REGERINGSKANSLIET

Ministry of Finance

# Updated Swedish Convergence Programme

*November 1999*

## I Introduction

Sweden presented its convergence programme in December 1998 in accordance with Regulation (EC) No 1466/97 of the European Council. The Council evaluated and approved the programme in the spring of 1999. Under the Council's regulation, an update of the convergence programme will be submitted annually. The present update has been prepared in conjunction with the Budget Bill for the year 2000 introduced in the Riksdag on September 20, 1999. The Budget Bill is based on an agreement among the Social Democratic Government, the Left Party and the Green Party.

In accordance with the decision of the Heads of State or Government in May 1998, Sweden is not participating in the monetary union from the outset. However Sweden is holding the door open for participation at a later date. If the Government finds that Sweden should introduce the euro, the matter will first be submitted to the Swedish people for consideration, in either a general election or a referendum.

This update of the convergence programme is based on the assessment of the Swedish economy reported in the Budget Bill for the year 2000. According to this assessment, the outlook for the next few years has improved substantially compared with prospects at the time of the 1998 convergence programme. The direction of economic policy and the budget policy objectives laid out in the 1998 convergence programme remain firm. This means that public finances should show a surplus of 2 per cent of GDP on average over the business cycle.

In the Budget Bill for the year 2000, the accounting statements in the National Accounts have been adjusted to conform with accounting principles in the 1995 European System of Accounts (ESA). This change makes comparison with the 1998 convergence programme more difficult, particularly for the public sector. The changes to the national accounts are described in brief in an appendix. That same appendix also includes a comparison between the forecast in the 1998 convergence programme and the forecast in this update.

## II Economic Policy Premises

Economic policy aims at maintaining stable macroeconomic conditions that can lay the foundation for the continuation of good economic growth. In this way the conditions for reduced unemployment and increased employment are created. The goal is to reduce open unemployment to 4 per cent of the labour force by the year 2000 and increase employment among that part of the population aged 20 to 64 to 80 per cent by 2004.

Keeping firm control over the development of public finances is one of the main features of this policy. Swedish experience indicates that medium-term targets for general government net lending and debt development play a major role in achieving this control. According to the Stability and Growth Pact, the Member States will aim at budgetary positions in the medium term that are close to balance or in surplus. The Riksdag has endorsed the Government's medium-term goal of a surplus in general government net lending corresponding to an average of 2 per cent of GDP over the business cycle. After a phase-in period, the targets for the surplus will come into effect as of the year 2000. The surplus targets for 2001 and 2002 remain unchanged at 2 per cent of GDP. If for cyclical reasons growth were to be significantly stronger or weaker, an equivalent deviation for general government net lending would be tolerated. Owing to the surplus target, a comfortable margin can be established in order to be able to avoid an excessive deficit during a future downturn. An important factor in achieving this goal is the stricter budget process that has been in effect since 1997, which includes a provision for nominal ceilings on central government expenditure established by the Riksdag. The fixed expenditure ceiling now in effect means that expenditure as a percentage of GDP will decline for the next three years. Beginning in 2000, a balanced budget requirement applies to local governments. This requirement means that revenue and expenditure must balance. However economic conditions differ considerably from one municipality or county to another, owing to, inter alia, changes in population.

