailed analysis of how lower potential productivity would affect the development of the Swedish economy.

Stronger development possible

The economic recovery in the rest of the world can be stronger than expected. In the euro area, such a development may be linked to reforms involving the banking union in which larger successes than expected may improve confidence in the banks and thus give the Central Bank's expansionary monetary policy greater impact, as well as providing better access to capital at a lower cost.

An economic recovery is also expected to involve investment growth taking off in Sweden's trading partners. In such a situation, Sweden's exporters are in a favourable position as a large part of Sweden's export is constituted by intermediate and investment goods. There is a chance that the international recovery contributes to increased demand for Swedish exports to a greater extent than predicted. This would involve a higher rate of export growth than in the forecast. The impact of such a development on the Swedish economy is presented in Alternative Scenario 3.

Strong confidence indicators, a record high savings rate and relatively high real wage increases point to a stable and high rate of growth in consumption. The savings rate is judged to be almost 4 per cent at the end of the forecast period, which is higher than the average over the last fifteen years of just under 1 per cent. The savings rate has also been negative on several occasions in the last fifteen years. Given the relatively high level of saving at the end of the forecast period, there is thus space for a higher rate of growth in consumption than in the forecast without the savings rate plunging to abnormally low levels.

There is a great deal of uncertainty about the future development of productivity. Aside from the negative risk above, it is also possible that the subdued productivity growth in recent years is mainly a temporary effect of investments and technological development having been restrained during the protracted recession. Accordingly, when the economic situation improves in the years ahead, it is possible that the introduction of, for example, new technology increases resulting in higher rates of productivity growth than in the baseline scenario.

Alternative Scenario 1: Weaker international development.

This scenario presumes that the political and economic recovery in the rest of the world is weaker than in the baseline scenario. In the euro area, such a development may, for example, be linked to the work towards stronger financial integration not being as successful as assumed in the baseline scenario. Such difficulties would reduce confidence in the banks and thus result in the Central Bank's expansionary monetary policy having less impact, as well as less access to capital at a higher cost.

Geopolitical risks such as the developments in Ukraine can also have far-reaching consequences for the chances of an economic recovery. An escalating political situation with sanctions against Russia could lead to supplies of certain raw materials, e.g. Russian gas, decrease rapidly, with resulting higher energy prices and subdued production.

In Alternative Scenario 1 it is assumed that the recovery in demand in the world markets is sluggish compared with the baseline scenario, resulting in lower demand for Swedish exports in the period 2014–2016.

The growth in consumption is lower than in the baseline scenario as a result of weaker development of the labour market with unemployment remaining at 8 per cent in 2014 and 2015 (see table 13). The lower export growth also means that investment growth is subdued. The repo rate is lowered in 2014 and is then lower than in the baseline scenario for the entire period, contributing to counteracting the negative effect on Swedish exports.

The rate of export growth increases in conjunction with the recovery in the euro area taking off more distinctly in 2016. Domestic demand develops strongly in 2017 and unemployment begins to fall somewhat. Resource utilisation, measured as GDP gap, becomes lower throughout the entire period.

General government net lending as a proportion of GDP is impaired by 0.6 percentage points compared with the baseline scenario. This is mainly due to weaker demand in the economy and higher unemployment leading to wages rising slower than in the baseline scenario. In addition, VAT revenue is lower because household consumption increases slower than in the baseline scenario. In terms of expenditure, it is mainly unemployment benefits that increase. One oppositional effect is that general government expenditure also decreases as a result of weaker demand.

Table 13 Alternative Scenario 1: Weaker international development.

Forecast according to the baseline scenario in parentheses, annual percentage change, unless otherwise stated

	2014	2015	2016	2017
GDP	2.0	2.5	2.9	3.2
	(2.7)	(3.3)	(3.5)	(2.5)
Employment rate[1]	0.9	0.8	0.8	1.0
	(1.2)	(1.2)	(1.2)	(1.0)
Unemployment rate[1.2]	8.0	8.0	7.9	7.5
	(7.7)	(7.3)	(6.7)	(6.3)
GDP gap[3]	-3.1	-2.9	-2.4	-1.4
	(-2.4)	(-1.5)	(-0.5)	(-0.2)
Repo rate[4]	0.50	1.00	1.50	1.75
	(0.75)	(1.50)	(2.25)	(2.75)
CPIF[5]	0.7	1.3	1.4	1.7
	(0.8)	(1.5)	(1.7)	(1.9)
Net lending[6]	-1.7	-0.7	-0.4	0.2
	(-1.6)	(-0.3)	(0.2)	(0.7)

[1] 15–74 years.
[2] Per cent of the labour force.
[3] The difference between actual and potential GDP as a percentage of potential GDP.
[4] Closing rate.
[5] Annual average.
[6] Per cent of GDP.
Source: Own calculations.

Alternative Scenario 2: Weaker productivity

The average rate of productivity growth has been relatively low since the start of the financial crisis in 2008 and the Government assesses that this has also affected the growth of potential productivity. The rate of potential productivity growth is assessed in 2013 to be lower than the average actual rate of productivity growth, which amounted to 2.3 per cent for the period 1980–2013. However, the baseline scenario assumes that the productivity growth rate will gradually rise towards the average level. In this alternative scenario, the potential productivity of the business sector does not rise in accordance with the forecast. Instead, it is assumed that it grows at an average rate which is 0.4 percentage points lower than in the baseline scenario.

The lower potential productivity of the business sector means that businesses invest lest than in the baseline scenario (see table 14). Lower productivity also means that the unit costs of labour become higher, resulting in poorer competitiveness and lower export growth than in the forecast. The lower productivity also leads to real wages growing more slowly. In turn this contributes to consumption growing more weakly than in the baseline scenario. In the 2016–2017, the weaker demand leads to a poorer development of the labour market. Higher unit labour costs result in higher inflation. Consequently, CPIF inflation increases faster than in the baseline scenario. The repo rate is increased in 2014 and is, at most, 0.25 percentage points higher than in the baseline scenario.

Table 14 Alternative Scenario 2: Weaker productivity

Forecast according to the baseline scenario in parentheses, annual percentage change, unless otherwise stated

	2014	2015	2016	2017
GDP	2.6	2.9	3.0	2.0
	(2.7)	(3.3)	(3.5)	(2.5)
Investments	4.6	6.9	5.8	4.2
	(4.7)	(7.4)	(6.5)	(4.5)
Employment rate[1]	1.2	1.1	1.0	0.9
	(1.2)	(1.2)	(1.2)	(1.0)
Unemployment rate[1.2]	7.7	7.3	7.0	6.6
	(7.7)	(7.3)	(6.7)	(6.3)
GDP gap[3]	-2.3	-1.5	-0.6	-0.3
	(-2.4)	(-1.5)	(-0.5)	(-0.2)
Repo rate[4]	1.00	1.75	2.50	3.00
	(0.75)	(1.50)	(2.25)	(2.75)
CPIF[5]	0.8	1.7	1.9	2.0
	(0.8)	(1.5)	(1.7)	(1.9)
Net lending[6]	-1.6	-0.4	-0.1	0.3
	(-1.6)	(-0.3)	(0.2)	(0.7)

[1] 15–74 years.
[2] Per cent of the labour force.
[3] The difference between actual and potential GDP as a percentage of potential GDP.
[4] Closing rate.
[5] Annual average.
[6] Per cent of GDP.
Source: Own calculations.

All in all, GDP will grow by an average 2.5 per cent in 2014–2017 compared with an average 2.9 per cent over the same period in the baseline scenario. Resource utilisation in the economy as a whole, measured using the GDP gap, is as good as balanced at the end of the period.

General government net lending as a proportion of GDP is impaired by 0.4 percentage points compared with the baseline scenario. This is mainly due to weaker demand in the economy and higher unemployment leading to wages rising slower than in the baseline scenario. In addition, VAT revenue is lower because household consumption increases slower than in the baseline scenario. On the expenditure side, unemployment benefits increase somewhat. One oppositional effect is that general government expenditure also decreases as a result of weaker demand.

Alternative Scenario 3: Exports intensify the recovery

In the forecast, export growth is weak compared with other aspects of the economic recovery. This alternative scenario assumes there is a stronger economic development in the rest of the world and a larger need for investments in the advanced economies than is the case in the forecast. All in all, this means that demand from the rest of the world develops more strongly and the international investment cycle takes off more markedly. This increases demand from the rest of the world for the input and investment goods that dominate Swedish exports. Consequently, export growth for 2014 and 2015 is higher in this alternative scenario than in the forecast (see table 15). However, at the end of the forecast period, it is assumed that the rate of export growth subsides

when resource utilisation becomes less negative in the rest of the world and growth in demand in the world markets is reduced.

Higher export growth in 2014 and 2015 results in higher GDP growth. This also means that businesses need to increase their staffing levels more than in the baseline scenario. Consequently, the unemployment rate decreases in 2014 and becomes 5.6 per cent at the end of the period. All in all, the unemployment rate is on average c. 0.5 per cent lower than in the forecast. The improved situation in the labour market results in wages increasing more strongly and inflation becoming higher. The repo rate begins to be increased in 2014 and is, at most, 0.5 percentage points higher than in the baseline scenario.

General government net lending as a proportion of GDP is improved by 0.3 percentage points compared with the baseline scenario. This is mainly due to wages rising faster as a result of the number of hours worked and salaries both increasing. On the expenditure side, it is primarily unemployment benefits that decrease. One oppositional effect is that general government expenditure also increases as a result of stronger demand.

Table 15 Alternative Scenario 3: Exports intensify the recovery

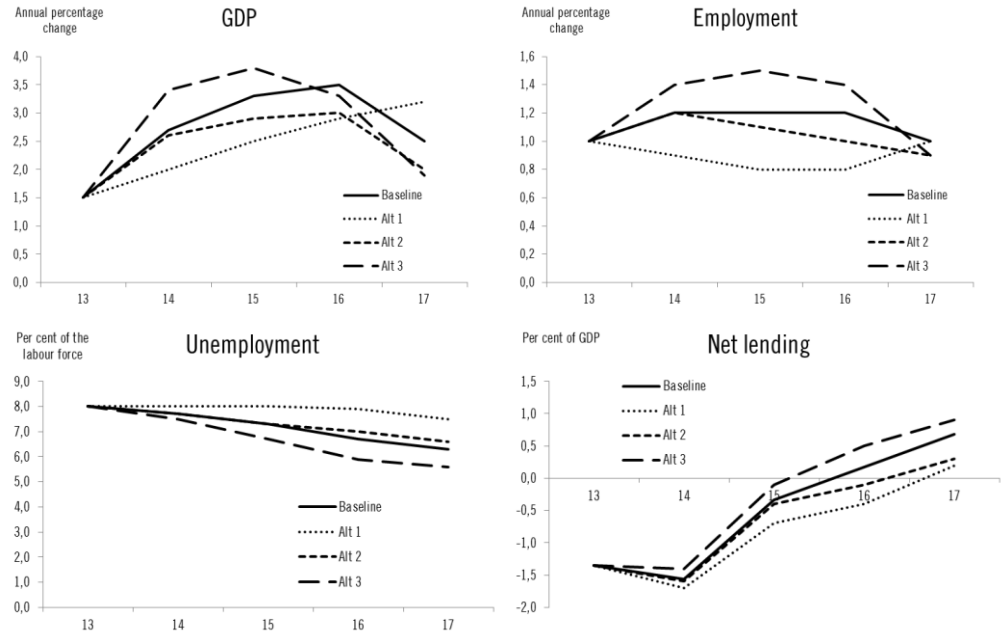
Forecast according to the baseline scenario in parentheses, annual percentage change, unless otherwise stated

	2014	2015	2016	2017
GDP	3.4	3.8	3.3	1.9
	(2.7)	(3.3)	(3.5)	(2.5)
Exports	6.0	7.4	6.2	4.4
	(3.5)	(5.5)	(6.5)	(5.7)
Employment rate[1]	1.4	1.5	1.4	0.9
	(1.2)	(1.2)	(1.2)	(1.0)
Unemployment rate[1.2]	7.5	6.7	5.9	5.6
	(7.7)	(7.3)	(6.7)	(6.3)
GDP gap[3]	-1.8	-0.2	0.7	0.4
	(-2.4)	(-1.5)	(-0.5)	(-0.2)
Repo rate[4]	1.00	2.00	2.75	3.25
	(0.75)	(1.50)	(2.25)	(2.75)
CPIF[5]	0.8	1.6	1.9	2.0
	(0.8)	(1.5)	(1.7)	(1.9)
Net lending[6]	-1.4	-0.1	0.5	0.9
	(-1.6)	(-0.3)	(0.2)	(0.7)

[1] 15–74 years.
[2] Per cent of the labour force.
[3] The difference between actual and potential GDP as a percentage of potential GDP.
[4] Closing rate.
[5] Annual average.
[6] Per cent of GDP.
Source: Own calculations.

