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## Surplus in net lending throughout the forecasting period

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*GDP and employment growth will slow this year. Combined with substantially smaller tax increases, this means that tax revenue will rise less quickly than last year. Meanwhile, expenditure will continue to rise relatively rapidly, and so public finances will show a smaller surplus than last year. The reduction in the surplus is also a result of spending being temporarily low and revenue temporarily high in 2016. Net lending is forecast to be SEK 15 billion, or 0.3 per cent of GDP, in 2017. In the coming years, public finances will strengthen, as revenue rises in line with economic growth while expenditure increases more moderately. Expenditure will be well below the expenditure ceiling in all years of the forecast.*

### *Economic growth slowing*

GDP growth is expected to remain strong this year albeit lower than last year, due mainly to smaller increases in investment and government consumption.

After several years of strong growth, resource utilisation is rising and the Swedish economy is operating above capacity. Wage growth and inflation are therefore accelerating, and interest rates are pushing up. Together with growing labour shortages, this means that GDP growth will slow further in the coming years. At the end of the period, the economy will be back to normal resource utilisation.

Growing activity in the economy is boosting demand for labour. The number of employed is expected to rise by almost 70,000 this year and just over 30,000 next year. Part of the increase in employment in the coming years is due to increased participation in various forms of subsidised employment.

The strong growth in employment means that unemployment is falling relatively quickly and will be below the equilibrium level this year. The rise in employment will slow in the coming years, and unemployment will pick up again.

### *Tax revenue growing more and more slowly*

Tax revenue will increase much less quickly this year than last, due both to various tax bases growing more slowly and to smaller tax increases.

Revenue from taxes on labour will increase less this year, because the main tax bases – wages and pensions – will not grow as much as last year. Tax increases will also come to just SEK 3 billion in 2017, compared with SEK 30 billion in 2016. Next year, revenue will rise more slowly still as employment growth continues to subside.



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After two years of very strong growth, revenue from value-added tax will increase less quickly this year, due mainly to lower growth in housing investment, and will slow further next year.

Energy and carbon taxes have been in decline as a share of GDP for a number of years as a result of relatively weak growth in the consumption of electricity and fuel. In the coming years, revenue will instead rise in line with GDP, due to higher tax rates on both electricity and fuel. As part of the energy agreement reached between the government and parts of the opposition, energy tax on electricity is being raised in 2017 and 2019 to fund the phasing out of tax on the thermal output of nuclear reactors and a reduction in property tax for hydroelectric power stations. From 2017, energy and carbon taxes on fuel will rise with the CPI plus 2 percentage points rather than with the CPI alone.

Another effect of the new rules on energy and carbon taxes will be a reduced incentive to replace fossil fuels with renewables, because biofuels only attract energy tax. Tax on biofuels will therefore rise further than tax on other fuels. We therefore expect lower use of biofuels than would otherwise have been the case.

Revenue from taxes on capital will continue to decline this year, due mainly to lower capital gains and the temporary lifting of the ceiling for deferring tax on the sale of dwellings. Capital gains – and so tax revenue from household capital income – will fall further next year, but revenue will pick up again in the following years as capital gains rise in line with GDP. This increase will to some extent be offset by interest costs growing more than interest income as a result of rising market interest rates. Although capital gains will fall both this year and next, returning to their historical average<sup>1</sup> as a share of GDP, tax revenue from household capital income as a whole will be above the historical average throughout the period, due mainly to dividends – which have risen considerably in recent years – being expected to hold at high levels throughout the period.

Tax revenue from pension and endowment returns will fall to a record low this year with the continued decline in the government borrowing rate. Revenue will not, however, fall as far as the borrowing rate, as a result of the floors introduced for the calculation of return tax being activated this year. In the coming years, return tax revenue will rise rapidly as interest rates pick up.

Tax revenue from corporate earnings slowed last year but was still high by historical standards. It was mainly exporters that reported weaker earnings growth. This year, earnings are expected to rise more quickly, as exports have picked up again.

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<sup>1</sup> Average for the period 2000-2015.

All in all, tax revenue will rise more or less in line with GDP during the forecast period, and so the tax-to-GDP ratio will be largely unchanged.

*Spending on migration high again this year but will fall sharply next year*

Viewed over the entire forecast period, expenditure will increase only moderately. It will grow more quickly this year than in the coming years, however, due partly to the so-called welfare billions (an additional SEK 10 billion for the local government sector). Total central government budget expenditure is forecast to increase by SEK 45 billion this year. If allowance is made for expenditure last year being artificially low as a result of some payments relating to 2016 being brought forward to 2015, central government expenditure will increase by SEK 30 billion this year.

