

December 9, 2004



EKONOMISTYRNINGSVERKET

Press Release

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Large Deficits despite Economic Upswing

The expenditure ceiling is expected to be met at a margin of three billion Swedish kronor this year. The Swedish National Financial Management Authority has consistently predicted this year's expenditure to exceed the ceiling. During the year the Government has decided on expenditure restrictions. Despite a strong economic upturn, central government budget deficits are considerable 2004–2008. A reformed surplus target focusing on the central government budget may serve as an effective tool for strengthening central government's long term financial position.

The measures to restrict expenditure this year mainly affect national defence expenditure and agriculture support. Furthermore, the contributions to the European Community will be lower than estimated. The expenditure restrictions will, however, diminish the prospects of securing next year's expenditure ceiling, since they in certain cases increase expenditure in 2005. Expenditure will also increase as a consequence of trial traffic congestion taxes in Stockholm. Altogether, the expenditure ceiling will therefore be surpassed by four billion kronor, should no measures be taken. A reformed local-government tax equalisation system next year implies that revenue as well as expenditure and the ceiling will decrease by 26 billion Swedish kronor. However, this will affect neither the budget balance nor the budgeting margin.

To prevent the expenditure ceiling from being exceeded next year, the Government has declared that government agencies cannot use their appropriation balances in 2005. This applies to the total net use and not to specific appropriations. Pending a government decision, the Swedish National Financial Management Authority estimates that appropriation balances will be used to some extent and that the total net use will amount to 2.7 billion Swedish kronor. The forecast thus constitutes a basis for decision-making on expenditure restricting measures next year. If the net use can be reduced to zero, the expenditure decreases correspondingly. The ceiling would then instead be exceeded by 1.7 billion kronor.

Despite a strong economic upturn, central government budget deficits are considerable. Next year, revenue will improve following that employment is expected to increase. The revenue improvement is, however, balanced by cuts in personal income tax and increasing tax reductions, in particular employment grants to local government. Next year's improved budget balance is mainly due to unusually low interest payments in foreign currency. If the USD/SEK rate remains low, the exchange gains will further increase during the forecasting period.

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The tax reductions on the budget have gradually increased and amount to 10 billion Swedish kronor this year. Next year, these tax reductions increase further to 16 billion Swedish kronor due to considerable employment grants to local governments. The increased use of tax reductions threatens to reduce the confidence in the expenditure ceiling as a fiscal instrument and deteriorate the transparency of the central government budget.

Higher employment for the years ahead leads to an increased growth in aggregate wage sum, which adds to higher revenues from social security contributions and income taxes. Improved purchasing power also raises revenues from taxes on consumer goods. Although government revenue benefits from the upswing in the economy, the budget deficit remains during the forecasting period. The sick leave has decreased substantially, but the high expenditure on ill health persists since many people on sick leave instead will be supported through activity and sickness compensation. The expenditure on unemployment benefits begins to decrease in 2005, which compensates for increasing activity compensation expenditure. The proposal in the Budget Bill regarding increased child allowance and a raised ceiling in the parental insurance system, increases expenditure subject to the expenditure ceiling from 2006. The ambition to raise the development aid to one per cent of GNI also brings about higher expenditure, along with a larger contribution to the European Community as a result of the enlarged EU. The previous relatively generous margin to the expenditure ceiling has therefore diminished to merely one per cent of the ceiling.

If the expenditure ceiling is determined on a similar basis as precedently, the margin will be somewhat larger in 2007 and 2008 than the precedent year due to decreasing expenditure in relation to GDP. This enables a lower expenditure ceiling to be set as a percentage of GDP in 2007 – and later on in 2008 – without actual expenditure reductions.

The favourable economic growth during the forecasting period entails a decreasing debt ratio in spite of large consistent budget deficits. However, there are good reasons for the central government finances to be stronger:

- Economic upturn – high growth and rising capacity utilisation during the forecasting period.
- Demographic boom – The structure of the population is for presently the most favourable since the nineteen sixties, but will deteriorate and remain weak for a long time.