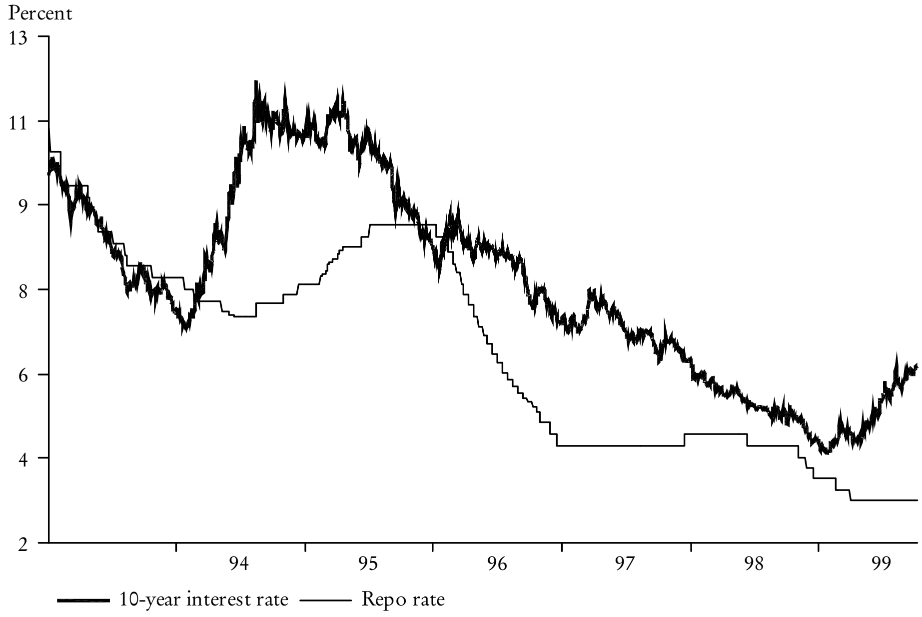
The new legislation on the status of the Riksbank that came into force in 1999 makes it clear that the objective of monetary policy is to be the maintenance of the value of money. This objective means that monetary policy normally aims to limit inflation to 2 per cent, plus or minus one percentage point, measured against the consumer price index. The Riksbank has made clear when there may be reasons for deviating from this rule. This may happen if the CPI is affected by temporary factors that are not deemed to have a lasting effect on inflation, or if a larger deviation has occurred and a rapid return to the target would be associated with substantial real economic costs. In such situations the Riksbank will explain in advance how large a deviation from the inflation target may be warranted over one to two years. This means that under the current arrangements for monetary policy, the Riksbank disregards the effects of changes in indirect taxes, subsidies and mortgage rates. The new legislation provides for an executive board of six members who decide independently on monetary policy matters. The Government is responsible for deciding on the exchange rate system. The Riksbank decides on the application of the exchange rate system, for example on the central parity rate in a fixed exchange rate system. Sweden's experience with its present monetary policy regime with an inflation target and a floating exchange rate has been positive. Bringing the krona into ERM2 is presently not at hand.

## III Economic Policy

Between January and December 1996 the Riksbank gradually lowered the repo rate by a total of about 4.5 percentage points to 4.1 per cent. Subsequently the repo rate remained essentially unchanged until November 1998 when a new series of reductions was introduced. Since April 1999, the repo rate has been 2.9 per cent. As home mortgage costs have been affected by the extensive interest rate reductions, inflation has increased by an average of only 0.7 per cent a year for 1996 through 1998, measured against the CPI. Underlying inflation has amounted to 1.5 per cent a year and thus has generally remained within the tolerance interval.

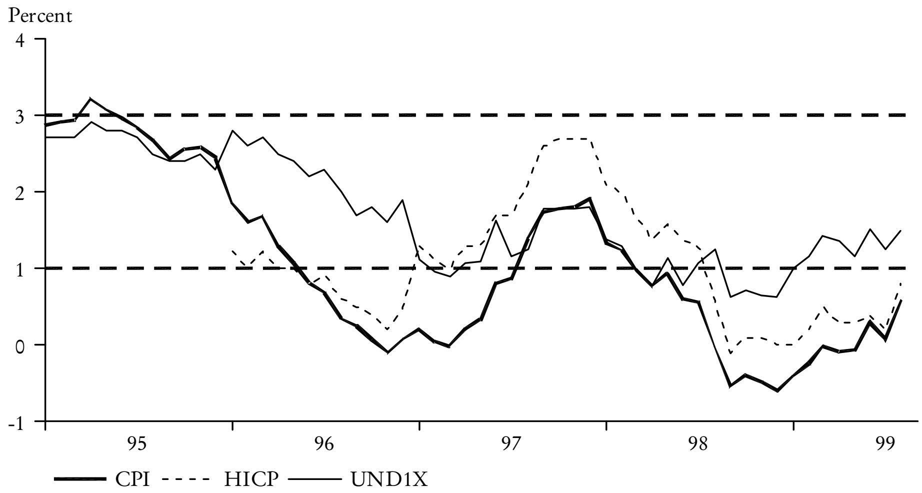
Sweden has had a floating exchange rate since 1992. Accordingly the exchange rate is not a monetary policy target. With an explicit inflation target and a floating exchange rate, the krona's rate of exchange is decided in the short term by international capital flows and in the long term by economic fundamentals. Sweden has had good experience with the present policy aimed at price stability in combination with a floating exchange rate. A credible and sustainable policy with this aim creates the conditions necessary for a currency that is stable over the long term. In autumn 1998, the krona weakened as a result of the financial unrest, and thus investors opted for major currencies such as the deutsche mark and the dollar. In 1999, the krona has strengthened, partly because the business cycle has developed more positively in Sweden than in the euro area. In the past years, the Swedish krona has not fluctuated more than the currencies of comparable countries with floating exchange rates and inflation targets, such as Great Britain.