Diagram 8 Development of GDP, employment rate, unemployment rate and net lending in the baseline scenario and alternative scenarios 2013–2017

Annual percentage change, per cent and per cent of GDP



Source: Own calculations.

4.2 Comparison with the 2013 convergence programme

Actual GDP growth has been revised up for 2014 in relation to last year's programme, but has been revised down for 2015–2017 (see table 16). In Sweden, GDP growth ended up being higher than expected in the fourth quarter of 2013. In addition, GDP growth for the third quarter of 2013 was revised up in connection with the presentation of the National Accounts in February. This means that GDP at the beginning of 2014 is somewhat higher than the expected level, which partly contributes to the annual average growth rate in 2014 becoming somewhat higher. Gross fixed capital formation is expected to grow somewhat faster in both 2014 and 2015. At the same time, investments in inventory are expected to contribute more to the growth in demand in 2014, following the surprisingly strong contribution of inventory in the fourth quarter of 2013.

Table 16 Comparison with the 2013 convergence programme

Annual percentage change in volume and per cent of GDP

	2013	2014	2015	2016	2017
GDP, percentage change in volume					
Convergence programme 2013	1.2	2.2	3.6	3.9	–
Convergence programme 2014	1.5	2.7	3.3	3.5	2.5
Difference, percentage points	0.3	0.5	-0.3	-0.4	–
General government net lending, per cent of GDP[1]					
Convergence programme 2013	-1.4	-0.9	0.2	1.2	–
Convergence programme 2014	-1.1	-1.4	-0.2	0.3	0.7
Difference, percentage points	0.3	-0.5	-0.4	-0.9	–
of which reforms in BP13					
Consolidated gross debt, per cent of GDP					
Convergence programme 2013	42	41.8	39.5	36.2	–
Convergence programme 2014	40.6	41.3	39.7	37.3	34.8
Difference, percentage points	-1.4	-0.3	0.5	1.4	–

[1] In accordance with ESA 95.

Sources: Statistics Sweden and own calculations.

The forecast for net lending as a proportion of GDP has been revised down for 2014 by 0.5 percentage points. This is mainly due to the assessment that central government tax revenue decreases as a result of the tax proposals decided on by the Riksdag when it adopted the central government budget for 2014. These reforms have also contributed to the downward revisions for 2015 and 2016. On top of that, the expenditure forecasts for pensions, local government consumption, sickness benefits and sickness and activity compensations have been revised upwards. The downward revision of the figure for GDP development also contributes to downward revisions of the figures for net lending in 2015 and 2016. The lower net lending leads, in turn, to the consolidated gross debt now being expected to be higher in 2015 and 2016 than in the 2013 convergence programme.

5 Fiscal policy's long-term sustainability

Developments in Europe in recent years illustrate how unsustainable fiscal policy can lead to substantial interference with government-funded activities, resulting in societal costs. As a result of large, growing government debts, several crisis-hit countries have been forced to adopt emergency crisis measures instead of implementing reforms that promote stable, long-term growth. In these countries, the, in many cases, unavoidable tax rises and cuts to public welfare have also meant that the recession has been intensified and extended. Enforced crisis management thus also often increases the strain in redistribution policy. By protecting the strength of general government finances and improving the func-

tioning of the labour market, Sweden has had the opportunity to manage the crisis in a better way. It has been possible to implement powerful stabilisation policy interventions without endangering confidence in fiscal policy. It is important that fiscal policy continues to be sustainable and to enjoy a high level of confidence, not only among households and businesses, but also in the international financial markets.

This section analyses and assesses whether fiscal policy is sustainable in the long-term. The aim of the analysis it to identify, in good time, signs that fiscal policy is unsustainable so that measures to restore sustainability and maintain confidence can be implemented at an early stage. If the necessary changes are pushed towards the future, the problems will become worsened and the implementation will be more difficult, since more extensive measures need to be implemented at a later stage and often in more disorganised forms. If it is observed in good time that fiscal policy is unsustainable, there is more time for well thought out reforms, at the same time as households and businesses are also given a longer period in which to adjust to the new conditions.

Sweden is faced with several changes that may subject society to stresses, why they should be kept under observation. Not least, the ageing population has the potential to put pressure on fiscal policy, but higher costs and increased demand for tax-funded services may also mean that fiscal policy has to be altered. However, increased pressure on the general government finances does not necessarily have to be met with a reduction in the level of ambition or with higher taxes. Section 5.2 deals with a number of possible alternatives for improving the long-term sustainability of fiscal policy. Pressure on the general government finances can be kept in check by extending the working life, increasing the supply of labour among women and among those with foreign backgrounds, by improving the population's health and by increasing productivity in the production of tax-funded services.

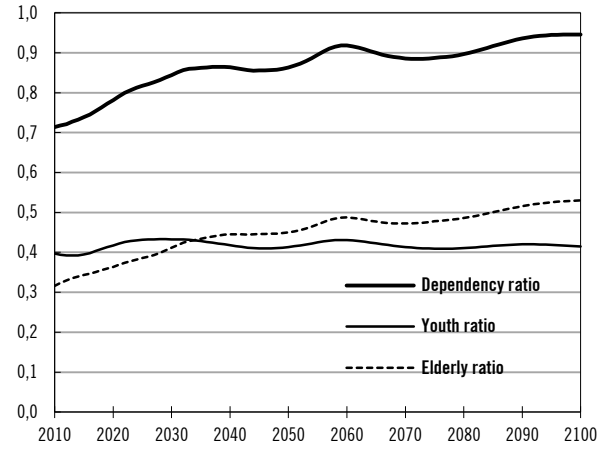
5.1 Demographics and the general government finances

The average age of the Swedish population has increased in recent decades. This trend is also expected to continue throughout the rest of this century. When average life expectancy increases, the proportion of elderly in the population rises.[16] diagram 9Diagram 9 illustrates this trend with the help of what is known as the dependency ratio. For 2014, the ratio is 0.73, i.e. each person of working age must support 0.73 people not of working age. The dependency ratio is expected to have increased to 0.86 in 2050 and to 0.95 in 2100.

[16] Future demographic trends are described in more detail in *The future population of Sweden 2013–2060* (Statistics Sweden, 2013).

Diagram 9 Dependency ratios

Proportion

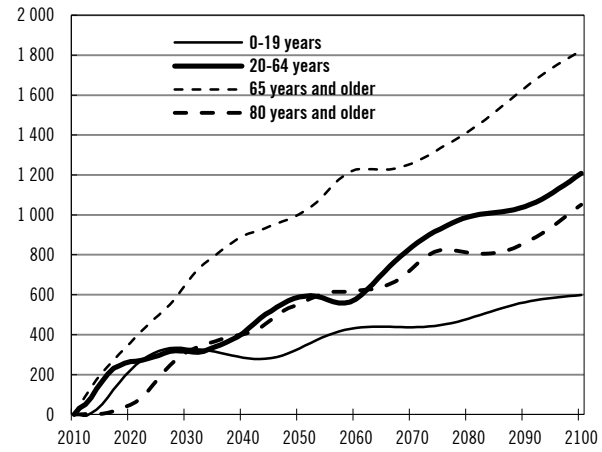


Note: The dependency ration is the number of people not in the age group 20–64 years, divided by the number of people in this age group. The youth ratio is the number of people in the age group 0–19 years in relation to the number of people in the age group 20–64 years, while the elderly ratio is the relationship between the number of people 65 years and older and the number of people aged 20–64 years. Sources: Statistics Sweden and own calculations.

The dependency ratio rises as a result of the number of elderly people increasing, both in absolute terms and in relation to the number of people of working age. This appears in diagram 10, which shows how the number of people in different age groups changes from 2010 in the 2013 population forecast from Statistics Sweden. The number of people who are 65 or older is expected to increase by c. 1 million by 2050 and by 1.8 million by 2100, compared to 2010, while the number of people of working age increases by barely 600 000 and 1.2 million, respectively. Over the course of the same period, the number of people who are 80 or over increases by c. 550 000 and just over 1 million, respectively, i.e. only just lower than the number of people of working age. Besides increased average life expectancy, the large generations born in the 1940s, 1960s and 1990s will contribute to the sizeable changes over time.

Diagram 10 Change in population compared to 2010

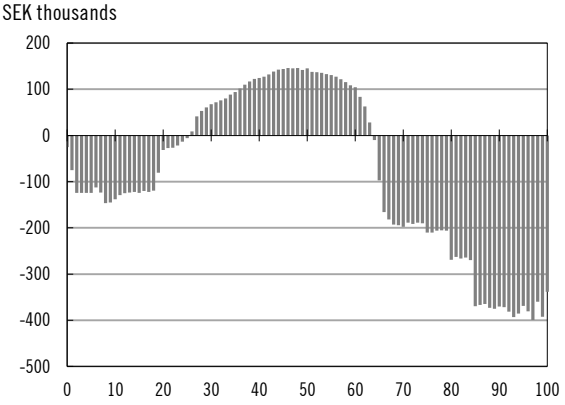
Thousands of people



Source: Statistics Sweden.

The impact of changes in the population's age demographics on the general government finances is illustrated by the impact of an average individual on general government revenue and expenditure at different ages in 2011.[17] Diagram 11 shows that the net contribution of younger people, up to about 25 years of age, was negative. General government expenditure on people in this age group primarily consists of childcare and education. The net contribution of people in the age group 26–63 years was positive because individuals' average payments of taxes and charges were higher than the cost of transfer payments and welfare services. At the age of 64, net contributions become negative once again when many choose to retire. Expenditure on, above all, social care and healthcare also rises at this age. Towards the end of life, expenditure increases rapidly. For a 97-year-old, for example, the negative net contribution was c. SEK 400 000 per person per year.