Spending on migration and integration will remain high this year as a result of changes to the rules on the reimbursement of municipalities' costs for unaccompanied children, but would otherwise have fallen. From 2017, these costs are to be reimbursed in the year to which they relate rather than the following year. This means that costs for both 2016 and 2017 will be reimbursed this year. Next year, spending in this area will fall sharply as a result of a lower standard payment for unaccompanied children in the new reimbursement system, and far fewer asylum seekers in 2016-2018 than in 2015. At the end of the forecast period, spending will be roughly the same as it was before the big influx of refugees in 2015. Some migration costs are funded through the international development cooperation budget. These offsets will amount to just over SEK 7 billion this year, which is slightly higher than last year and corresponds to 16 per cent of the development cooperation budget. Offsets in the coming years will be between SEK 3 billion and SEK 4 billion.

Expenditure on sickness benefit slowed last year after increasing by an average of just over 12 per cent per year in 2011-2015. This year and for the next two years, short-term sickness absence is expected to decrease in both frequency and duration, but long-term sickness absence is increasing, due partly to the abolition of the time limit for sickness benefit. The number of people in receipt of sickness compensation for permanent disability will continue to decline, as it has for a long time, due to further low inflows and to many recipients transferring to a retirement pension in the next couple of years.

Labour market expenditure will be largely unchanged during the forecast period. Spending on unemployment benefit will decrease slightly this year and next, however, due to a fall in both unemployment and the share of the unemployed who are entitled to benefits. This spending will then increase again to some extent towards the end of the period. The number of people in cyclical labour market policy programmes will fall, but expenditure will be largely unchanged as a result of more people in programmes attracting employment support, which are more expensive



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than other programmes. The number of New Start jobs is expected to fall overall, due to a reduced subsidy for those who have been out of work for less than two years. A time limit has also been introduced for how long a New Start job can be held. There will, however, be an increase in New Start jobs among the long-term unemployed and recent immigrants, because the subsidy for these groups has been raised.

Expenditure on education and academic research will increase considerably during the forecast period due to initiatives in recent budgets. All in all, these sectors have received the biggest spending increases by the government. Initiatives include more places in adult education, vocational training and universities, higher pay for teachers and more staff in primary schools.

Defence expenditure will increase by a total of SEK 8 billion during the forecast period, due mainly to the cross-party agreement on defence policy for 2016-2020.

Spending on transport and communications will rise sharply as a result of increased investment in both roads and railways. There will also be an increase in debt-financed road investments, above all the Stockholm Bypass project, where the loan is to be repaid with future revenue from congestion charges.

#### *Smaller surplus this year than last*

General government net lending amounted to SEK 40 billion last year and will shrink to SEK 15 billion this year, due partly to lower revenue from capital gains this year and temporarily low expenditure last year. The low expenditure last year was partly a result of some payments for 2016 being brought forward to 2015, and retroactive payments of rebates on Sweden's EU contributions for 2014-2015 being made last year. There were also changes to the rules on the payment of state attendance allowance, which is now paid in arrears rather than in advance.

Net lending will increase in the coming years, as expenditure in areas such as migration decreases but tax revenue rises in line with economic growth. A surplus of SEK 142 billion, or 2.7 per cent of GDP, is forecast for 2021.

The surpluses will be in the central government sector; local government and the old-age pension system will show deficits throughout the period. Although the local government sector is expected to produce substantial deficits, we expect the sector to meet the balanced-budget requirement. This is because the balanced-budget requirement is based on net income, which will be higher than net lending due to accruals. However, this presupposes the postponement of demographically warranted increases in spending. Net income will be strongly positive in the near term due to a big increase in central government grants.

Net lending in the old-age pension system will turn negative this year due to average pensions rising much more quickly this year than last.

Deficits of a similar size are then expected for a couple of years, but net lending will improve towards the end of the forecast period as capital income increases on the back of higher interest rates.

Positive net lending and strong economic growth mean that general government gross debt – Maastricht debt – will fall to 39 per cent of GDP this year and continue to come down in the coming years.

*Surplus target not met, but expenditure ceiling will not be breached*

The current target for net lending of 1 per cent of GDP over a business cycle will not be met during the forecast period, but the expenditure ceiling will be met by a good margin in every year of the forecast.