Today's target of a surplus averaging 2 per cent of GDP over a business cycle in the public finances does not prepare the central government for the strains the ageing population implies. The implicit target for the financial savings of the central government becomes merely the mirror image of the development in the old-age pension system. From this follows that fiscal policy will tighten as demand for health care and social services increases. The labour supply and the tax base decrease as well, further weakening government finances.



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A reformed surplus target focusing on the central government budget may serve as an effective tool for strengthening central government's long term financial position. The other parts of the public sector can be left out as the autonomous pension system is well prepared for the future and local governments are subjected to a balanced budget requirement. Which level of government debt or budget balance to target is eventually a political matter. An important aspect of this is whether today's generations or tomorrow's shall bear the cost of the government debt. To what extent should those who have contributed to the build-up of debt participate in reducing it?

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Appendix 1. Summary 2003–2008

SEK billion

	Outcome	CGB ¹	Forecast					Diff. to BF 2004:3		Diff to. GBB			
	2003	2004	2004	2005	2006	2007	2008	2004	2005	2004	2005	2006	2007
Total expenditure	708.1	754.1	750.7	750.9	779.9	801.0	821.2	-3.5	-23.6	-0.6	0.1	-12.0	-11.3
Expenditure areas, excl. interest costs	661.3	690.2	686.9	702.1	715.0	735.2	754.4	-6.7	-20.2	-3.2	2.9	-9.3	-5.7
Interest on Central Government debt	42.2	47.7	50.5	37.8	50.2	51.5	54.5	1.8	-1.5	1.1	-1.0	-1.9	-4.4
Cash correction	-7.5	-3.9	-11.9	-1.9	0.0	0.0	0.0	-6.0	0.0	0.0	0.0	0.0	0.0
Net lending by National Debt Office	12.1	20.2	25.2	12.8	14.8	14.4	12.2	7.3	-1.9	1.6	-1.8	-0.8	-1.2
Total revenue	661.7	712.4	697.7	712.7	737.3	773.6	800.5	2.3	-32.1	10.2	0.4	-2.9	-1.5
Budget balance	-46.3	-41.7	-53.0	-38.2	-42.6	-27.4	-20.7	5.8	-8.5	10.8	0.2	9.1	9.8
Old Age Pension System outside the Central Government budget	157.8	165.6	167.8	172.3	182.6	195.8	210.8	2.3	0.4	2.1	1.7	1.3	3.6
Expenditure subject to expenditure ceiling	819.1	855.8	854.7	874.4	897.6	931.0	965.2	-4.4	-19.9	-1.1	4.6	-8.0	-2.0
Expenditure ceiling	822.0	856.0	858.0	870.0	907.0	943.0		2.0	-24.0	2.0			
Budgeting margin	2.9	0.2	3.3	-4.4	9.4	12.0		6.5	-4.1	3.1	-4.6	8.0	2.0
Total non-recurring effects	18.4		2.4	5.6	4.2	5.0	1.3	-0.4	2.7				
Underlying balance	-64.8		-55.4	-43.8	-46.8	-32.4	-22.0	6.2	-11.2				

CGB=Adopted Central Government Budget, BF 2004:3=Budget Forecast 2004:3 (ESV's previous forecast)

GBB=The Government's forecast for 2004, proposal for 2005 and calculations for 2006–2007 in the Government Budget Bill for 2005.

Note. The expenditure ceiling for 2007 refers to the Government's preliminary calculation.

¹In addition, 10.9 SEK billion has been assigned on the supplementary budget.



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Appendix 2. Central Government Budget Expenditure 2003 and 2004 (in the budget structure for 2004)