## Diagram 1: Interest Rate Developments in Sweden



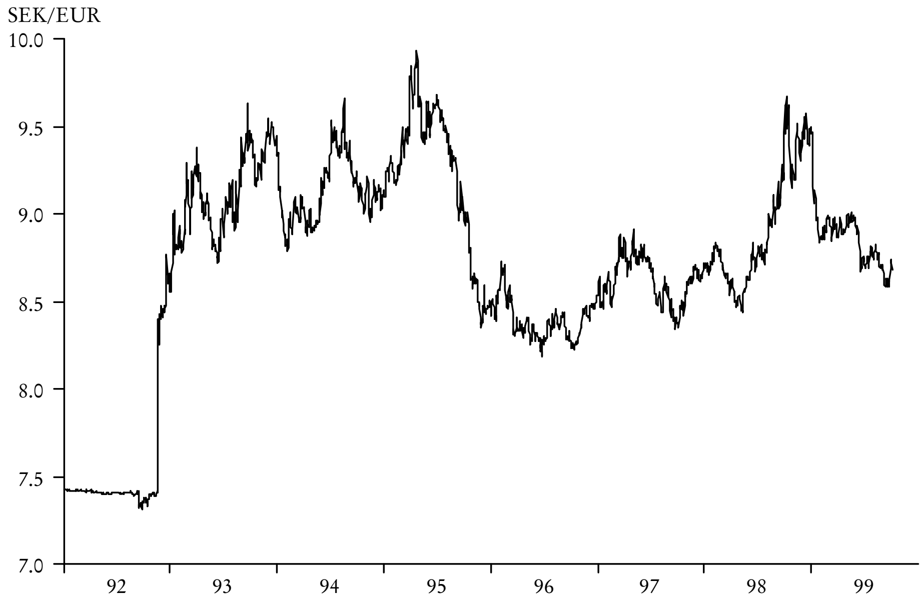

## Diagram 2: Inflation, 1995-1999, and the Riksbank's Tolerance Interval

Annual percentage change




Note: UND1X excludes interest charges and the direct effect of changes in indirect taxes and subsidies. The most important difference between HICP and CPI is that mortgage interest costs are not included in HICP.

**Diagram 3: The Swedish Krona against the Euro, 1992-1999**




Note: The SEK/EUR exchange rate before 1999-01-01 is calculated by the ECU.

During the years 1995 to 1998, fiscal policy focused on eliminating the large public sector deficit. A far-reaching consolidation programme has reversed the direction of general government net lending from a deficit of about 11 per cent of GDP in 1994 to a surplus of about 2 per cent of GDP in 1998. The greater part of this strengthening is structural. The improvement in the public finances has gradually made possible increases in programmes in priority areas such as health care, schools and social services. In addition it has been possible to increase benefit levels for social insurance, pensions and children's allowances. The budget target of a surplus of 2 per cent of GDP also includes scope for the tax reductions proposed in the Budget Bill for the year 2000. Given favourable economic growth, estimates indicate some scope in the coming years for continuing to lower taxes, especially for those on low and medium inocomes and entrepreneurs. However, the scope is dependent on a responsible approach by the social partners. A wage formation leading to a rise in inflationary pressures and a decline in the rate of increase in employment would make continued expenditure increases and tax reductions impossible. Sweden must not get trapped in another wage and price spiral. The experience of the late 1980s and early 1990s should act as a deterrent.

