EKONOMISTYRNINGSVERKET

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The sharp economic downturn puts great pressure on central government finances

Summary

The sharp economic downturn is continuing to put great pressure on central government finances, confirming the picture from our previous forecast at the beginning of April. The central government budget shows a deficit throughout the forecast period. Next year the deficit in net lending will amount to just over 3% of GDP, so exceeding the limit set in the EU Stability and Growth Pact. Weak growth and large deficits mean that the debt-to-GDP ratio will rise during the next three years. The debt-to-GDP ratio has not risen for three successive years since the early 1990s. However, the deficits in central government finances are primarily cyclical and are not expected to last. Structural net lending remains positive, and Swedish central government finances are strong by international standards. However, we believe that further decisions on fiscal easing should be taken with great care: it is important in the current situation that confidence in the long-term sustainability of central government finances is not undermined.

Table 1. Key figures, budget forecast 2008–2012

	Outcome	Forecast				Diff. to BF 2009:1				Diff. to SFPB			
	2008	**2009**	**2010**	**2011**	**2012**	**2009**	**2010**	**2011**	**2012**	**2009**	**2010**	**2011**	**2012**
Central government budget balance, SEK bn	135.2	-159.8	-98.7	-68.9	-50.3	-11.0	-13.3	-13.9	-25.8	26.3	10.9	2.6	0.4
Non-recurring effects, SEK bn	70.3	-75.1	0.0	-0.3	1.0	-7.6	6.0	-0.1	0.0				
Underlying budget balance, SEK bn	64.9	-84.7	-98.7	-68.7	-51.3	-3.4	-19.3	-13.8	-25.8				
Expenditure subject to ceiling, SEK bn	943.4	964.4	991.8	1001.1	1012.0	4.2	2.5	9.7	4.0	-12.0	-13.0	-22.3	-19.9
of which, old-age pension system, SEK bn	201.4	220.2	222.6	223.3	232.7	-0.2	-1.1	-4.0	-12.7	-0.6	-7.0	-18.7	-23.9
Margin to expenditure ceiling, SEK bn	13.6	26.6	28.2	48.9	68.0	-4.2	-2.5	-9.7		12.0	13.0	22.3	19.9
Net lending, % of GDP	1.5%	-2.3%	-3.5%	-2.7%	-1.2%	-0.3%	-0.4%	-0.6%	-0.9%	0.6%	-0.2%	-0.3%	-0.2%
Structural net lending, % of pot GDP	2.0%	0.3%	0.3%	0.5%	0.7%	-0.2%	-0.4%	-0.5%	-0.6%				
Central government debt, % of GDP	33.6%	37.1%	39.6%	40.3%	39.6%	-0.1%	0.9%	2.0%	3.0%	-1.6%	-1.8%	-1.0%	-1.2%

BF 2009:1= Budget Forecast 2009:1 (ESV:s previous forecast for 2009-2012)
SFPB=The Government's forecasts for 2009 and calculations for 2009-2012 in the Spring Fiscal Policy Bill for 2009

The central government budget will move from a substantial surplus in 2008 to a substantial deficit in 2009. Almost half of the change is due to non-recurring effects. A number of state-owned companies were sold off last year, which boosted the budget balance through extraordinary income. This year the budget balance will instead be eroded by extraordinary expenditure, due primarily to the support measures for the financial system. The extent to which this support will actually be paid out is very uncertain, and so the forecast for the underlying balance must be considered more reliable. Even when non-recurring effects are excluded, the deterioration in the central government budget is considerable, equivalent to 5% of GDP. Most of this can be attributed to expansionary fiscal policy, consisting in equal parts of the automatic stabilisers and active fiscal policy measures. We have to go back to the early 1990s to find such a large negative change from one year to the next. Back then the underlying balance deteriorated sharply for three years in a row, whereas this time around the deterioration is expected to be significant in only one year and the starting point is much more favourable, with strong central government finances and a more stringent budgetary process.

