THE SWEDISH NATIONAL FINANCIAL MANAGEMENT AUTHORITY

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Net lending close to zero despite strong growth in employment

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General government net lending will show only a small surplus of SEK 7 billion this year despite substantial tax increases and strong growth in the economy. This is due to rapidly rising expenditure, mainly due to the influx of asylum seekers last autumn and initiatives in recent budget bills. Next year there will be a deficit of SEK 11 billion as expenditure continues to increase while there is a slowdown in revenue growth. Net lending will then strengthen and there will be a surplus from 2018 onwards. Only the central government sector will generate a surplus; both local government and the old-age pension system will produce a deficit every year from 2016 to 2020.

Economic growth slowdown

GDP growth is expected to remain strong this year but be almost 1 percentage point lower than last year, due mainly to lower exports. Household consumption will also rise slightly less this year, while government consumption will grow strongly due to increased expenditure on refugee reception and other initiatives in recent budget bills. Investment, in particular housing investment, will also increase considerably. Next year, GDP growth will slow further but will still be above its potential.

This strong growth in GDP means that resource utilisation is rising, and that the Swedish economy will operate above capacity from next year. As a consequence growth will be relatively weak after 2017.

Increased activity in the economy in the near future will boost demand for labour. The number of people employed is expected to rise by almost 70,000 this year and another 50,000 next year. Part of the rise in the coming years is due to increased participation in various forms of subsidised employment.

The strong growth in employment will lead to a relatively rapid fall in unemployment. Unemployment will be below its equilibrium level in 2017. The increase in employment will be subdued in the year that follow and unemployment will rise again.

The high utilisation of resources in the economy will lead to higher growth rates of wages and CPI. Tax increases will also contribute to higher inflation this year.

Tax revenue growing more slowly, but tax increases cushion the fall

Tax revenue will grow somewhat more slowly this year than last year, despite tax increases around SEK 30 billion. This is due to a decrease in revenue from taxes on capital, which is mainly explained by high financial capital gains and temporarily high corporate income tax revenue last year. Tax on household capital gains will fall mainly as a result of lower financial capital gains this year, but also as a result of the elimination of the ceiling for deferring the gains from housing sales. Tax on return on pension savings

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will also fall to record-low levels due to low interest rates. This is attenuated to some extent by the addition of 0.75 percentage points to the government borrowing rate for tax on returns on pension savings for endowment policies.

Next year, growth in tax revenue will decrease further. Weaker growth in the economy and employment will mean that both taxes on labour and value-added taxes will rise more slowly. Tax increases will also be much smaller next year. Tax on household capital gains will continue to decline as financial capital gains move back in line with their historical average as a share of GDP. The temporary elimination of the ceiling for deferring gains on housing sales will continue to reduce taxes on capital next year, because the change came into force in June this year. Tax on returns on pension savings will decrease only marginally next year despite the government borrowing rate for 2016 – used to calculate the tax on returns on pension savings in 2017 – being substantially lower than in 2015. The reason why it will not fall further is that a floor has been introduced for the government borrowing rate for the taxation of endowment policies, and that a floor will also be introduced from next year for the taxation of savings in pension insurance plans.

Energy taxes will be affected by the agreement reached between the government and parts of the opposition during the spring. For example, higher taxes on electricity will fund the phasing out of the tax on the thermal output of nuclear reactors and reduced property tax for hydroelectric power stations. From 2017, tax rates on energy and carbon will be indexed with the CPI plus 2 percentage points, rather than just the CPI. The entire increase in indexation (the additional 2 percentage points) for both energy tax and carbon tax is to be applied to energy tax. This means that the taxation of biofuels, which are only liable for energy tax, will increase more quickly in percentage terms than the taxation of other fuels. The design of the new indexation regime thus risks reducing the incentive to use biofuels rather than fossil fuels.

The tax-to-GDP ratio will be largely unchanged during the forecast period despite substantial tax increases. This is due to taxes on capital falling both this year and next. With no major tax changes in the following years, tax revenue will then increase more or less in line with GDP.

Large increase in expenditure due to migration

Total central government budget expenditure, i.e. including net lending by the National Debt office and interest on central government debt, will increase by SEK 28 billion this year. Adjusted for the fact that some expenditure items relating to 2016 have already been paid out in 2015 and that expenditure have increased this year as a result of a change in budget accounting, expenditure will rise by as much as SEK 49 billion next year. This substantial increase in the short term is due mainly to higher spending on migration but also to initiatives in recent budget bills. There will also be a relatively large increase in expenditure next year, though the rate of increase will level out thereafter due to decreased expenditure on migration.