SEK billion

Expenditure area	2003	2004				Diff. to BF2004:3	Diff. to GBB
	Outcome	CGB	SB	GBB Forecast	Forecast		
1 The Swedish political system	7.5	7.9	0.0	7.8	7.6	-0.1	-0.2
2 Economy and fiscal administration	9.0	9.2	0.0	9.4	9.3	0.0	-0.1
3 Tax administration and collection	8.3	8.6	0.1	8.6	8.6	0.0	0.0
4 Justice	25.5	26.4	0.3	26.1	26.4	-0.3	0.3
5 International co-operation	1.1	1.3	0.0	1.3	1.3	0.0	0.0
6 Total defence	45.1	44.3	0.0	42.5	43.0	-2.2	0.5
7 International development cooperation	15.9	19.9		20.0	19.2	-0.8	-0.8
8 Immigrants and refugees	7.7	7.0	0.3	7.3	7.5	0.0	0.2
9 Health care, medical care, social services	34.1	37.7	1.6	37.8	37.2	-0.2	-0.6
10 Financial security for the sick and disabled	121.5	124.0	2.9	121.8	122.7	0.1	1.0
11 Financial security in old age	52.0	50.7		51.2	51.2	0.0	0.0
12 Financial security for families and children	52.2	53.9	0.8	54.4	54.2	-0.1	-0.2
13 Labour market	64.2	62.0	7.4	68.2	67.3	-0.4	-1.0
14 Working Life	1.1	1.1		1.1	1.1	0.0	0.0
15 Study support	19.9	21.9	0.0	21.0	20.9	0.0	-0.1
16 Education and university research	42.0	44.0	0.0	43.6	44.2	0.5	0.6
17 Culture, media, faith communities and leisure	8.4	8.7	0.0	8.6	8.6	0.0	0.0
18 Comm. planning, housing & construction	8.8	8.8	0.0	9.0	8.6	-0.2	-0.4
19 Regional balance and development	3.4	3.1	0.0	3.6	3.2	-0.2	-0.4
20 General environment & nature conservation	2.8	3.8	0.0	3.3	3.3	0.0	0.0
21 Energy	1.9	1.7	0.0	2.0	1.9	0.0	-0.1
22 Communications	25.3	28.5		28.9	28.7	-0.9	-0.2
23 Agriculture and forestry, fisheries, etc.	9.6	14.3	0.0	12.2	12.2	-0.1	0.0
24 The business sector	3.3	3.5	0.0	3.5	3.5	-0.1	-0.1
25 General grants to local government	72.4	73.7	-2.6	69.9	69.9	-0.1	0.0
26 Interest on Central Government Debt, etc.	42.2	47.7		49.5	50.5	1.8	1.1
27 Contribution to the European Community	18.3	24.5		27.0	25.5	-1.5	-1.6
Reduction of appropriation balances		0.0					
Sum of expenditure areas	703.5	737.9	10.9	739.6	737.5	-4.9	-2.1
Sum of expenditure areas excl. interest payments	661.3	690.2		690.1	686.9	-6.7	-3.2
Cash correction	-7.5	-3.9		-11.9	-11.9	-6.0	0.0
Net lending by National Debt Office	12.1	20.2		23.6	25.2	7.3	1.6
Total expenditure	708.1	754.1		751.3	750.7	-3.5	-0.6
Total revenue	661.7	712.4		687.5	697.7	2.3	10.2
Budget balance	-46.3	-41.7		-63.8	-53.0	5.8	10.8

CGB=Adopted Central Government Budget, SB=Supplementary budget, BF 2004:3=Budget Forecast 2004:3 (ESV's previous forecast)

GBB=The Government's forecast for 2004 in the Government Budget Bill for 2005

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Appendix 3. Central Government Budget Expenditure 2004–2008 (in the budget structure for 2005)