Table 2. Central government budget balance 2008–2012

SEK bn	Outcome	Forecast				Diff. To BF 2009:1				Diff. to SFPB			
	2008	**2009**	**2010**	**2011**	**2012**	**2009**	**2010**	**2011**	**2012**	**2009**	**2010**	**2011**	**2012**
Total revenue	**901.3**	**706.5**	**712.9**	**752.9**	**777.9**	**-5.1**	**-5.1**	**5.7**	**-1.3**	**12.9**	**1.9**	**-1.6**	**6.7**
Tax revenue	789.6	707.5	709.5	735.1	782.5	-5.8	-4.1	-5.2	-6.9	4.5	0.7	-3.3	10.1
Accruals	19.1	-4.4	2.9	19.1	-4.0	-1.3	-0.7	10.8	5.4	6.4	3.9	7.5	5.8
Other revenue	92.5	3.4	0.5	-1.3	-0.6	2.0	-0.2	0.1	0.3	2.0	-2.7	-5.8	-9.1
of which, sales of assets	76.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	**766.1**	**866.2**	**811.7**	**8218**	**828.2**	**5.9**	**8.2**	**19.6**	**24.6**	**-13.4**	**-9.0**	**-4.2**	**6.3**
Expenditure areas excl. EA 26	742.1	744.2	769.3	777.8	779.3	4.3	3.7	13.7	16.7	-11.5	-6.0	-3.6	4.0
EA 26 Interest on central government debt etc	48.2	32.2	22.5	34.2	44.9	3.9	2.0	4.4	6.8	0.3	-5.5	-2.4	2.1
of which, stability fund	15.0												
Cash correction	3.7	-0.5	1.3	20.3	0.4	-1.9	0.7	1.5	0.4	-1.9	0.7	1.5	0.4
Net lending by National Debt Office	-27.9	90.4	18.6	-10.6	3.6	-0.5	1.9	0.0	0.7	-0.4	1.8	0.2	-0.2
Budget balance	**135.2**	**-159.8**	**-98.7**	**-68.9**	**-50.3**	**-11.0**	**-13.3**	**-13.9**	**-25.8**	**26.3**	**10.9**	**2.6**	**0.4**

BF 2009:1= Budget Forecast 2009:1 (ESV:s previous forecast for 2009-2012)
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The most striking feature of our last three budget forecasts has been the economic downturn’s deeply negative effect on tax revenue. In the present forecast it is instead clear that expenditure will increase, both relative to the previous forecast and over time. It is primarily expenditure on labour market policy and interest on central government debt that will increase, by a combined total of SEK 48 billion in 2009–12. The government has also recommended that municipalities receive temporary support of SEK 7 billion in 2010 and that municipal grants be increased by SEK 5 billion from 2011. This temporary support is expected to be paid out this year.

Expenditure subject to the expenditure ceiling will remain rather well below the ceiling in 2009–11. Higher expenditure on labour market policy will be partially offset by lower expenditure on ill-health and only a slight increase in expenditure on the old-age pension system. The automatic balancing of the old-age pension system will be activated in 2010–12, which will slow the growth in expenditure.

However, margins to the expenditure ceiling are markedly reduced in all years relative to our previous forecast. These margins will narrow further once the ceiling is revised down following the introduction of accrual accounting for administrative expenses. If the proposals for changes in the calculation basis for the old-age pension system are introduced, expenditure will increase further and so also decrease these margins. Even when account is taken of these two factors, the margins left are still larger than the recommended minimum for normal uncertainty in the calculations. However, this uncertainty may be deemed to be increased at present due to the prevailing economic climate.

Household consumption and wages are the most important tax bases for central government, and these have been revised down in the present forecast. However, these revisions are marginal in context and will primarily affect tax revenue from value-added tax and taxes on labour. Corporate earnings, and so also corporation taxes, are also expected to be lower. On the other hand, household capital taxes have been revised up due to the strong stock market recovery in April.