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Viewed over the entire forecast period, expenditure will rise only moderately. As a share of GDP, expenditure will fall at around the same rate as in recent years.

The influx of asylum seekers last autumn causes a rapid rise in expenditure on migration and on the introduction of newly arrived immigrants both this year and next. Unaccompanied children will account for more than 50 per cent of expenditure on refugee reception in 2016 and 2017 despite making up only around 20 per cent of asylum seekers. Costs are substantially higher for unaccompanied children than for other asylum seekers for a variety of reasons. From 2017 a new reimbursement model for unaccompanied children will be introduced, with the result that the standard payment to local governments decreases. Costs will also be reimbursed in the year they are incurred, and not in arrears as before. This is the main reason why spending on migration will climb in 2017, because central government will then need to reimburse local governments for both 2016 and 2017. In 2018, spending on migration will significantly fall, due both to the decrease in the standard payment and to a much lower number of asylum seekers from 2016 onwards than in 2015.

Some migration costs are covered under the international development cooperation budget. These amounts to SEK 6 billion this year and SEK 8 billion next year, or 14 and 18 per cent respectively of the international development framework.

Expenditure on sickness benefit has now slowed after increasing by an average of just over 12 per cent per year in 2011-2015, and is expected to fall in 2017 and 2018. Both the frequency and duration of short-term sickness absence are decreasing, but long-term sickness absence is increasing, which may be due partly to the abolition of the time limit in the sickness insurance system. The number of people receiving sick pay will continue to decline due to low inflow and the fact that many people receiving sick pay will switch to retirement pensions over the next few years.

Labour market expenditure will be largely unchanged in 2016-2020. Spending on unemployment benefits will decrease somewhat over the next couple of years as unemployment falls, but will then increase somewhat again towards the end of the period. The number of people on cyclical labour market policy programmes will decrease, but expenditure will be largely unchanged due to a growing proportion of people on programmes based on employment support, which cost more per participant than programmes based on activity support. The subsidy for New Start jobs will be lowered for the short-term unemployed but raised for the long-term unemployed and recent immigrants. There will also be a limit on how long a New Start job can be held. This is expected to lead to a drop in the number of New Start jobs and hence a decrease in expenditure. Spending on other forms of subsidised employment will, however, rise.

Expenditure on the state attendance allowance will be temporarily low this year because Försäkringskassan – the social insurance agency – is moving to payment in arrears. Spending will rise in the coming years, due

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mainly to a continued increase in the average number of hours of support per recipient. The number of recipients, however, will decrease in the short term. The hourly allowance will rise more slowly in the coming years due to changes to the indexation regime. Under the previous decision, the standard amount was to rise by 1.4 per cent per year from 2016; under the new decision, it will increase by 1.05 per cent per year from 2017.

Expenditure on education and academic research will rise considerably during the forecast period due to initiatives in recent budget bills. These include more places in adult education and vocational training, higher salaries for teachers, more staff in primary schools.

Spending will also increase in other areas as a result of initiatives in recent budgets, including planning and housing provision. The cross-party agreement on defence policy will lead to increased defence expenditure, and new investments in roads and railways will push up expenditure on transport and communications.

Interest on the national debt is currently low but will pick up during the forecast period as market rates recover.

Surplus this year turning to deficit next year

General government net lending will show only a small surplus this year despite strong growth in the economy and substantial tax increases. Next year will bring a deficit as expenditure continues to grow strongly but taxes rise more slowly. The following years will see a return to a surplus. The surplus will increase with time, because spending on migration is set to fall, especially in 2018, and some other expenditure will remain unchanged unless decided otherwise. Revenue, meanwhile, will rise in line with growth in the economy.

The surplus will be in the central government sector; local government and the old-age pension system will produce deficits throughout the period. Despite substantial deficits in terms of net lending, we expect the local government sector as a whole to meet the balance requirement as this is based on municipalities' accounting result, which is higher than net lending. The accounting result will show substantial surplus in the short term due to a sharp increase in central government grants. We expect revenue growth to slow as a result of unchanged central government grants and tax rates from 2017 onwards, which means that the surplus will approach zero towards the end of the forecast period despite consumption rising less than the demographic need in the coming years.

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. The deficit will be largely unchanged in the coming years.

The deficit in the government sector as a whole in 2017 means that gross debt – or Maastricht debt – will increase in nominal terms. It will fall as a share of GDP, however, as output is growing relatively quickly. A growing surplus in subsequent years will mean that nominal debt comes back down again.

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

The target of a surplus of 1 per cent in general government net lending over a business cycle will not be met during the forecast period, but expenditure will be well below the expenditure ceiling in all years of the forecast.