SEK billion

Expenditure area	GBB	Forecast					Diff. to	Diff. to		
	2005	2004	2005	2006	2007	2008	BF 2004:3	2005	2006	2007
01 The Swedish political system	7.8	7.6	7.8	8.2	8.0	8.2	0.0	0.0	0.0	0.0
02 Economy and fiscal administration	11.4	9.3	11.4	10.9	11.3	11.1	2.0	0.0	0.0	0.0
03 Tax administration and collection	8.8	8.6	8.8	8.7	8.9	9.1	0.1	0.0	-0.2	-0.1
04 Justice	27.3	26.4	27.5	28.6	29.7	30.9	0.2	0.2	0.2	-0.5
05 International co-operation	1.2	1.3	1.3	1.2	1.2	1.2	0.0	0.0	0.0	0.0
06 Total defence	44.1	43.0	46.6	44.1	43.3	44.2	1.3	2.5	0.2	0.1
07 International development cooperation	22.4	19.2	21.5	23.1	24.5	26.3	-1.0	-0.9	-3.7	-3.6
08 Immigrants and refugees	6.9	7.5	7.0	6.5	6.1	6.0	0.1	0.1	0.2	0.6
09 Health care, medical care, social services	39.8	37.2	39.1	41.0	43.5	45.5	0.4	-0.8	-0.6	-0.5
10 Financial security for the sick and disabled	129.7	122.7	130.5	133.1	136.9	141.7	3.8	0.8	0.8	-0.9
11 Financial security in old age	46.4	51.2	46.4	45.6	45.1	44.7	-3.7	0.0	0.1	0.3
12 Financial security for families and children	56.4	54.2	56.4	62.5	65.6	68.6	0.1	0.0	0.3	0.2
13 Labour market	69.3	67.3	67.5	65.2	63.4	61.9	0.4	-1.8	-1.3	1.0
14 Working Life	1.2	1.1	1.2	1.2	1.2	1.2	0.0	0.0	0.0	0.0
15 Study support	21.0	20.9	20.2	21.1	22.6	24.1	0.0	-0.8	-0.9	-0.5
16 Education and university research	43.9	44.2	43.8	43.5	43.8	43.8	-0.1	-0.1	0.0	0.0
17 Culture, media, faith communities and leisure	9.0	8.6	9.0	9.2	9.4	9.6	0.1	0.0	0.0	0.0
18 Comm. planning, housing & construction	9.1	8.6	9.0	9.2	9.2	9.5	0.1	-0.1	-0.4	0.0
19 Regional balance and development	3.5	3.2	3.5	3.0	2.7	2.3	0.3	0.0	0.0	0.2
20 General environment & nature conservation	4.0	3.3	4.3	4.3	4.4	4.5	0.5	0.3	-0.1	0.2
21 Energy	1.4	1.9	1.8	1.6	1.3	1.2	0.0	0.4	0.2	0.0
22 Communications	31.7	28.7	32.4	33.1	34.5	35.8	-0.1	0.7	0.9	-0.5
23 Agriculture and forestry, fisheries, etc.	14.7	12.2	17.0	15.5	14.3	15.6	0.6	2.3	-0.3	-1.4
24 The business sector	3.9	3.5	3.9	3.7	3.5	3.6	0.2	0.0	-0.1	-0.1
25 General grants to local government	57.5	69.9	57.7	63.3	71.4	73.2	-25.6	0.2	0.3	0.4
26 Interest on Central Government Debt, etc.	38.8	50.5	37.8	50.2	51.5	54.5	-1.5	-1.0	-1.9	-4.4
27 Contribution to the European Community	26.8	25.5	26.9	27.9	29.4	30.7	0.5	0.1	1.0	2.2
Reduction of appropriation balances	0.0							0.0	-6.1	-2.7
Sum of expenditure areas	738.0	737.5	739.9	765.2	786.6	809.0	-21.7	1.9	-11.2	-10.1
Sum of expenditure areas excluding interest payments	699.2	686.9	702.1	715.0	735.2	754.4	-20.2	2.9	-9.3	-5.7
Cash correction	-1.9	-11.9	-1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending by National Debt Office	14.6	25.2	12.8	14.8	14.4	12.2	-1.9	-1.8	-0.8	-1.2
Total expenditure	750.7	750.7	750.9	779.9	801.0	821.2	-23.6	0.1	-12.0	-11.3
Total revenue	712.3	697.7	712.7	737.3	773.6	800.5	-32.1	0.4	-2.9	-1.5
Budget balance	-38.4	-53.0	-38.2	-42.6	-27.4	-20.7	-8.5	0.2	9.1	9.8

GBB=The Government's proposal for 2005 and calculations for 2006–2007 in the Government Budget Bill for 2005.