Diagram 11 General government net contribution per person and age in 2011



Note: A negative net contribution means that expenditure on services and transfer payments is greater than the taxes paid in for an average individual.
Sources: Statistics Sweden and own calculations.

The general government funding challenges presented by demographic changes become clear if the population change in diagram 10 is combined with the general government net contribution in diagram 11. The expected population increase largely corresponds to the age groups in which the difference between expenditure on services and transfer payments and tax revenue is the largest. How the general government finances develop in future is, naturally, strongly dependent on how the financial exchange with the general government changes in different age groups. For example, improved health can reduce the health and social care costs of elderly people.

[17] The net contribution for a particular age consists of the difference between general government revenue (taxes and charges) and general government expenditure (general government transfer payments and general government consumption). The net contribution is calculated as an average for all individuals of a certain age and per year.

5.2 Calculations of fiscal sustainability

A scenario with no change in behaviour

A first scenario involves an analysis of a development based on the baseline option in Statistics Sweden's population projection[18], as well as assumptions that behaviour will not change with regard to the labour market and to individuals' utilisation of tax-funded welfare services. It should be emphasised that this scenario does not necessarily illustrate the most probable development of the Swedish economy and general government finances. Instead, the ambition is to reflect a development involving no change to policy or behaviour with regard to, for example, labour force participation.

Calculation assumptions

The long-term prediction is based on a forecast of the development of the Swedish economy up to and including 2018. The forecast for the period up to and including 2017 is presented in Section 2. General government primary balance is -2.5 per cent of GDP in 2013.[19] In the period 2014–2018 there is a gradual development towards a balanced resource utilisation in the economy, with a higher employment rate and lower unemployment rate, at the same time as no additional unfunded reforms are implemented, aside from those proposed or announced by the Government in the Budget Bill for 2014. This improves the position of the general government finances. The general government primary balances are calculated to amount to 0.3 per cent of GDP in 2018, placing the general government finances in a relatively advantageous position from which to project the long-term development in subsequent years.

Productivity in the business sector is assumed to increase by 2.2 per cent in the long-term. However, productivity of tax-funded services, regardless of whether they are provided by public or private sector providers, is assumed to be constant. The difference in the development of productivity, together with an assumption that wages develop identically in the entire economy, leads to an increase in the costs of producing one unit of tax-funded production relative to one unit in the business sector (i.e. what is known as the Baumol effect is assumed to apply).

In this scenario, the population's labour market behaviour is assumed to remain unchanged from 2019. This means that the supply of labour, i.e. labour force participation, unemployment and average working time, at different ages and among both sexes is constant over time. On average, a 50-year-old woman or a 35-year-old man, for example, are assumed to work just as much in future as they do today.

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[18] The future population of Sweden 2013–2060 (Statistics Sweden, 2013)

[19] The primary balance is the general government revenue minus expenditure, excluding interest payments and income from capital. The balance is all revenue minus all expenditure.

The scenario is also based on the assumption that fiscal policy remains unchanged. This means that tax rates are kept at the same level as in 2018, i.e. that their share of the tax bases is constant. It is assumed that the standard per user for tax-funded activities is the same, expressed as an unchanged resource input. For example, it is assumed that a 90 year old in the future will receive the same number of hours of geriatric care as a 90 year old does today, and a 15 year old the same number of hours of teaching. The reimbursement rate in the transfer payment system is also unchanged so that transfer payments per individual develop in parity with the wages of those in employment. This means that transfer payments that are, in accordance with the regulations, nominally fixed or only track the development of prices are assumed to increase in line with average wages.

The demographic trend primarily has an impact on expenditure on those welfare services that are currently the responsibility of municipalities and county councils. However, the projection focuses on the general government commitment in its entirety; in this context the general government is regarded as a combined whole. One key assumption is that the central government has the overall responsibility for funding tax-funded welfare. Consequently, central government grants are adapted in the calculations so that the Swedish Local Government Act's (1991:900) requirement for good financial management is met.[20]

Fiscal policy is sustainable in the long-term based on the stated assumptions

The period 2020–2040 is characterised by rising pressure on expenditure caused by the demographic changes. This creates a clear variation in general government primary expenditure, i.e. expenditure excluding interest expenses (see diagram 12). An increase will begin in 2020, culminating in about 2032 and then falling back. Expenditure increases by just over 1.6 per cent of GDP as a result of the large cohort born in the 1940s reaching the costly age of over 80 years, at the same time as the generation born in the 1960 begins to retire. Primary net lending becomes weaker and is negative for a long period around 2030 (see diagram 13).

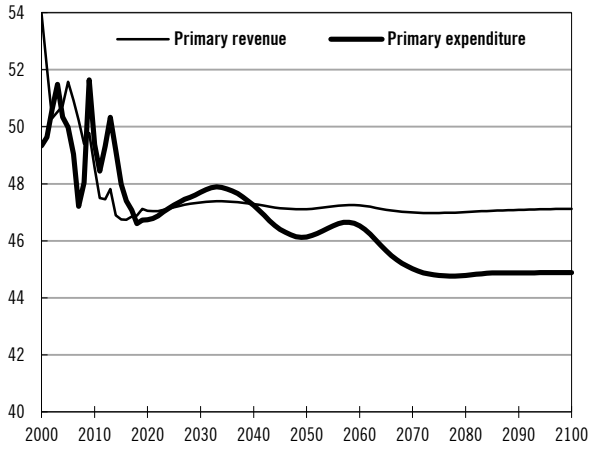
The demographic pressure on the expenditures abates with time and primary expenditure decreases to just over 44 per cent of GDP in 2100. The long-term trend of falling expenditure is mainly caused by general government consumption declining as a proportion of GDP. One cause of this reduction is the assumption that there is no improvement of standards in tax-funded welfare services when GDP, and thus incomes,

[20] A more detailed description of the underlying assumptions is provided in the memorandum *Utvecklad bedömning av finanspolitikens långsiktiga hållbarhet* [In-depth assessment of long-term fiscal sustainability] (Ministry of Finance, 2014). This also sets out how expenditure on different types of welfare services has developed.

increase. General government transfer payments and investments also fall as a proportion of GDP over time, albeit to a lesser extent.

Diagram 12 General government revenue and expenditure if there is no change in behaviour

Per cent of GDP



Sources: Statistics Sweden and own calculations.

Table 17 shows the development of the primary general government expenditure distributed by different purposes. It can be noted that the expenditure ratio falls rapidly up until 2018 and that the decrease between 2018 and 2050 is relatively modest. An important explanation for this trend is that expenditure on transfer payments decreases as a proportion of GDP by close to two percentage points between 2013 and 2018.

Expenditure on general government consumption decreases by c. 1.2 per cent of GDP by 2050 and by a further 1 per cent by 2100. Expenditure on social care, which includes care of the elderly and the disabled, increases by just under 2 per cent of GDP, while expenditure on healthcare as a proportion of GDP is relatively stable. Expenditure on education decreases by 0.8 per cent of GDP by 2050 and by 1.5 per cent of GDP by 2100. Expenditure for other purposes decreases by c. 1.6 per cent of GDP by 2050, the majority of the decrease having already taken place prior to 2018.

Transfer payments also decrease as a proportion of GDP after 2018, mainly due to decreasing payments in the old-age pensions system. One cause of this is that pensions will be paid to a greater extent from the premium pensions system (PPM) instead of from the old-age pensions system. Pension payments from PPM are not accounted for as transfer payments from general government because PPM is part of the household sector in the National Accounts.

Table 17 Primary general government expenditure if there is no change in behaviour

Per cent of GDP

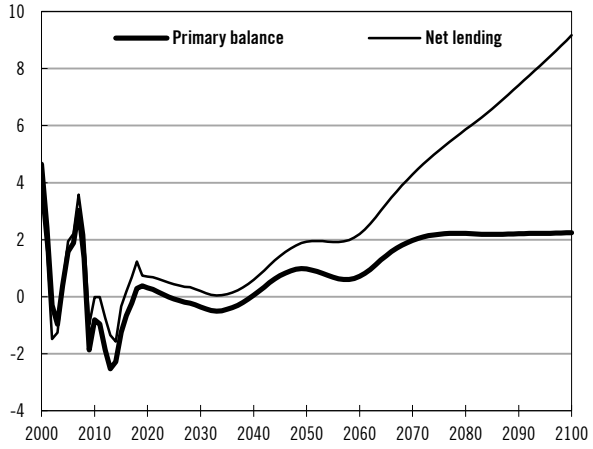
	2013	2018	2050	2100
Primary expenditure	**50.4**	**46.6**	**46.3**	**44.5**
General government consumption	27.5	25.8	26.3	25.3
Education	6.7	6.4	5.9	5.2
Social care	4.4	4.3	5.5	6.2
Healthcare	6.3	6.1	6.4	6.1
Other	10.1	9.0	8.5	7.8
Investments	3.4	3.2	3.3	3.0
Transfer payments	19.5	17.6	16.7	16.4

Sources: Statistics Sweden and own calculations.

The most important tax base, and thus tax revenue, is controlled largely by the development of the labour market and is consequently less sensitive to demographic changes than expenditure. Primary revenue amounts to an average of just over 47 per cent of GDP.

Diagram 13 Net lending if there is no change in behaviour

Per cent of GDP



Sources: Statistics Sweden and own calculations.

As a consequence of increased general government expenditure, primary balance decreases from 0.3 per cent of GDP in 2018 to -0.8 per cent in 2032 (see diagram 13). There is a subsequent gradual strengthening of primary balances so that it amounts to 2.5 per cent of GDP in 2100. The cause of this gradually increasing difference between the net lending and the primary balance shown in diagram 13 is the increasingly large yield from financial assets illustrated in diagram 14.

The high level of primary balance contributes to a sharp reduction in the consolidated gross debt, known as the Maastricht debt (see diagram 14). This debt is calculated to amount to 32 per cent of GDP in 2018, but then gradually decreases and has been entirely repaid by 2051. Financial assets will be then be gradually built up. This will result in a sharp decrease in net debt and in an increase in capital income. Consequently,

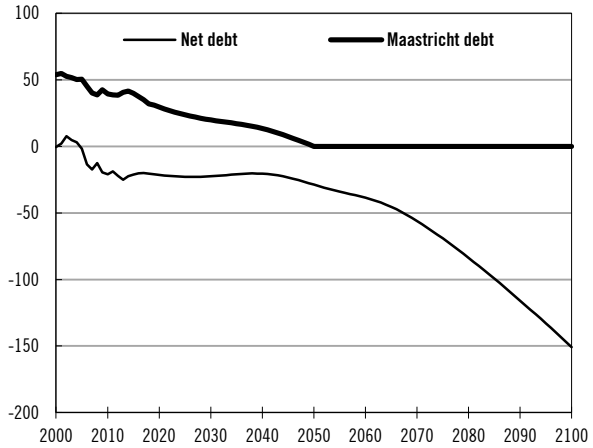
net lending, which includes income from capital, will also increase sharply and amount to 9 per cent of GDP in 2100.

It is important not to interpret the trend described as a forecast of an expected actual development. It is unlikely that the current rules for general government revenue and expenditure will not be changed if a surplus of the size indicated in diagram 13 were to actually arise.

