

## 2 Guidelines for economic and budget policy

### 2.1 Political starting points

After years of high inflation resulting in weak economic growth, Sweden's economy has begun to recover. This recovery has not reached all Swedes however and the economy remains in recession.

There is significant uncertainty around the globe, which is hampering recovery. In the beginning of April, the new US administration announced extensive import tariffs on goods from almost every country in the world. This has resulted in increased uncertainty regarding global economic growth, which in turn has caused turbulence in financial markets and stock markets have plunged. Some countries have responded by adopting countermeasures while others have initiated negotiations with the US. Uncertainty around the tariffs' scope and duration remains significant but higher tariffs, and in the worst-case scenario combined with a trade war, risk further protracting the recession. However, Sweden is on stable economic ground and able to take further action should the need arise. The Swedish Government's fiscal policy aims to prioritise Swedish people's finances. The Government therefore intends to leverage the Swedish economy's strength to enhance its growth and deal with any negative side-effects of the prevailing uncertainty. This will be particularly relevant if the economic trend results in considerably lower growth in Sweden.

The Government inherited an economy with high inflation, low growth and high unemployment. High inflation placed a heavy financial burden on households, businesses, municipalities and regions alike. Upon taking office, the Government introduced a multi-stage approach to rectify this. The first stage involved combatting inflation as the root cause of a significant part of Sweden's acute economic problems. The Government's priorities, together with the Riksbank's monetary policy and the responsible actions of the social partners, have made an impact. The pressure of inflation is now considerably lower, which is a positive outcome. However, price levels remain high. Purchasing power has been eroded and many people have seen the real value of their savings decrease. Mortgage borrowers are facing high interest costs and entrepreneurs are met by waning demand while costs have increased. The fight against inflation and the Government's major contributions to health care and schools have helped severely impacted municipalities and regions. However, the recession and high unemployment caused by high inflation are still affecting the Swedish economy. The Government is now initiating the next stage.

The Government's fiscal policy has three focus areas: strengthening households and supporting recovery, reinstating the work-first principle and reducing unemployment, and increasing growth and investment in Sweden. If inflation steadily increases to high levels, combatting it would once again become a top priority.

### A policy to make Sweden more prosperous and secure

#### Strengthening households

First, the Government's policy aims to continue strengthening household purchasing power. Despite real earnings growth, more needs to be done to strengthen and restore household purchasing power, which is why taxes have been reduced for everyone who

works and has worked. Lower fuel taxes and reduction obligation requirements make a huge difference in many people's wallets, as does the reduced tax on savings interest. At the same time, the situation remains challenging for households. The Government is therefore carefully monitoring developments for households and will amend the Budget Bill if necessary. The Government sides with households.

Households increasing their savings makes Sweden strong. Savings and hard work should pay off, as should working extra hours to create a buffer for more challenging times. People working and saving benefits all of society.

Food prices will continue to rise for several reasons, including rising prices in the global market. Another reason is weak competition in the Swedish food sector, which means that it is necessary to enhance competition with the aim of lowering prices, particularly for food. The Government will continue to adopt measures to increase competitiveness, profitability and robustness in the Swedish food chain within the framework of the second iteration of the National Food Strategy.

### **Reinstating the work-first principle and reducing unemployment and social exclusion**

Second, the Government's economic policy aims to reinstate the work-first principle and reduce unemployment. Demand for labour remains weak and unemployment is higher than it was a year ago. Cyclical unemployment is best managed by supporting economic activity and stimulating growth. To this end, the Government proposed several measures to support the economy and employment in the Budget Bill for 2025 (Govt Bill 2024/25:1), and now proposes additional measures. There are however underlying structural problems in the labour market and significant social exclusion. A combination of long-term reforms will be required to remedy this.

The structural problems in the labour market include difficulties matching unemployed individuals' skills with employers' demands. This is mainly because a large number of unemployed individuals are far removed from the labour market and belong to groups that find it difficult to compete for job openings because they lack sufficient education or Swedish language skills. These issues are mainly found among people born outside of Europe. This group has a higher rate of long-term unemployment, with fewer people having an education beyond secondary school.

The Government is implementing a number of measures to reduce the high level of unemployment. The Swedish Public Employment Service will prioritise individuals who are at risk of, or find themselves in, long-term unemployment. It has also been tasked with increasing participation in employment training and informing employers of specific measures that are available when employing people who have disabilities that impair their capacity to work. At the same time, vocational education and training opportunities are being improved.