BF 2004:3=Budget Forecast 2004:3 (ESV's previous forecast)

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Appendix 4. Central Government Budget Revenue 2003–2008

SEK billion

Revenue type/title	Outcome		Forecast					Diff. to BF 2004:3		Diff. to GBB			
	2003	CGB 2004	2004	2005	2006	2007	2008	2004	2005	2004	2005	2006	2007
1000 Tax revenue, etc.	608.5	646.7	640.8	650.0	678.0	715.0	748.3	0.6	-36.3	8.4	9.9	7.9	8.6
1100 Income taxes	29.7	54.0	46.1	67.8	69.1	70.4	73.3	-1.0	0.4	1.0	12.0	7.8	1.7
Personal income tax	-38.1	-19.3	-27.0	-15.6	-19.9	-23.7	-20.2	-3.2	-4.4	-5.1	-0.5	0.4	-0.7
Corporate income tax	61.7	68.4	67.5	78.3	83.9	88.9	88.3	1.8	4.8	5.8	12.3	7.3	2.7
Other income taxes	6.1	5.0	5.6	5.1	5.1	5.1	5.1	0.4	0.0	0.3	0.1	0.0	-0.2
1200 Social security contributions	259.0	266.8	266.5	276.2	289.8	304.2	319.1	-1.2	-0.5	2.3	-0.3	1.6	5.1
1300 Taxes on property	36.1	36.4	36.7	36.9	36.7	36.3	37.8	0.1	-1.7	-0.3	-0.8	-1.2	-1.6
Real estate tax	21.2	23.5	23.5	24.0	24.7	25.2	26.6	0.0	-0.4	0.0	-0.6	-0.5	-0.5
1400 Taxes on goods and services	298.4	313.3	310.3	324.7	337.4	352.3	367.4	-1.3	-0.8	0.9	-1.3	-0.5	2.4
Value-added tax	205.1	214.2	214.2	222.8	233.9	246.9	259.5	-0.5	0.1	0.9	-0.2	1.6	5.3
Tobacco tax	8.2	8.4	8.2	8.3	8.4	8.4	8.5	0.0	0.0	0.0	-0.1	-0.2	-0.3
Tax on spirits	11.0	10.8	10.3	10.2	10.3	10.3	10.4	0.3	0.4	-0.1	-0.6	-0.9	-1.2
Energy tax	58.1	63.0	61.3	65.4	66.4	68.3	70.2	-1.3	-3.0	0.2	0.3	-0.4	-0.7
Road tax	8.3	8.5	8.5	10.2	10.4	10.0	10.1	0.1	1.8	-0.1	-0.3	-0.3	-0.3
Import duty	3.5	3.8	3.6	3.6	3.9	4.2	4.5	0.2	0.2	-0.2	-0.5	-0.4	-0.3
Other taxes on goods and services	4.2	4.6	4.1	4.2	4.2	4.3	4.4	-0.2	-0.2	0.1	0.1	0.1	0.1
1500 Equalisation fees and compensation for value-added tax	-1.8	-6.3	-6.3	-32.8	-33.9	-35.3	-36.4	0.4	-25.4	0.5	0.7	0.9	0.8
1600 Cash-difference account	-4.4	-7.2	-3.1	-6.9	-6.6	-6.4	-6.8	3.4	0.1	2.5	-0.4	-0.5	0.4
1700 Tax reductions	-8.6	-10.3	-9.5	-15.8	-14.5	-6.6	-6.1	0.1	-8.4	1.5	0.0	-0.2	-0.3
2000 Central Government activities	29.2	29.4	34.4	34.0	31.6	31.1	29.7	1.8	-3.7	1.7	-1.4	-2.0	-2.0
Revenue from government shares	4.5	4.9	7.6	7.9	8.0	8.0	8.1	0.0	-4.4	0.0	-2.0	-1.9	-1.9
3000 Revenue from the sale of property	0.0	15.0	0.1	4.5	4.5	4.5	0.0	0.0	4.5	0.0	-10.5	-10.5	-10.5
4000 Loans repaid	2.5	2.3	2.4	2.3	2.3	2.2	2.1	0.0	-0.1	0.0	-0.1	0.0	0.0
5000 Computed revenue	9.5	8.2	8.4	10.3	8.9	9.0	9.0	0.0	3.1	0.0	2.7	1.5	1.9
6000 Contributions, etc. from the EU	12.0	10.8	11.5	11.5	12.0	11.9	11.4	-0.1	0.4	0.1	-0.2	0.2	0.5
Total revenue	661.7	712.4	697.7	712.7	737.3	773.6	800.5	2.3	-32.1	10.2	0.4	-2.9	-1.5
Total expenditure	708.1	754.1	750.7	750.9	779.9	801.0	821.2	-3.5	-23.6	-0.6	0.1	-12.0	-11.3
Budget balance	-46.3	-41.7	-53.0	-38.2	-42.6	-27.4	-20.7	5.8	-8.5	10.8	0.2	9.1	9.8

CGB=Adopted Central Government Budget, 2004:3=Budget Forecast 2004:3 (ESV's previous forecast)

GBB=The Government's forecast for 2004, proposal for 2005 and calculations for 2006–2007 in the Government Budget Bill for 2005.