The sustainability indicator S2 is a measure of how large an immediate and permanent budgetary weakening (positive sign) or strengthening (negative sign) needs to be to keep the net general government debt stable in the long-term. In this scenario, the indicator is -1.6 per cent of GDP (calculated from 2015), which theoretically means that the net lending can be weakened permanently by 1.6 per cent of GDP without making fiscal policy unsustainable. The fact that the projection is not a forecast, but rather simply an impact analysis of the reported assumptions, means that the S2 value cannot be interpreted to indicate that there actually space for a one-off reform. Instead, the indicator's value forms the basis of a more general assessment of under which conditions the current fiscal policy is sustainable in the long-term and must be interpreted with care. In general, it can be said that the higher the value of S2 in absolute terms, and the earlier in the projection an imbalance arises, the higher is the probability that fiscal policy will need to be revised.

Diagram 14 Net debt and Maastricht debt if there is no change in behaviour

Per cent of GDP



Sources: Statistics Sweden and own calculations.

In the light of this, it is important to supplement the S2 measure with an indicator of the impact of fiscal policy in the shorter term, what is known as the S1 indicator. This indicator indicates, in the same way as S2, the size of the immediate and permanent budgetary weakening or budgetary strengthening required for the general government gross debt to achieve a given objective over a certain time period. In this section, S1 is calculated on the basis that general government gross debt – Maastricht debt – will be equivalent to 60 per cent of GDP in 2030. Because

Maastricht debt was only equivalent to 40.6 per cent of GDP in 2013, this normally means that there are relatively large safety margins in the debt level stipulated by the Stability and Growth Pact.

The S1 indicator amounts to -2.4 per cent of GDP (calculated from 2015), which means that, if the consolidated gross debt is to be 60 per cent of GDP in 2030, this can be achieved through an immediate, permanent weakening of the primary balance of -2.4 per cent that year.

The strong development of net lending in the scenario creates a relatively favourable margin in which to enact stabilisation measures to counter possible crises or economic downturns. The conflict between the requirements of stabilisation policy and the goals of redistribution policy and structural policy can therefore be considered relatively limited, even for the period around 2030 when net lending is at its weakest.

Accordingly, based on the criteria and indicators used above, fiscal policy in this scenario is judged to be sustainable in the long-term. However, it should be highlighted that this assessment is based on relatively strict assumptions. A number of alternative scenarios, bases on other assumptions, are described below to provide a more exhaustive picture of the challenges and opportunities faced by fiscal policy.

Alternative scenario: Higher demand for leisure and welfare services impairs general government net lending

The aim in this scenario is to show the consequences of changes in demand as a result of increased prosperity. The average number of hours worked per employee decreases by 0.1 per cent per year[21] compared with the main scenario, at the same time as the volume of general government consumption grows 0.2 per cent faster per year than is motivated by demographics.[22] This involves a certain increase in the standard of welfare services offered by general government. Consequently, there is also a gradual change in fiscal policy over time.

In this alternative scenario, future generations choose to work less than we do today. It is assumed that the average number of hours worked in 2100 is barely 85 hours lower per person and year than in the main scenario (equivalent to just over two working weeks per year or c. a half hour per working day). Because leisure time is not taxed in the same way as working time, tax revenue and the chances of financing tax-funded welfare also decrease. The funding problems are further intensified by the gradually increasing standards of general government services. For example, it is assumed that the staffing density of healthcare, schools and social care increases. All in all, the number of hours worked in the general government sector is 18 per cent higher in 2100 compared

[21] This is roughly in line with the decline in the average number of hours worked between 1980 and 2009. The pension age is assumed to be unchanged from that of the main scenario.

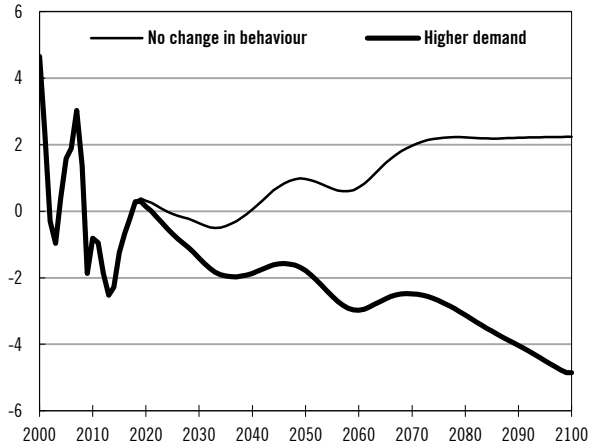
[22] The trend in the period 1980–2007 shows that expenditure has increased annually in real terms by 0.7 percentage points more than has been determined demographically.

with the main scenario. Because leisure time increases, the number of hours worked decreases and standards are raised, the general government finances are subjected to an increasingly intense pressure to change in order to become fiscally sustainable.

The primary balances are dramatically undermined in this scenario compared with the main scenario, weakening sustainability considerably (see diagram 15). The S1 indicator amounts to -2.0, which is a weakening of 0.4 per cent of GDP compared with the main scenario. The S2 indicator amounts to 3.4, which is a weakening of 5.0 per cent of GDP. According to the S2 indicator, the trend is therefore unsustainable. One third of the weakening can be attributed to the decreased labour supply, while two thirds can be attributed to the demand of publicly funded welfare.

Diagram 15 Primary balance with higher demand

Per cent of GDP



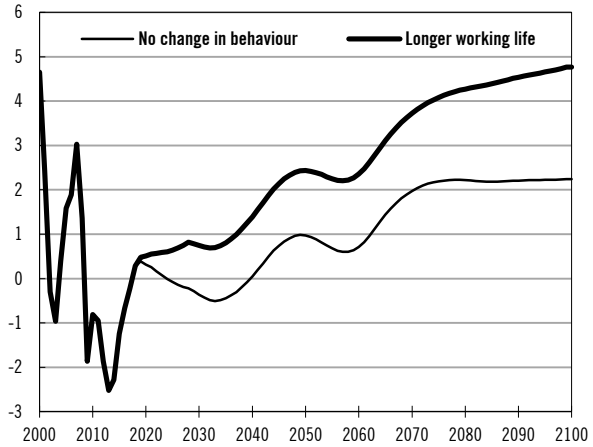
Sources: Statistics Sweden and own calculations.

Alternative scenario: A longer working life strengthens general government finances

In a scenario that analyses the impact of a longer working life, the average age of entry into the labour market decreases by one year between 2019 and 2028. At the same time, the retirement age is assumed to rise by half of the increase in remaining average life expectancy at the age of 65. This means that the retirement age has increased by just over one year by 2050 and just over three years in 2100. The calculation does not take into account any increase in general government expenditure on measures that extend the working life.

Diagram 16 Primary balance with a longer working life

Per cent of GDP



Sources: Statistics Sweden and own calculations.

Compared with the scenario based on the assumption of no change in behaviour, this strengthens fiscal sustainability remarkably (see diagram 16). The S1 indicator improves by 0.5 per cent of GDP to -2.8 and the S2 indicator improves by 2.0 per cent of GDP to -3.5. This scenario shows that a longer working life is very important for the long-term funding of welfare.

Sensitivity in the calculations

The sustainability indicators S1 and S2 show that fiscal policy is sustainable in the long-term in a scenario that is based on no change in behaviour. However, this result should be interpreted with caution for several reasons.

The fiscal challenges addressed in this section have an effect over the very long term; for that reason the calculations often extend far into the future. The long calculation horizon involves a sizeable level of uncertainty. It should also be added that the calculations strongly depend on the assumptions made. As has already been noted, the calculations are not to be interpreted as forecasts of a probable development, but rather as impact analyses of the effect of changes in the different assumptions on fiscal sustainability. Table 18 summarises the impact on S1 and S2 of the alternative assumptions forming the basis of the calculations in the different scenarios. A number of sensitivity analyses are also reported.[23] In general, it may be said that fiscal policy appears to be sustainable in the majority of the different calculations. The S1 indicator is negative in

[23] In the scenarios *more leisure* and *higher standards*, the assumptions are the same as in the scenario *increased demand for leisure and welfare services*, and in the scenarios *earlier start to working life* and *higher retirement age* they are the same as in the scenario *a longer working life* The memorandum *Utvecklad bedömning av finanspolitikens långsiktiga hållbarhet* [In-depth assessment of long-term fiscal sustainability] (Ministry of Finance, 2014), which is available on the Government's website, regeringen.se, contains a more detailed description of each of the sensitivity analyses.

all of the reported scenarios, while S2 is only positive when there is constantly increasing demand for higher standards in tax-funded production.

Table 18 S1 and S2 in the different scenarios

Per cent of GDP

	S1	S2
No change in behaviour	-2.4	-1.6
Impairs sustainability		
Higher demand for leisure and welfare services	-2.0	3.4
More leisure	-2.2	-0.1
Higher standards	-2.1	1.6
Higher non-accelerating-inflation rate of unemployment	-2.2	-1.2
Worse starting position	-1.4	-0.6
Improves sustainability		
Longer working life	-2.8	-3.5
Earlier start to working life	-2.7	-2.3
Higher retirement age	-2.5	-3.1
Improved integration	-2.7	-2.1
Higher labour supply among women	-2.9	-3.3
Improved health	-2.7	-5.3
Higher productivity in the general government sector	-2.6	-2.7
Higher employment rate	-2.5	-1.9

Note: Positive values indicate that net lending must be strengthened permanently in order for fiscal policy to be sustainable in the long term and negative values that a permanent weakening is possible.

Source: Own calculations.

In the calculation *non-accelerating-inflation rate of unemployment*, it is assumed that the non-accelerating-inflation rate of unemployment is 1 percentage point higher for all years subsequent to 2019, weakening S2 by 0.4 per cent of GDP. In the sensitivity calculation *higher employment rate*, it is assumed that the employment rate and labour force participation are 1 percentage point higher over the course of 2029–2100. This improves S2 by 0.3 per cent of GDP.

In the assessment of the trend up to and including 2018, it is assumed that there is no change to fiscal policy and that no reforms are implemented other than those that have already been approved. Consequently, the starting position for the long-term projections is a net lending that is in line with the surplus target, which also affects the calculations of the level of primary balance in the years that follow. In order to describe the significance of a worse starting position, it is assumed in an alternative assessment that ceiling-limited expenditures increases each year in the period 2015–2018 so that the budgetary margin is equivalent to 1.5 per cent of the ceiling-limited expenditure. According to the Government's guideline, this is the minimum allowable budgetary margin at the start of the financial year. This impairment of net lending, equivalent to just under 1 per cent of GDP in 2018, is assumed to take place without any corresponding funding on the budget's revenue side, i.e. the primary balance is impaired to the same extent as the expenditure increases. This

means that primary balance is equivalent to c. -0.7 per cent of GDP in 2018, compared with c. 0.3 per cent in the other scenarios. In the long-term calculations, the primary balance is thus brought down by 1.0 per cent of GDP over the course of the entire projection period. In a trend such as this, S1 and S2 are impaired to -1.4 and 0.6 per cent of GDP, respectively. Fiscal policy is thus assessed as sustainable, even if the budgetary margin is reduced to the minimum level at the start of the financial year, and net lending is correspondingly reduced in the starting position.