*Budget balance weakened by withdrawal of deposits from tax accounts*

The central government budget balance will deteriorate by SEK 81 billion this year, much more than the decrease of SEK 25 billion in central government net lending. This is due mainly to a major change in tax accruals. Last year, the rate of interest paid on tax accounts was higher than that offered by credit institutions, which meant that both households and firms made payments into these accounts that were effectively a form of investment. This year, the effect will be the reverse, as these deposits begin to be withdrawn. This will reduce the budget balance by SEK 20 billion. Adjusted for these deposits in tax accounts and spending brought forward from 2016 to 2015, the budget balance will not deteriorate this year but be SEK 4 billion higher than last year. Next year, the remaining deposits will be withdrawn from tax accounts, reducing the budget balance by SEK 30 billion.

*Net lending much stronger than in the previous forecast*

Compared with our December forecast, general government net lending has been revised up by SEK 15-28 billion per year due to higher revenue and lower expenditure. The revisions of tax revenue are mainly a result of higher revenue from value-added tax and taxes on capital. On the expenditure side, it is mainly spending on migration/integration and the labour market that has been revised down.

## Key figures

	Outcome					Forecast				
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
GDP, percentage change	-0,3	1,2	2,6	4,1	3,3	2,4	1,5	1,4	1,8	1,9
GDP, calendar adjusted, percentage change	0,1	1,2	2,7	3,8	3,0	2,6	1,7	1,4	1,6	1,7
Household consumption, percentage change	0,8	1,9	2,1	2,7	2,2	2,2	2,1	2,0	2,1	2,3
Public consumption, percentage change	1,1	1,3	1,5	2,5	3,1	1,5	0,2	0,1	0,7	0,4
Gross fixed capital formation, percentage change	-0,2	0,6	5,5	7,0	5,9	3,1	2,6	2,1	2,7	2,7
Inventory investment, contribution to GDP growth, percentage points	-1,1	0,2	0,2	0,3	0,1	-0,2	0,0	0,0	0,0	0,0
Exports, percentage change	1,0	-0,8	5,3	5,6	3,4	3,6	2,5	2,6	3,6	3,6
Import, percentage change	0,5	-0,1	6,3	5,5	3,7	3,0	3,0	2,9	4,0	3,8
Real disposable income, percentage change	3,8	1,8	2,8	2,4	3,0	2,8	1,0	0,6	0,6	0,6
Household saving rates, per cent of disposable income	7,9	7,9	8,5	8,2	8,8	9,4	8,5	7,2	5,7	4,2
Total wages, current prices, percentage change	3,7	2,7	3,8	4,3	4,9	4,5	3,8	3,8	3,7	3,7
Hours worked, calendar adjusted, percentage change	0,7	0,4	1,8	1,0	1,7	1,4	0,6	0,4	0,3	0,4
Unemployment ILO-def. 15-74 year, per cent of labour force	8,0	8,0	7,9	7,4	6,9	6,7	6,4	6,4	6,6	6,7
General government net lending, SEK billion	-36	-51	-62	11	40	15	21	52	90	142
General government net lending, per cent of GDP	-1,0	-1,4	-1,6	0,3	0,9	0,3	0,5	1,1	1,8	2,7
Consolidated gross debt (Maastricht), per cent of GDP	37,8	40,4	45,2	43,9	41,6	39,2	36,9	34,4	31,1	27,0
Net lending, ten-year average, per cent of GDP	0,6	0,6	0,5	0,3	0,2	-0,1	-0,3	-0,1	0,1	0,3
Seven-year indicator, per cent of GDP	-0,8	-0,6	-0,6	-0,5	-0,1	0,3	1,0			
Cyclically-adjusted balance, per cent of GDP	-0,4	-1,0	-1,4	-0,6	0,4	0,1	0,3	1,1	1,9	2,7
Tax over GDP ratio, per cent of GDP	42,6	42,9	42,6	43,3	43,9	43,8	43,7	43,9	43,9	44,0
Central government expenditure, SEK billion	812	921	862	892	917	963	967	957	983	969
Expenditure subject to the expenditure ceiling, SEK billion	1 022	1 067	1 096	1 135	1 184	1 234	1 256	1 264	1 286	1 307
of which old age pension system, SEK billion	238	257	258	267	285	300	311	321	333	344
Margin to the expenditure ceiling, SEK billion	62	28	11	23	31	40	76	128	180	
Central government budget balance, SEK billion	-25	-131	-72	-33	85	4	13	88	106	173
Non-recurring effects on central government budget, SEK billion	8	-74	-14	-1	59	-28	-42	5	4	3
Budget balance excl. non-recurring effects, SEK billion	-33	-57	-58	-31	26	32	56	83	102	170
Central government debt, per cent of GDP	30,2	32,8	34,2	32,3	29,5	27,8	26,2	23,6	20,3	16,4

Source: Statistics Sweden and The Swedish Financial Management Authority