Appendix 5. Central Government Expenditure according to Type 2003–2008

SEK billion

Expenditure type	Outcome 2003	CGB 2004	Forecast					Diff. to BF 2004:3		Diff. to previous year (percent)				
			2004	2005	2006	2007	2008	2004	2005	2004	2005	2006	2007	2008
Transfer payments	485.5	507.2	506.4	511.2	523.9	540.4	553.6	-2.5	-22.3	4.3	0.9	2.5	3.2	2.4
<i>of which for:</i>														
Household sector	288.5	291.2	295.0	299.6	310.7	320.8	330.1	-0.4	0.1	2.2	1.6	3.7	3.3	2.9
Local governments	112.1	114.9	111.6	100.7	104.0	110.9	110.0	0.3	-23.4	-0.5	-9.8	3.3	6.7	-0.8
Corporate sector	23.7	28.1	26.2	31.3	30.0	28.3	29.2	-0.2	0.9	10.2	19.4	-4.2	-5.5	3.0
Old-Age Pension System	25.4	27.5	27.6	30.2	27.5	25.8	26.2	0.0	0.2	8.8	9.2	-9.0	-6.2	1.9
Public non-profit organisations	2.9	3.1	2.8	2.9	3.2	3.6	4.2	0.0	0.1	-4.1	5.2	10.4	10.5	18.5
International activities	32.8	42.4	43.2	46.5	48.5	51.0	53.9	-2.1	-0.2	31.9	7.7	4.3	5.1	5.6
<i>of which to EU-institutions</i>	18.5	24.5	25.4	26.8	27.8	29.3	30.6	-1.5	0.5	37.1	5.8	3.8	5.1	4.5
Consumption spending	155.8	160.3	158.0	165.7	165.1	167.2	171.3	-3.8	1.7	1.4	4.8	-0.3	1.2	2.5
<i>of which to:</i>														
Salaries incl. social contributions	82.2	85.4	86.1	89.9	90.9	92.1	94.5	-0.7	0.4	4.8	4.4	1.1	1.4	2.6
Intermediate consumption	40.6	41.0	39.2	41.1	40.8	41.0	41.8	-1.7	-0.1	-3.4	4.9	-0.7	0.3	2.1
Rents	14.4	14.9	14.7	15.2	15.3	15.5	15.8	0.0	0.1	2.5	3.4	0.7	0.7	2.4
Costs for defence purposes	11.9	11.3	10.7	12.3	11.0	11.5	11.8	-1.1	1.3	-9.8	14.6	-10.7	4.5	2.7
Transfers, in kind	6.8	7.7	7.3	7.1	7.1	7.2	7.3	-0.2	0.1	7.4	-2.1	-0.5	0.8	2.3
Investment spending	9.2	10.4	10.5	11.8	12.3	12.9	13.5	-0.2	0.2	14.0	12.4	4.2	5.1	4.6
Interest payments	48.2	54.5	57.6	44.9	57.3	59.3	63.6	1.8	-1.5	19.5	-22.0	27.6	3.5	7.3
<i>of which to:</i>														
Interest on Central Government debt	42.0	47.5	50.4	37.6	50.0	51.3	54.4	1.8	-1.5	20.0	-25.4	33.0	2.6	6.0
Financial transactions	4.8	5.5	4.9	6.4	6.6	6.8	7.0	-0.1	0.1	2.8	29.7	3.1	3.0	3.2
Total expenditure areas	703.5	737.9	737.5	739.9	765.2	786.6	809.0	-4.9	-21.7	4.8	0.3	3.4	2.8	2.8

CGB=Adopted Central Government Budget, BF 2004:3=Budget Forecast 2004:3 (ESV:s previous forecast)



Appendix 6. The Central Government Budget Balance and Underlying Balance 1990–2008