Despite this, a weakened starting position significantly changes the picture of sustainability. As a result of the demographically motivated expenditure increase, there is a primary deficit in this scenario equivalent to close to 2 per cent of GDP over a long period around 2030. If these years coincide with recessions, the actual net lending will, most likely, fall below the Stability and Growth Pact's maximum deficit value of 3 per cent of GDP. That might impact the financial markets' risk assessments, which could induce worsened borrowing conditions, despite the demographic cost pressure being temporary. Hence, the ability to tackle recessions and crises with active stabilisation policy measures will be reduced, and conflicts between the goals of stabilisation, redistribution and structural policy will be accentuated.

5.3 Overall assessment of the long-term sustainability of fiscal policy

Fiscal policy is judged to be sustainable in the long-term in a scenario involving no change in the behaviour of various parties and in which no reforms, other than those already adopted, are implemented. In this case, S1 amounts to -2.4 per cent of GDP and S2 to -1.6 per cent of GDP.

Net lending and the consolidated gross debt also lie within the limits set by the Stability and Growth Pact. Accordingly, two important requirements that form the basis of the markets' evaluation of sustainability are met. The danger of higher risk premiums and interest rates as a result of a lack of fiscal credibility is thus judged to be limited. The development of net lending, in this scenario, points to a low risk of a more explicit conflict between the goals of financial sustainability, stabilisation policy considerations, and the goals of redistribution policy and structural policy.

The new pensions system created strong incentives to work longer when average life expectancy increases as pensioners' incomes decrease in relation to those in work if the retirement age is not postponed. From the perspective of redistribution policy, this increases the risk that fiscal policy must be changed in the longer-term in order to meet the requirements of pensioners.

The period 2020–2040 is characterised by growing demographic pressure on expenditure. For example, the primary balance is calculated to decrease by just over 1 per cent of GDP between 2020 and 2030. A

poorer starting position for the general government finances when the demographic pressure on expenditure increased around 2020 may result in a long period of impaired net lending, which offers less scope for stabilisation policy measures and unfunded structural policy reforms. If this is combined with potential redistribution policy needs, fiscal policy may be forced to deal with goals that increasingly conflict. Consequently, a seriously impaired staring position for the general government finances may lead to sustainability problems, even if the indicators show that the policy is financially sustainable in the long-term. In the light of this, it is very important that there is scope for fiscal manoeuvres in the scenario involving no change in behaviour.

The problems listed above also indicate the importance of continuing with a policy directed at improving the incentives for work and a longer working life. A long and productive working life is required if pensioners are to enjoy a good economic standard and general government funded services are to be of good quality. Increased average life expectancy provides the opportunity to both increase the amount of leisure, and the time spent in work. As average life expectancy increases, it is therefore important to have high labour-force participation among both women and men, and to extend the number of working years.

Other assessments of financial sustainability

Swedish fiscal policy is financially sustainable in the long-term according to the majority of assessments included in this synthesis.

Table 19 Sustainability indicators for Sweden

Per cent of GDP

	S1 (or equivalent)	S2
Government	-2.4	-1.6
Swedish National Institute of Economic Research (Mar 2014)	-2.5 – -1.5	-3.9 – 1.5
Fiscal Policy Council (May 2012)		1.0
European Commission (2013)	-2.7	2.4
OECD (Jun 2013)	0.5	
IMF (Oct 2013)	0.8	

Note: The values of the indicators are not directly comparable as they are calculated based on different assumptions. S1 indicates the permanent budgetary change needed for the gross debt to amount to either 60 per cent of GDP in 2030 (European Commission and the Government) or the current level in 2030 (OECD and IMF).

Sources: Swedish National Institute of Economic Research, Fiscal Policy Council, European Commission, OECD, IMF and own calculations.

The sustainability measure S1 is based, in most cases, on the Maastricht debt amounting to 60 per cent of GDP at some point in the future. Because Sweden's Maastricht debt is currently well below this level, fiscal policy is normally financially sustainable according to this indicator (see table 19).

Fiscal policy is also generally judged to be financially sustainable in the long term according to the S2 indicator. According to the Swedish

National Institute of Economic Research, S2 for Sweden amounts to between -3.9 and 1.5 per cent of GDP.

The Fiscal Policy Council reports an S2 value that points at a small requirement for consolidation in order for fiscal policy to be strictly sustainable. However, the council assesses that fiscal policy can be considered sustainable in the long-term.[24] According to the European Commission, Sweden's S2 indicator lies somewhat above the limit considered to constitute the boundary for a low sustainability risk in the long-term.[25]

6 Quality in the general government finances

6.1 Expenditure

Principles have been developed at the EU level for the production of uniform statistics on the member states' distribution of general government finances. Uniform statistics facilitate comparison between different member states' general government expenditure, as well as of how this develops over time. The ability to evaluate whether a change in the composition of general government expenditure has affected long-term growth is dependent on additional information and a higher level of detail. However, the distribution of general government expenditure between different purposes and the change in distribution over time do indicate how different types of expenditure and purposes have been prioritised and provide an indication of the policy's focus. Tables 17 and 18 provide contain expenditure distributed by purpose in accordance with the COFOG classification[26].

[24] The Fiscal Policy Council bases its assessment in the report by Hagist, Moog and Raffelhüschen, *A Generational Accounting Analysis of Sweden* (2012).

[25] According to the European Commission, the upper limit for low sustainability risk is an S2 value of 2.

[26] COFOG (Classification of the Functions of Government) is a tool for reporting and analysing the purposes of the goods and services provided by general government entities. The classification is in accordance with international standards.

Table 20 General government expenditure by purpose, per cent of GDP

Per cent of GDP

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Change 2002–2012
General public services	8.6	7.7	7.4	7.5	7.6	7.4	7.5	7.4	7.1	7.4	7.2	-1.4
Interest payments	3.1	2.3	1.8	1.9	1.8	1.8	1.7	1.3	1.2	1.3	1.0	-2.1
Other	5.5	5.4	5.5	5.6	5.8	5.6	5.8	6.1	5.9	6.1	6.2	0.7
Defence	2.1	2.0	1.9	1.7	1.7	1.6	1.5	1.5	1.6	1.5	1.4	-0.6
Public order and safety	1.4	1.4	1.3	1.3	1.3	1.3	1.4	1.5	1.4	1.4	1.4	0.0
Economic affairs	4.2	4.2	4.1	4.3	4.1	4.0	4.3	4.7	4.5	4.3	4.4	0.2
Environmental protection	0.3	0.3	0.3	0.4	0.4	0.4	0.3	0.4	0.3	0.3	0.3	0.0
Housing and community amenities	0.9	0.9	0.8	0.8	0.7	0.7	0.8	0.8	0.7	0.8	0.7	-0.2
Health	6.8	7.0	6.7	6.7	6.6	6.6	6.9	7.4	7.0	7.1	7.1	0.3
Recreation, culture and religion	1.1	1.1	1.0	1.0	1.1	1.1	1.1	1.2	1.2	1.1	1.1	0.0
Education	7.3	7.2	7.1	7.0	6.9	6.7	6.8	7.2	6.9	6.8	6.8	-0.5
Social protection	23.1	23.9	23.5	23.0	22.3	21.1	21.1	22.9	21.6	20.9	21.4	-1.7
Total expenditure	**55.6**	**55.7**	**54.2**	**53.9**	**52.7**	**51.0**	**51.7**	**54.9**	**52.3**	**51.5**	**52.0**	**-3.6**
Excluding interest	52.5	53.4	52.3	52.0	51.0	49.2	50.0	53.6	51.2	50.2	50.9	-1.6

Sources: Statistics Sweden and own calculations.

Quantified as a percentage of GDP, overall expenditure declined over the period 2002–2012, even though it rose notably in 2009 in the wake of the financial crisis. The decline is explained by, among other things, falling interest expenses and the fact that GDP growth was relatively high across that period. A high rate of GDP growth means that expenditure following the general price trend gradually falls as a percentage of GDP.

Expenditure on social security in Sweden accounts for more than 20 per cent of GDP and more than 40 per cent of total general government expenditure. The proportion fell from the middle of the first decade of the new millennium, although it rose again in 2009 in connection with the financial crisis and the subsequent recession. Expenditure on healthcare also accounts for a major share of general government expenditure. Having amounted to 12 per cent of total expenditure in 2002, the proportion rose over a period of several years and in 2012 amounted to almost 14 per cent. There has been a large fall in the proportion of expenditure taken up by interest payments. This is mainly the result of general government consolidated gross debt falling sharply as a proportion of GDP at the same time as interest rates have been relatively low.

Table 21 General government expenditure by purpose, per cent of total expenditure

Per cent of total expenditure

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Change 2002–2012
General public services	15.4	13.8	13.6	13.9	14.3	14.5	14.5	13.5	13.5	14.3	13.9	-1.5
Interest payments	5.6	4.1	3.4	3.5	3.3	3.5	3.3	2.4	2.2	2.5	2.0	-3.6
Other	9.9	9.8	10.2	10.4	11.0	11.0	11.2	11.1	11.3	11.8	11.9	2.1
Defence	3.7	3.6	3.4	3.2	3.3	3.1	2.9	2.8	3.0	2.9	2.8	-1.0
Public order and safety	2.5	2.5	2.5	2.5	2.5	2.6	2.6	2.6	2.7	2.7	2.8	0.2
Economic affairs	7.5	7.6	7.6	8.0	7.7	7.9	8.3	8.5	8.6	8.3	8.5	1.0
Environmental protection	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.1
Housing and community amenities	1.6	1.6	1.5	1.6	1.4	1.4	1.5	1.5	1.4	1.5	1.4	-0.2
Health	12.2	12.5	12.4	12.5	12.6	13.0	13.3	13.4	13.5	13.7	13.7	1.5
Recreation, culture and religion	1.9	1.9	1.9	1.9	2.1	2.1	2.2	2.2	2.2	2.2	2.1	0.2
Education	13.1	13.0	13.1	13.0	13.1	13.1	13.2	13.2	13.2	13.2	13.1	0.0
Social protection	41.5	42.9	43.4	42.7	42.2	41.5	40.8	41.7	41.3	40.5	41.2	-0.3
Total expenditure	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	
Excluding interest	94.4	95.9	96.6	96.5	96.7	96.5	96.7	97.6	97.8	97.5	98.0	3.6

Sources: Statistics Sweden and own calculations.

6.2 Revenue

Between 2006 and 2013, the tax ratio, i.e. total tax revenue as a percentage of GDP, declined by 3.9 percentage points (see table 22). In 2017, the tax ratio is estimated to be 44.1 per cent of GDP. It is primarily tax on labour that has declined as a proportion of GDP in the period 2006–2013. The working tax credit accounts for the largest proportion of the tax reductions, but social security contributions have also been reduced and there are greater opportunities to receive tax deductions for work in and on the home. The most significant change in recent years in terms of taxes on capital is the reduction in the rate of corporation tax. In addition, changes have been made to the property tax for electricity production facilities and the investment savings account has been introduced, which have also had a large impact on revenue from taxes on capital. Revenue from the taxes on consumption has remained largely stable as a proportion of GDP throughout the period 2006–2013. Revenue from value added tax has increased as a result of household consumption making a greater contribution to GDP. However, revenue from excise duties, including taxes on energy and carbon dioxide, declines despite increased tax rates. This decline is explained by more efficient residential heating, the switch from electricity and oil to geothermal heating and district heating, as well as newer vehicles with more energy-efficient engines.