Budget balance higher than net lending this year

Central government is expected to produce a budget surplus of SEK 46 billion this year, an improvement of SEK 78 billion on 2015. This is almost SEK 70 billion more than the increase in central government net lending and is due primarily to a big change in tax accruals. Discounting expenditures for 2016 paid out at the end of 2015, the budget balance will improve by SEK 48 billion. Excess deposits in the tax account and early supplementary preliminary tax payments are estimated to have boosted tax revenue in 2015 and 2016. These will be removed from the tax account over the next two years, reducing tax revenue.

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Key figures

	Outcome					Forecast				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GDP, percentage change	2,7	-0,3	1,2	2,6	4,1	3,2	1,7	1,7	1,6	2,1
GDP, calendar adjusted, percentage change	2,7	0,1	1,2	2,7	3,9	3,0	2,0	1,8	1,6	1,8
Household consumption, percentage change	1,9	0,8	1,9	2,1	2,7	2,3	2,1	2,0	2,0	2,1
Public consumption, percentage change	0,8	1,1	1,3	1,5	2,5	3,7	1,4	0,2	0,3	0,8
Gross fixed capital formation, percentage change	5,7	-0,2	0,6	5,5	7,2	7,1	2,8	2,9	2,2	3,0
Inventory investment, contribution to GDP growth, percentage points	0,5	-1,1	0,2	0,1	0,3	0,2	-0,2	-0,1	0,0	0,0
Exports, percentage change	6,1	1,0	-0,8	5,3	5,6	2,3	2,1	3,5	3,6	3,8
Import, percentage change	7,3	0,5	-0,1	6,3	5,5	4,2	2,4	3,4	3,7	3,8
Real disposable income, percentage change	4,1	3,8	1,8	2,8	2,6	2,5	3,0	1,1	1,0	1,2
Household saving rates, per cent of disposable income	5,2	7,9	7,9	8,4	8,3	8,5	9,3	8,4	7,5	6,6
Total wages, current prices, percentage change	5,6	3,7	2,7	3,8	4,5	4,6	4,4	4,2	3,9	3,7
Hours worked, calendar adjusted, percentage change	2,4	0,9	0,6	1,8	1,3	2,1	1,1	0,7	0,4	0,4
Unemployment ILO-def. 15-74 year, per cent of labour force	7,8	8,0	8,0	7,9	7,4	6,9	6,5	6,3	6,3	6,5
General government net lending, SEK billion	-7	-36	-52	-63	8	6,7	-11	3	27	68
General government net lending, per cent of GDP	-0,2	-1,0	-1,4	-1,6	0,2	0,2	-0,2	0,1	0,6	1,3
Consolidated gross debt (Maastricht), per cent of GDP	37,5	37,5	37,5	37,5	37,5	37,5	37,5	37,5	37,5	37,5
Net lending, ten-year average, per cent of GDP	0,6	0,6	0,6	0,4	0,3	0,1	-0,3	-0,5	-0,4	-0,2
Ten-year average, cyclically-adjusted, per cent of GDP	0,3	0,4	0,4	0,2	0,0	-0,1	-0,3	-0,4	-0,4	-0,3
Seven-year indicator, per cent of GDP	-0,6	-0,8	-0,7	-0,7	-0,7	-0,4	0,0			
Seven-year indicator, cyclically-adjusted, per cent of GDP	-0,3	-0,5	-0,6	-0,7	-0,7	-0,5	-0,1			
Cyclically-adjusted balance, per cent of GDP	-0,2	-0,7	-1,2	-1,4	-0,7	-0,1	-0,4	-0,1	0,5	1,3
Tax over GDP ratio, per cent of GDP	42,5	42,6	42,9	42,6	43,3	43,5	43,4	43,5	43,5	43,5
Central government expenditure, SEK billion	805	812	921	362	892	920	962	965	964	987
Expenditure subject to the expenditure ceiling, SEK billion	989	1 022	1 067	1 096	1 135	1 179	1 243	1 257	1 272	1 291
of which old age pension system, SEK billion	222	238	257	258	267	285	300	312	324	335
Margin to the expenditure ceiling, SEK billion	74	62	28	11	23	36	31	75	120	175
Central government budget balance, SEK billion	68	-25	-131	-72	-33	46	-13	25	72	90
Non-recurring effects on central government budget, SEK billion	36	8	-74	-14	-1	22	-15	-16	5	4
Budget balance excl. non-recurring effects, SEK billion	32	-33	-57	-58	-31	24	3	41	67	86
Central government debt, per cent of GDP	29,4	30,2	32,8	34,2	32,3	30,1	29,2	27,4	25,0	22,0

Source: Statistics Sweden and The Swedish Financial Management Authority

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