The Government has initiated a major benefit reform to get more people working through a three-part reform initiative. It comprises a benefit ceiling to ensure that it is always worthwhile to work, a gradual qualification for Swedish welfare benefits and an activity requirement to be entitled to income support. The purpose of these reforms is to contribute to increased labour supply and reduced social exclusion in the long-term.

Unemployment is high among certain immigrant groups and has been for some time. This is often the case among groups that immigrated to Sweden en masse in the last 20 years. Social exclusion and unemployment have taken hold in these groups despite extensive labour market policy measures. Integration policy is being overhauled to further emphasise requirements on the individual. The Government intends to review

the large-family supplement in order to counter social exclusion, increase the rate of self-sufficiency and improve incentive structures.

Voluntary repatriation should be heavily stimulated and expanded, which can help reduce the number of people living in social exclusion and the consequences that social exclusion entails for Swedish society and for the individual. Voluntary repatriation creates opportunities for individuals to get a fresh start and can boost a country's economy and labour force. Efforts are currently underway within the Government Offices to significantly increase benefits for voluntary repatriation in 2026. Several government agencies have been tasked with assisting the Swedish Migration Agency in its information campaign to encourage voluntary repatriation. In addition, a national coordinator will be appointed to disseminate information and initiate dialogue with municipalities and social services to enhance efforts to advise and inform people about, and encourage, voluntary repatriation. The significantly increased repatriation benefit and the major benefit reform will jointly and separately help to reduce social exclusion.

Unemployment insurance is being reformed with a clearer reduction in benefits over time aimed at providing a stronger incentive to return to work. It is also being enhanced by raising its ceiling and covering more people.

At the request of the social partners, the Government has ensured that labour market entry agreements are in place. There is now a need to employ significantly more people so that more new arrivals and long-term unemployed can enter the labour market. Speaking Swedish is essential to getting established in the labour market.

Greater incentive is also needed to motivate additional effort and development of individual skills. Education and training and increased responsibility at work should be better compensated. This requires lower marginal taxes. The 'half remaining' principle, meaning that wage earners should keep at least half of a wage increase after tax, should apply. The Government has taken important steps towards achieving this goal.

### **Facilitating investment and increasing growth in Sweden**

Third, the Government will prioritise measures that increase investment and growth in Sweden. A growing economy is a prerequisite for good economic development and funding the defence capability build-up that Sweden is facing. Signals of increased US protectionism make strengthening our competitiveness and increasing our productivity all the more important – for Sweden and for the EU. The EU and its Member States have some work to do in this regard. The EU must rapidly accelerate the pace of negotiations to enter into more free trade agreements.

Increased trade barriers could hamper long-term growth, but weak growth in Europe is the primary problem. Sweden will push for a more competitive EU. Increased growth in Europe benefits the Swedish economy and strengthens the EU's position in global negotiations. The Government's policy will be guided by two questions. How can private capital in the EU be increased? How can investments in private capital in the EU be made more profitable? Reforms that benefit savings, investment and a functioning capital market will pave the way forward.

There is a risk that upcoming political measures in the US may drive investment away from Europe and Sweden and towards the US. The Government is monitoring developments and ready to respond with additional measures if necessary.

Sweden is putting in the work. Aside from other growth-inducing measures, productivity needs to be enhanced. Productivity growth has decreased since the global financial crisis and there is no clear explanation as to why that is. Fewer productivity-

enhancing investments and the slowed pace of globalisation have likely contributed to this. The Government is working to increase productivity, including through its labour market policy and investments to create a more dynamic business sector. High-quality education and research are also essential to Sweden's prosperity. We need to get back to basics and re-establish a strong knowledge-based school system that focuses on factual knowledge and skills such as reading, writing and arithmetic.

In December 2024, the Riksdag adopted the Government's proposal on new financial frameworks for transport infrastructure for the long-term infrastructure-planning period 2026–2037 (Govt Bill 2024/25:28). This historic investment expands the financial framework for transport infrastructure by more than SEK 200 billion, which is equivalent to a 20 per cent increase in comparison with the previous period.

Facilitating innovation and development is also an important part of these efforts. In December 2024, the Government submitted a research and innovation bill (Govt Bill 2024/25:60) containing the largest-ever increase in research and innovation funding. The bill proposes allocating funds to excellent research, research and innovation in groundbreaking technologies and research infrastructure. During the current electoral period, the Government has also raised the research and development deduction ceiling and made the tax relief for experts more generous. The aim is to provide incentive for companies to increase investments in research and development and better conditions for attracting and maintaining international key competencies. The Government also intends to improve tax conditions that support companies' opportunities to carry out research and development. At the same time, efforts to facilitate and improve conditions for foreign researchers and doctoral students in Sweden continue. As the host country for the European Spallation Source (ESS) research facility, Sweden has made substantial commitments in relation to the construction, operation and eventual phasing-out of the ESS. The Government also submitted an energy research bill (Govt Bill 2024/25:72) in December 2024, which includes historic investments in nuclear research. Sweden will remain an attractive country for cutting-edge research and innovation.