Table 22 Tax revenue

Per cent of GDP

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Change 2006–2017
Tax on labour	29.1	27.9	28.4	27.9	26.2	26.0	26.4	26.7	26.4	26.3	26.3	26.4	-2.8
Direct taxes	16.6	15.5	15.5	15.3	14.2	14.0	14.2	14.5	14.2	14.2	14.2	14.4	-2.3
Indirect taxes	12.5	12.5	12.8	12.6	12.0	12.0	12.2	12.2	12.2	12.1	12.0	12.0	-0.5
Tax on capital	6.5	6.7	5.1	5.2	5.7	5.3	4.7	4.6	4.9	5.0	5.1	5.2	-1.4
Tax on capital, households	1.3	1.6	0.8	0.8	1.0	0.8	0.8	0.8	1.0	1.0	1.0	0.9	-0.3
Tax on company profits	3.4	3.3	2.6	2.8	3.2	3.0	2.5	2.4	2.5	2.6	2.6	2.6	-0.7
Tax on consumption	12.7	12.8	13.1	13.6	13.5	13.1	12.7	12.8	12.6	12.5	12.5	12.4	-0.3
VAT	9.0	9.1	9.4	9.7	9.7	9.6	9.3	9.4	9.3	9.3	9.4	9.4	0.4
Arrears and other taxes	-0.1	0.0	-0.1	-0.1	0.0	0.1	0.1	0.3	0.2	0.1	0.1	0.1	0.2
Total tax revenue	**48.3**	**47.4**	**46.4**	**46.6**	**45.4**	**44.4**	**44.0**	**44.4**	**44.0**	**43.9**	**43.9**	**44.1**	**-4.3**

Sources: Statistics Sweden and own calculations.

Appendix A – Technical assumptions

The methods used in calculations concerning the general government finances in the period 2019–2100 are discussed in more detail below. The results reported in this appendix are for the scenario involving no change in behaviour.

Demographic assumptions

The calculation is based on Statistics Sweden's population forecast from May 2013 shown in Table A.1.

Table A.1 Demographic assumptions

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

	2010	2020	2030	2040	2050	2060
Birth rate	1.98	1.94	1.91	1.91	1.91	1.90
Average life expectancy, women	83.5	84.7	85.8	86.9	87.9	88.8
Average life expectancy, men	79.5	81.4	83.1	84.6	85.7	86.7
Net migration, thousands	49.9	29.4	17.1	16.8	16.4	15.9

Source: Statistics Sweden.

The labour market

The development of the labour market is strongly linked to the demographic trend. Projections concerning the employment rate and the number of hours worked are distributed by age, gender and country of birth. The extent of participation in the labour market is assumed to remain constant in each group. This can be interpreted as unchanged labour market behaviour as the rate of absenteeism, rate of sickness and activity compensation, average hours worked, employment rate and unemployment rate are constant within each group.

The number of hours worked in the general government sector is assumed to rise at the same rate as the demography-dependent general government consumption. This implies an assumption that the staffing density is constant in the general government sector.

The number of hours worked in the business sector represents the difference between the total number of hours worked, which is attributable to the population trend and assumptions regarding the extent to which people work, and the number of hours worked in the general government sector.

Productivity

The assumption regarding productivity growth in the business sector is based on an analysis of the historical trend. The underlying trend in productivity growth is assumed to be 2.0 per cent in 2019 and 2.2 per cent beginning in 2021. Based on an international comparison, productivity growth in Sweden has been strong over the last two decades, with the exception of the period 2007–2009. It is however reasonable to

assume that, in the long term, it will adjust to international growth rates. The weak growth in 2007–2009 has not affected the view of the long-term trend in productivity.

Productivity growth in the general government sector is assumed to be zero from 2019.

Components of GDP, the expenditure approach, and production

GDP growth is the sum of the productivity growth in the economy as a whole and the increase in the number of hours worked. GDP is composed such that household expenditures on consumption accounts for 50 per cent of GDP in nominal terms. The level is adjusted to allow for reasonable increases in household savings and net assets. Investments account for 20 per cent and inventories for 2 per cent. Imports increase somewhat in the future, reaching 50 per cent in 2050. General government consumption is not set at any fixed proportion but is projected in line with the demographic changes and the development of the prices of general government consumption. The remaining components that make up GDP in the expenditure approach are exports, which become residual in the calculations. This means that there are several scenarios involving unbalanced growth, i.e. the various components of GDP are not in balance. A possible high level of general government net lending is balanced by high net lending in another sector. In these calculations, that sector is the rest of the world. In the calculations, imbalances in general government net lending will therefore generate corresponding imbalances in foreign trade and thus in the current account balance, since exports are calculated residually.

Production in the general government sector is derived from general government consumption and an assumption of an unchanged degree of privatisation. Production in the business sector is determined as the sum of productivity and hours worked in that sector.

Inflation and wages

It is assumed that the Riksbank's monetary policy holds inflation at 2 per cent. The proportion of wage costs and gross profits in the business sector is assumed to be constant in the long term. Wages are thus determined by the price level and productivity. Higher productivity and a higher GDP deflator generate scope for increased wages.

Wages in the general government sector rise in line with those in the private sector.

Assumptions regarding yields on capital

It is assumed that average interest rates on saving and borrowing are the same for all sectors in the economy in the long-term. A nominal interest rate of 5 per cent is assumed. Given an inflation rate of 2 per cent, the real interest rate becomes 3 per cent. In addition to interest-bearing assets, the general government sector also has non-interest-bearing assets. The yield on these assets consists of share dividends and value

adjustments. Dividends are assumed to be 3 per cent and value increases 2 per cent in the long-term. The total return thus amounts to 5 per cent, which is the same as for interest-bearing assets.

It is also likely, in the long-term, that differences arise between the interest rates on borrowing and lending and that there are differences between sectors. It is also likely that the long-term return on non-interest-bearing assets is higher than for interest-bearing assets. However, the assumption regarding the return on financial capital is used for the purpose of simplification and to avoid the focus of the analysis shifting from central issues to those surrounding the dynamics of debt.

Table A.2 Macroeconomic assumptions

Annual percentage change and per cent

	2010	2015	2020	2030	2040	2050	2060
Percentage change							
Population, 15–74 years	1.0	0.7	0.1	0.3	0.1	0.1	0.3
Labour force, 15–74 years	0.8	0.7	0.3	0.1	0.3	0.1	0.2
Number employed, 15–74 years	0.6	1.2	0.3	0.0	0.3	0.2	0.2
Hours worked	2.6	1.8	0.2	0.1	0.3	0.2	0.3
Business sector productivity	4.8	1.8	2.1	2.2	2.2	2.2	2.2
GDP, fixed prices	6.6	3.3	1.9	1.8	2.3	2.0	2.2
GDP per capita	5.6	2.2	1.2	1.5	2.0	1.7	2.0
GDP productivity	3.9	1.5	1.7	1.8	1.9	1.8	1.9
GDP deflator	0.8	1.7	2.1	2.2	2.0	2.0	1.8
CPI, annual average	1.2	1.6	2.0	2.0	2.0	2.0	2.0
Hourly wages	0.5	2.4	3.8	4.0	3.9	3.9	3.8
Per cent							
Real interest	1.7	1.5	3.0	3.0	3.0	3.0	3.0
Employment rate, 15–74 years	64.4	66.3	67.3	66.6	66.1	67.6	66.7
ILO unemployment rate, 15–74 years	8.6	7.3	5.9	6.1	6.2	5.8	5.7

Sources: Statistics Sweden and own calculations.

General government revenue

The calculations reported here are based on an assumption of constant tax rates relative to different tax bases. Consequently, the aggregate tax ratio will vary if the tax bases develop in a different way than GDP. This method reflects unchanged tax regulations. Stable tax rates over time are advantageous both in terms of their efficiency and for redistribution policy. Table A.3 shows, in detail, general government taxes and charges as a proportion of GDP and as a proportion of the respective tax base (implicit tax rate), as well as the tax base's proportion of GDP.

Table A.3 Taxes and charges

Per cent of GDP

	2010	2015	2020	2030	2040	2050	2060
Taxes and charges	45.2	43.7	44.0	44.2	44.2	44.1	44.2
Household direct taxes and charges							
Proportion of GDP	15.8	15.6	15.8	15.7	15.7	15.6	15.7
Implicit tax rate of direct taxes	23.9	23.2	23.7	23.7	23.7	23.7	23.7
Tax base for direct taxes as a proportion of GDP	55.0	55.7	55.3	55.0	54.8	54.4	54.8
Implicit tax rate of charges	5.5	5.6	5.6	5.6	5.6	5.7	5.7
Tax base for charges as a proportion of GDP	44.6	45.0	44.3	44.3	44.5	44.6	44.7
Corporate direct taxes							
Proportion of GDP	3.3	2.7	3.1	3.1	3.1	3.0	3.0
Implicit tax rate	11.3	8.9	10.2	10.2	10.2	10.2	10.2
Tax base as a proportion of GDP	29.6	30.8	30.7	29.9	29.8	29.7	29.5
Indirect taxes[1]							
Proportion of GDP	14.1	13.3	13.1	13.5	13.4	13.4	13.4
Implicit tax rate	28.2	26.6	26.2	26.1	26.1	26.0	26.0
Tax base as a proportion of GDP	48.5	48.3	48.7	50.0	50.0	50.0	50.0
Social security contributions from employers and the self-employed[2]							
Proportion of GDP	12.0	12.1	12.0	12.0	12.0	12.0	12.1
Implicit tax rate	29.5	28.9	28.8	28.8	28.8	28.8	28.8
Tax base as a proportion of GDP	40.3	41.5	41.2	41.2	41.4	41.5	41.6

[1] Excluding wage-dependent indirect taxes.

[2] Including wage-dependent indirect taxes.

Sources: Statistics Sweden and own calculations.

General government expenditure on consumption

The projection of general government consumption has two parts: a volume projection and price projection.

The calculation of general government consumption is based on costs for various purposes such as schools, healthcare and social care, distributed according to age and gender. All expenditure areas are projected in line with the demographic trend. This means, for example, that a 70-year-old woman is allocated the same amount of public services, in real terms, in 2099 as in 2018. This may be regarded as an expression of unchanged standards in general government services.

The price of general government consumption develops in line with a total appraisal of the price of the component parts of gross production – i.e. hourly wages, the price of consumption and the price of consumption of fixed capital (the investment price).

Table A.4 General government consumption

Per cent of GDP

	2010	2015	2020	2030	2040	2050	2060
Total consumption	26.7	26.7	26.0	27.0	26.8	26.3	26.4
Childcare	1.9	2.0	2.0	1.9	1.8	1.8	1.8
Primary and secondary education	3.8	3.6	3.7	3.9	3.7	3.5	3.6
Adult education	1.5	1.2	1.2	1.3	1.3	1.2	1.2
Healthcare	6.4	6.4	6.3	6.6	6.6	6.4	6.4
Care of the elderly	4.1	4.1	4.1	4.8	5.3	5.5	5.9
Other activities	15.5	15.8	15.0	15.1	14.7	14.3	14.0

Sources: Statistics Sweden and own calculations.

Transfer payments

The calculations assume a certain guarantee of standards in the general government transfer payment systems. For some transfer payments, there are rules and regulations that automatically raise expenditure in line with wages. This applies to pensions, which are adjusted upward in line with the earnings index, and also partly to transfer payments compensating for loss of earnings, e.g. health and parental insurance. In the calculations, pensions are projected in accordance with the current rules. Other transfer payments are assumed to rise in line with wages. This also means there is an assumption that the "ceilings" applied in the social insurance systems rise in line with wages. Such a guarantee of standards offsets the erosion of household transfer payments that would take place if the estimate were only based on a price projection.