Sweden has a strategic interest in maintaining a strong presence in the Arctic region, particularly in light of the current security situation and our accession to NATO. The Government deems it necessary to shore up Sweden's leading position in polar research and independent access to the Arctic region. Our capacity to expand and repair underwater infrastructure should also be taken into consideration. The Government therefore appointed an inquiry to produce briefing material on the potential acquisition of a polar research vessel, which will be presented in a report on 31 May 2025 (U2024/00015). The report will inform the Government in its decision on whether to procure a polar research vessel.

Growth generated by entrepreneurship in a strong business sector is a prerequisite for the build-up of Sweden's defence. Creating conditions for higher growth also involves improving conditions for entrepreneurs. For this reason, the Government is continuing its efforts to simplify the complicated rules encumbering entrepreneurs and is working to revamp the tax system in order to encourage entrepreneurship, individual effort and investments in Sweden – not least in the housing sector. Complicated rules, limited access to buildable land, and long lead times in the planning and construction process hamper housing construction. To simplify regulatory frameworks, the Government has initiated a vast number of measures, including an easing of building requirements for student housing and a new regulatory framework for building permits. Moreover, the National Board of Housing, Building and Planning has decided to simplify building and construction regulations. The Board will also be tasked with drafting a proposal on how a small house type approval for

‘Sverigehuset’ could be implemented. The Government deems it necessary to carry out an environmental assessment reform for approval processes to become more efficient and predictable. It is particularly important that the environmental assessment procedure does not hinder the speedy rearmament of Sweden’s defence. The Government is monitoring this matter and has enacted an ordinance to temporarily simplify environmental processes for Sweden’s defence.

Growth requires good access to energy. The decommissioning of nuclear power plants in southern Sweden has contributed to increased imbalances in the electric power system. This has resulted in higher prices in southern Sweden and contributed to new investments being denied or delayed awaiting electricity grid access. This weakens Sweden’s competitiveness and makes the climate transition more difficult. The Government has therefore begun the process of facilitating the construction of new nuclear power facilities. The first reactors should be in place by 2035. The approvals process for nuclear energy is currently being amended to become significantly shorter and more efficient. To enable investments, the Government has presented a risk allocation model to facilitate new nuclear energy investments (Govt Bill 2024/25:150) and appointed an electricity market inquiry (KN 2024:02) to analyse and make proposals on how the Swedish electricity market can be further developed. The objectives are ensuring a secure electricity delivery system with good access to electricity, ensuring competitive prices throughout the country and reducing price differences within the country.

The Government considers personal assistance a freedom reform that should be safeguarded. At the same time, this requires protecting the system from criminal exploitation. Personal assistance must be designed in such a way as to resist welfare crime, be predictable for those entitled to assistance and ensure that the needs of those entitled to assistance are met. For this reason, the Government intends to introduce measures aimed at establishing central government responsibility for personal assistance during the current electoral period. The Government has tasked the Swedish Social Insurance Agency with examining the conditions required to fully assume central government responsibility for personal assistance. The report is to be presented on 8 May 2025 at the latest.

### **Assuming responsibility in an uncertain world**

Russia’s full-scale invasion of Ukraine has fundamentally deteriorated Sweden’s and Europe’s security situation. Violence and a lack of safety have permeated society and are impacting the generation growing up today. High operating costs for businesses and financially strained households make for a bleak outlook. Sweden will be facing economically demanding tasks. Political priorities should promote growth, good economic development and security. The Government is undertaking major efforts to re-prioritise public resources, make state administration more efficient and review the number of government agencies.

Having successfully combatted inflation, the focus of government policy has been shifted towards reform and investment to make Sweden more prosperous and secure – for us and for generations to come. The proposals in the 2025 Spring Amending Budget (Govt Bill 2024/25:99) bring Sweden further along that road.

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

Together with this Bill, the Government presents the 2025 Spring Amending Budget Bill to the Riksdag. The Bill includes measures for the following areas:

- navigating Sweden through the recession;
- law enforcement and improved safety and security;
- enhanced Swedish defence capability and continued support to Ukraine.