Table A.5 General government transfer payments

Per cent of GDP

	2010	2015	2020	2030	2040	2050	2060
Total transfer payments	**19.4**	**18.2**	**17.5**	**17.4**	**17.2**	**16.7**	**16.9**
Transfer payments to households	16.2	14.9	14.4	14.3	14.1	13.6	13.8
Old age	8.5	8.3	8.4	8.1	7.9	7.5	7.7
Ill-health	3.0	2.7	2.5	2.6	2.6	2.6	2.6
Children/studies	2.2	2.1	2.0	2.0	2.0	2.0	2.0
Labour market	1.1	0.7	0.5	0.5	0.5	0.5	0.5
Other	1.3	1.1	1.0	1.0	1.0	1.0	1.0
Transfer payments to businesses and the rest of the world	3.3	3.2	3.1	3.1	3.1	3.1	3.1

Note: Old age = old-age pensions, survivor's pensions, central government and local government pensions and supplementary housing benefit to pensioners.
Ill-health = health insurance, occupational injury insurance sickness compensation and assistance compensation. Children/studies = child benefit, parental insurance, maintenance support and student grants. Labour market = unemployment benefit, labour market training grants and wage guarantees.
Sources: Statistics Sweden and own calculations.

Old-age pensions system

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

Table A.6 Old-age pensions system

Per cent of GDP

	2010	2015	2020	2030	2040	2050	2060
Revenue	**6.9**	**6.9**	**7.0**	**6.7**	**6.5**	**6.4**	**6.3**
Fees	6.2	6.2	6.1	6.1	6.2	6.2	6.2
Interest, dividends etc.	0.7	0.7	0.8	0.6	0.3	0.2	0.1
Expenditure	**6.7**	**6.8**	**7.2**	**6.9**	**6.8**	**6.4**	**6.6**
Pensions	6.6	6.7	7.0	6.8	6.7	6.3	6.5
Other	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net lending	**0.2**	**0.1**	**-0.2**	**-0.2**	**-0.3**	**0.0**	**-0.3**
Net financial assets	**26.7**	**26.7**	**20.8**	**14.0**	**7.6**	**5.0**	**2.4**

Sources: Statistics Sweden and own calculations.

Table A.7 presents a number of key variables from the Swedish convergence programme in the form recommended by the European Commission.

Table A.7 Long-term sustainability of the general government finances

Per cent of GDP, unless otherwise stated

	2010	2015	2020	2030	2040	2050	2060
Total expenditure	50.5	48.9	48.4	48.8	48.0	46.3	46.0
Age-related[1]	28.3	27.5	27.3	28.3	28.2	27.4	28.1
Pensions[2]	8.5	8.3	8.4	8.1	7.9	7.5	7.7
Guarantee pensions	0.6	0.4	0.3	0.3	0.3	0.3	0.3
Old-age pensions	6.6	6.7	7.1	6.8	6.7	6.3	6.5
Other pensions (disability and survivors')	0.7	0.5	0.4	0.3	0.3	0.2	0.2
General government occupational pensions	0.6	0.7	0.6	0.7	0.7	0.7	0.7
Healthcare	6.4	6.4	6.3	6.6	6.6	6.4	6.4
Care of the elderly/disabled	4.1	4.1	4.1	4.8	5.3	5.5	5.9
Childcare	1.9	2.0	2.0	1.9	1.8	1.8	1.8
Education	5.2	4.8	4.9	5.2	5.0	4.6	4.8
Unemployment benefit	1.1	0.7	0.5	0.5	0.5	0.5	0.5
Other age-related expenditure	1.2	1.2	1.2	1.2	1.1	1.1	1.1
Interest expenditure	1.2	1.0	1.7	1.1	0.8	0.1	-0.6
Total revenue	50.5	48.6	49.1	49.0	48.6	48.2	48.2
of which income from capital	1.9	1.9	2.0	1.6	1.3	1.1	1.0
of which is from the pensions system	0.7	0.7	0.9	0.6	0.3	0.2	0.1
Assumptions							
Labour productivity growth, GDP level	4.1	1.2	1.2	1.2	1.7	1.5	1.5
GDP growth	6.6	2.9	0.9	1.5	2.7	3.3	3.5
Unemployment rate	8.6	7.8	8.0	8.0	7.7	7.3	6.7
Population aged 65 and over as a proportion of the total population	18.3	18.6	19.0	19.3	19.5	19.7	19.8

[1] Age-related expenditure includes childcare. This expenditure is not included in the age-dependent expenditure presented in Appendix B as calculated by an EU working group.

[2] In addition to old-age pensions, pensions also include sickness and activity compensation.

Sources: Statistics Sweden and own calculations.

Appendix B – Comparison with the European Commission's projections of demographically dependent expenditure

A working group (Ageing Working Group, AWG) under the Economic Policy Committee (EPC) has, together with the European Commission, calculated the development of demographically dependent expenditure up to and including 2060. These estimates were last reported in 2013.[27] The calculations in the convergence programme are, however, based on the data presented to the Riksdag in the 2014 Spring Fiscal Policy Bill. This section compares the key demographic and macroeconomic indicators and also the demographically dependent expenditure from these two sources. The comparison is made for the period from 2010 – the year in which the EPC estimates commenced.

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

Index, unless otherwise stated

	2010	2020	2030	2040	2050	2060
Population, 15–74 years						
EPC	100.0	103.9	106.2	109.4	110.4	112.6
Convergence programme	100.0	105.6	107.5	110.6	111.5	114.3
Employed						
EPC, 15–74 years	100.0	107.7	110.3	113.1	115.4	115.7
Convergence programme, 15–74 years	100.0	110.4	111.3	113.4	117.2	118.5
Hours						
EPC	100.0	107.7	110.3	113.1	115.5	115.7
Convergence programme	100.0	108.9	109.5	111.7	115.4	116.7
Unemployment rate, percentage points						
EPC, 15–74 years	8.4	6.4	6.4	6.4	6.4	6.3
Convergence programme, 15–74 years	8.6	5.9	6.1	6.2	5.8	5.7
Labour productivity						
EPC	100.0	117.0	136.3	158.7	184.9	215.4
Convergence programme	100.0	116.6	138.3	165.9	200.3	241.2
GDP						
EPC	100.0	123.4	147.1	175.7	208.8	243.7
Convergence programme	100.0	126.2	151.4	185.2	230.7	280.9
GDP per capita						
EPC	100.0	114.6	130.3	151.0	174.2	198.3
Convergence programme	100.0	115.7	132.6	158.1	191.1	226.3

Sources: European Commission and own calculations.

The population forecast used in the EPC was prepared by Eurostat in 2010. The calculations in the convergence programme are based on Sta-

[27]The 2012 Ageing Report: Economic and budgetary projections for the 27 EU Member States (2010–2060).

tistics Sweden's population forecast from April 2013. The population grows somewhat less in the EPC calculations. The EPC also has a weaker increase both in hours worked and in the number of employed persons. In 2060, the level of employment is 2 percentage points lower and the number of hours worked approximately 1 percentage point lower in the EPC calculations.

In the convergence programme, the unemployment rate is assumed to be adapted to a structural level of about 5.7 per cent. In the EPC, this level is 6.5 per cent. Productivity growth is stronger in the convergence programme than in the EPC calculations.

The higher level of productivity is one reason for the GDP level for 2060 being higher in the convergence programme. GDP per capita also reaches a higher level in the convergence programme. However, the calculations are not comparable with regard to GDP and productivity because the EPC uses a one-sector model and the convergence programme a two-sector model without a chain index.

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

Proportion of GDP

	Change 2010–2020			Change 2010–2060		
	CP	EPC	CP-EPC	CP	EPC	CP-EPC
Pensions	0.1	0	0.1	0.8	0.6	0.2
Healthcare	0.1	0.2	-0.1	0.1	0.7	-0.6
Care of the elderly/disabled	-0.1	0.2	-0.3	1.9	2.5	-0.6
Education	0.4	-0.2	0.6	0.4	0	0.4
Unemployment benefit	0.6	0	0.6	0.6	0	0.6
Total	**1.1**	**0.2**	**0.9**	**3.7**	**3.8**	**-0.1**

Note: CP is the abbreviation of convergence programme. Childcare is not included in this synthesis.
Sources: European Commission and own calculations.

There are differences in age-dependent general government expenditure in all areas. This is largely due to the ECP assuming an improvement in the standards of general government services, but also because the CP has updated its age profiles, making the results appear slightly different. The convergence programme's lower cost increase for unemployment benefit is due to the lower level of unemployment and the fact that the ceiling for the unemployment benefit funds is fixed in the calculations up to and including 2018. Pensions are the item where the difference is greatest.

Appendix C – Tables

Table C.1a Components of GDP, the expenditure approach

Annual percentage change

	SEK, billions					
	2013	2013	2014	2015	2016	2017
GDP (constant prices)	3,604	1.5	2.7	3.3	3.5	2.5
GDP (current prices)	3,634	2.4	4.1	5.0	5.1	4.5
Components of real GDP						
Expenditure on household consumption	1,752	2.0	2.6	3.7	3.4	2.8
Expenditure on general government consumption	975	2.0	1.0	0.6	0.9	0.3
Gross fixed capital formation	666	-1.3	4.7	7.4	6.5	4.5
Inventory investments[1]	3	0.2	0.1	-0.1	0.0	0.0
Exports of goods and services	1,707	-0.9	3.5	5.5	6.5	5.7
Imports of goods and services	1,498	-1.2	3.4	6.3	6.7	6.0
Contribution to GDP growth						
Final domestic demand		1.2	2.4	3.4	3.2	2.3
Inventory investments		0.2	0.1	-0.1	0.0	0.0
Net exports		0.1	0.2	0.0	0.3	0.2

[1] Contribution to GDP growth.

Sources: Statistics Sweden and own calculations.

Table C.1b Prices and deflators

Annual percentage change

	Level					
	2013	2013	2014	2015	2016	2017
GDP deflator	100.8	0.8	1.3	1.7	1.6	1.9
Household consumption deflator	100.6	0.6	0.9	1.3	1.6	1.8
HICP[1]	113.9	0.4	0.6	1.3	1.5	1.6
General government consumption deflator	102.4	2.4	2.2	2.2	2.5	3.4
Investment deflator	100.2	0.2	0.8	1.4	1.3	1.5
Export price deflator (goods and services)	97.2	-2.8	0.9	1.0	1.0	0.8
Import price deflator (goods and services)	97.2	-2.8	0.6	0.6	1.3	1.0

Note: All deflators are indices.

[1] Index, 2005=100.

Sources: Statistics Sweden and own calculations.

Table C.1c The labour market

Annual percentage change, unless otherwise stated

	Level 2013	2013	2014	2015	2016	2017
Number employed[1]	4,705	1.0	1.2	1.2	1.2	1.0
Number of hours worked[2]	751,190	0.3	1.0	1.8	2.0	0.5
Unemployment rate[3]	411	8.0	7.7	7.3	6.7	6.3
Labour productivity, number of people[4]	672	0.5	1.6	2.1	2.3	1.5
Labour productivity, number of hours worked[5]	421	1.2	1.7	1.6	1.5	2.0
Wage costs[6]	1,954	2.3	4.1	4.2	4.6	4.5
Wage costs per employee[7]	418,301	1.3	2.9	3.0	3.4	3.5

[1] National Accounts' definition. Level in thousands of people.
[2] Tens of thousands of hours, National Accounts' definition.
[3] Thousands of people and percentage of the labour force, respectively.
[4] Real GDP per person employed, SEK.
[5] Real GDP per hour worked, SEK.
[6] SEK billions.
[7] SEK.
Sources: Statistics Sweden and own calculations.

Table C.1d Balance of payments

Per cent of GDP

	2013	2014	2015	2016	2017
Net lending/borrowing	3.8	6.0	5.8	5.8	5.6
of which					
Balance on goods and services	5.1	5.3	5.3	5.2	5.0
Factor incomes and current transfers payments	1.1	0.9	0.7	0.8	0.7
Capital account	-0.2	-0.1	-0.2	-0.2	-0.2
Net lending, private sector	7.4	7.6	6.2	5.7	4.9
Net lending, general government	-1.3	-1.6	-0.3	0.2	0.7
Net errors and omissions	-2.2	0	0	0	0

Sources: Statistics Sweden and own calculations.

Table C.2a The general government sector's finances

Per cent of GDP

	SEK, billions 2013	2013	2014	2015	2016	2017
Net lending by sub-sector						
General government	-40	-1.1	-1.4	-0.2	0.3	0.7
Central government	-27	-0.7	-1.2	-0.1	0.6	1.2
Local government	-8	-0.2	-0.2	-0.2	-0.1	-0.1
Old-age pensions system	-6	-0.2	0.1	0.1	-0.2	-0.4
General government						
Revenue	1873	51.5	50.2	50.3	50.1	50.2
Expenditure	1913	52.6	51.6	50.4	49.8	49.4
Net lending	-40	-1.1	-1.4	-0.2	0.3	0.7
Interest expenditure	23	0.6	0.7	0.8	0.8	0.8
Primary net lending	-18	-0.5	-0.6	0.6	1.1	1.6
Temporary revenue	11	0.3	0.0	0.0	0.0	0.0
Sub-items on the revenue side						
Total taxes	1354	37.3	36.9	36.9	36.9	37.1
Product and production taxes	671	18.5	18.3	18.4	18.6	18.8
Direct taxes	684	18.8	18.6	18.5	18.4	18.3
Capital taxes	0	0.0	0.0	0.0	0.0	0.0
Social security contributions	272	7.5	7.4	7.3	7.3	7.3
Income from capital	79	2.2	1.8	2.0	1.9	1.9
Other revenue	167	4.6	4.1	4.1	4.0	3.9
Total revenue	1873	51.5	50.2	50.3	50.1	50.2
Taxes and charges, incl. tax to the EU	1614	44.4	44.0	43.9	43.9	44.1
Sub-items on the expenditure side						
Wages and consumption	859	23.6	23.4	22.8	22.3	22.0
Wages and collective charges	525	14.4	14.4	14.1	13.8	13.7
Consumption	334	9.2	9.0	8.7	8.5	8.3
Social security transfer payments	677	18.6	18.1	17.8	17.7	17.8
of which are Unemployment benefits	35	1.0	0.8	0.7	0.6	0.6
Payments in kind	138	3.8	3.9	3.9	3.9	4.0
Transfer payments	539	14.8	14.3	13.9	13.8	13.8
Interest expenditure	23	0.6	0.7	0.8	0.8	0.8
Subsidies	57	1.6	1.5	1.5	1.5	1.5
Investments	121	3.3	3.3	3.2	3.2	3.3
Capital transfers	9	0.2	0.2	0.2	0.2	0.2
Other	168	4.6	4.3	4.1	4.0	3.9
Total expenditure	1913	52.6	51.6	50.4	49.8	49.4
General government consumption (current prices)	998	27.5	27.2	26.7	26.2	26.0

Sources: Statistics Sweden and own calculations.

Table C.2b Revenue and expenditure forecasts

Per cent of GDP, unless otherwise stated

	SEK, billions 2013	2013	2014	2015	2016	2017
Total revenue	1873	51.5	50.2	50.3	50.1	50.2
Total expenditure	1913	52.6	51.6	50.4	49.8	49.4

[1] Change in comparison with preceding year, SEK billions.

Sources: Statistics Sweden and own calculations.

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

Per cent of GDP

	SEK, billions 2013	2013	2014	2015	2016	2017
Expenditure directly funded via the EU budget	3	0.1	0.1	0.1	0.1	0.1
Cyclical changes expenditure changes resulting from increased unemployment[1]	2	0.1	-0.1	-0.1	-0.1	0.0
Effects of discretionary measures in the area of taxation	-8.1	-0.2	-0.4	0.0	0.0	0.0
Legislatively regulated revenue increases	–	–	–	–	–	–

[1] Change in comparison with preceding year.

Sources: Statistics Sweden and own calculations.

Table C.3 General government expenditure by purpose

Per cent of GDP

	COFOG code	2012
General public services	1	7.2
Defence	2	1.4
Public order and safety	3	1.4
Economic affairs	4	4.4
Environmental protection	5	0.3
Housing and community amenities	6	0.7
Health	7	7.1
Recreation, culture and religion	8	1.1
Education	9	6.8
Social protection	10	21.4
Total expenditure		52.0

Sources: Statistics Sweden and own calculations.

Table C.4 The development of consolidated gross debt

Per cent of GDP

	2013	2014	2015	2016	2017
Consolidated gross debt	40.6	41.3	39.7	37.3	34.8
Change in gross debt	2.3	0.7	-1.5	-2.4	-2.5
Contribution to changes in gross debt					
Primary net lending	0.5	0.6	-0.6	-1.1	-1.6
Interest expenditure	0.6	0.7	0.8	0.8	0.8
Stock-flow adjustment	2.0	0.9	0.3	-0.2	-0.2
of which					
Allocation of interest and taxes to periods	0.0	0.3	0.0	-0.2	0.0
Sale of shares, extra dividends	-1.2	-0.4	-0.4	-0.4	-0.3
Other	3.2	1.0	0.6	0.4	0.2
Implicit interest rate on gross debt	*1.7*	*1.9*	*2.0*	*2.2*	*2.3*

Sources: Statistics Sweden and own calculations.

Table C.5 Cyclical developments

Per cent of GDP, unless otherwise stated

	2013	2014	2015	2016	2017
GDP growth (%)	1.5	2.7	3.3	3.5	2.5
General government net lending	-1.1	-1.4	-0.2	0.3	0.7
Interest expenditure	0.6	0.7	0.8	0.8	0.8
Temporary revenue	0.3	0.0	0.0	0.0	0.0
Potential GDP growth (%)	2.2	2.3	2.0	2.2	2.4
GDP gap	-2.9	-2.4	-1.5	-0.5	-0.2
Automatic stabilisation mechanisms	-1.7	-1.4	-0.8	-0.3	-0.1
Cyclically adjusted net lending	0.6	0.0	0.6	0.5	0.8
Cyclically adjusted primary net lending	1.2	0.7	1.4	1.4	1.7
Structural balance	0.3	0.0	0.7	0.5	0.8

Sources: Statistics Sweden and own calculations.

Table C.6 Comparisons with last year's convergence programme

	2013	2014	2015	2016	2017
GDP growth (%)					
Last year's update	1.2	2.2	3.6	3.9	–
This year's update	1.5	2.7	3.3	3.5	2.5
Difference	0.3	0.5	-0.3	-0.4	–
General government net lending (% of GDP)[1]					
Last year's update	-1.4	-0.9	0.2	1.2	–
This year's update	-1.1	-1.4	-0.2	0.3	0.7
Difference	0.3	-0.5	-0.4	-0.9	–
Consolidated gross debt (% of GDP)					
Last year's update	42	41.8	39.5	36.2	–
This year's update	40.6	41.5	40.0	37.6	35.0
Difference	-1.4	-0.3	0.5	1.4	–

[1] In accordance with the EDP.

Sources: Statistics Sweden and own calculations.

Table C.7 The long-term sustainability of the general government finances

Per cent of GDP

	2010	2015	2020	2030	2040	2050	2060
Total expenditure	**50.49**	**48.93**	**48.35**	**48.78**	**47.97**	**46.26**	**45.99**
of which							
Age-related expenditure	28.34	27.45	27.31	28.26	28.18	27.41	28.08
of which							
Pensions	8.49	8.28	8.37	8.12	7.9	7.45	7.72
of which							
Guarantee pensions	0.56	0.4	0.28	0.27	0.27	0.25	0.26
Old-age pensions	6.6	6.69	7.05	6.84	6.67	6.27	6.51
Other pensions (disability and survivors')	0.69	0.54	0.41	0.34	0.28	0.23	0.23
General government occupational pensions	0.64	0.65	0.63	0.67	0.69	0.69	0.72
Healthcare	6.4	6.41	6.34	6.59	6.55	6.4	6.35
Care of the elderly	4.06	4.1	4.11	4.82	5.32	5.53	5.86
Education	5.22	4.77	4.85	5.18	5.01	4.64	4.81
Other age-related expenditure	4.17	3.89	3.64	3.54	3.41	3.39	3.34
Interest expenditure	1.15	0.98	1.68	1.11	0.75	0.11	-0.59
Total revenue	**50.48**	**48.6**	**49.05**	**48.97**	**48.57**	**48.19**	**48.19**
of which							
Income from capital	1.92	1.85	2	1.63	1.28	1.09	0.95
of which							
The pension system	0.67	0.66	0.85	0.56	0.31	0.19	0.1
Assets in the pension system	27.53	27.41	21.29	14.31	7.82	5.07	2.45
of which							
Consolidated assets in the pensions system (assets other than sovereign debt)	21.15	22.8	17.43	11.91	6.56	4.32	2.13
Assumptions							
Labour productivity	4.05	1.24	1.15	1.15	1.69	1.54	1.54
GDP growth	6.56	2.93	0.93	1.53	2.72	3.26	3.47
Unemployment rate	8.58	7.78	7.96	8.03	7.74	7.25	6.66
Population aged 65 and over as a proportion of the total population	18.27	18.6	18.95	19.27	19.51	19.69	19.82

Sources: Statistics Sweden and own calculations.

Table C.7a Central government guarantees

Per cent of GDP

	2013
Central government guarantees	**45.9**

Sources: Statistics Sweden and own calculations.

Table C.8 Forecast assumptions

Annual average, unless otherwise stated

	2013	2014	2015	2016	2017
Swedish 6-month interest rate	0.9	0.8	1.2	2.0	2.6
Swedish 10-year interest rate on government bonds	2.1	2.5	3.1	3.8	4.4
USD/EUR exchange rate	1.3	1.3	1.3	1.3	1.3
SEK/EUR	8.7	8.7	8.4	8.3	8.3
World GDP[1]	3.0	3.7	3.9	4.0	4.1
EU GDP[1]	-0.4	1.1	1.6	1.7	1.6
World market growth[1]	1.4	5.3	6.0	6.0	5.9
Oil price (Brent USD/barrel)	109	105	103	102	101

[1] Annual percentage change.

Sources: Statistics Sweden and own calculations.

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