Net lending is estimated to exceed the budget target by 0.9 per cent of GDP in 2002. This additional surplus is expected to be transferred to the household sector according to current estimates. Along with programmes in priority areas and tax reductions, the Government has taken measures to limit central government expenditure in order to comply with the expenditure ceiling.

## IV Economic Developments

After a weakening of the international business cycle at the beginning of the year, an upturn in global growth is now obvious. Favourable macroeconomic conditions in the form of low inflation and low interest rates, together with the recovery in Asia, have improved the conditions for increased growth in large parts of the world economy. Next year the outlook for Swedish exports will improve as a result of the strengthening business cycle in the EU.

**Table 1: Demand and Output**
Annual Percentage Change in Volume

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Household consumption expenditure | 2.4 | 3.1 | 3.0 | 2.2 | 2.1 |
| General government consumption expenditure | 1.0 | 1.6 | 1.0 | 1.0 | 0.5 |
| Gross fixed capital formation | 9.2 | 6.4 | 5.6 | 3.6 | 3.0 |
| Changes in stocks[1] | 0.3 | -0.4 | 0.1 | 0.0 | 0.0 |
| Exports | 6.9 | 5.0 | 6.7 | 5.0 | 5.0 |
| Imports | 9.7 | 3.2 | 7.1 | 5.2 | 5.2 |
| **GDP** | **2.6** | **3.6** | **3.0** | **2.2** | **2.0** |

[1]Per cent of GDP

The revisions in the forecasts made since the 1998 convergence programme are significant. Previously GDP growth was estimated at an average of about 2.5 per cent a year from 1998 to 2001. In the 2000 Budget Bill, GDP growth for the same period has been revised to an average of 2.9 per cent a year. Strong Swedish growth with an undervalued currency at the beginning of the period is expected to contribute to a stronger krona in the long term.

Growing credibility in the inflation target and the consolidation of public finances have led to a substantial decline in interest rates in recent years. This has contributed to increased domestic economic activity. The continued rapid rise in employment, low inflation and relaxation of fiscal policy will contribute to an increase in household real income totalling about 7 per cent over the two-year period 1999 to 2000. This increase in income, combined with a strong financial position, will lead to a robust increase in household consumption expenditure in the next few years, which will stimulate production and investment mainly in the service sector. The rapid increase in residential construction will moderate to some extent owing to the expected rise in interest rates during 1999 and 2000 and some restrictions on capacity. Between 1998 and 2000 employment is expected to climb by about 170,000 persons and the employment ratio, defined as the percent employed aged 20 to 64, will increase from 74.6 per cent in 1998 to 77.1 per cent in 2000. Open unemployment expressed as an annual average is estimated to fall to 4.5 per cent in 2000. A gradual increase in capacity utilisation is expected to lead to some rise in inflation, which is expected to come to 1.3 per cent towards the end of next year. In 2000, the Riksbank is expected to raise the repo rate by a total of about 1 percentage point.

**Table 2: Key Indicators**

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Inflation, Dec-Dec | -0.6 | 0.9 | 1.3 | 2.0 | 2.0 |
| HICP, Dec-Dec | 0.0 | 0.8 | 1.0 | | |
| UND1X, Dec-Dec | 0.6 | 1.5 | 1.1 | | |
| Hourly wage increase | 3.8 | 3.4 | 3.2 | 3.0 | 3.0 |
| Employment | 1.5 | 2.7 | 1.6 | 0.5 | 0.3 |
| Open unemployment[1] | 6.5 | 5.4 | 4.5 | 4.2 | 4.2 |
| Labour market Programmes[1] | 3.9 | 3.3 | 3.5 | 3.5 | 3.5 |
| Current account, percent of GDP | 1.9 | 1.4 | 1.7 | 2.4 | 3.0 |
| Disposable income[2] | 2.9 | 4.2 | 2.6 | 2.3 | 2.7 |
| Savings ratio (level) | 3.7 | 4.4 | 3.9 | 3.8 | 4.4 |

[1]Per cent of labour force
[2]Actual change

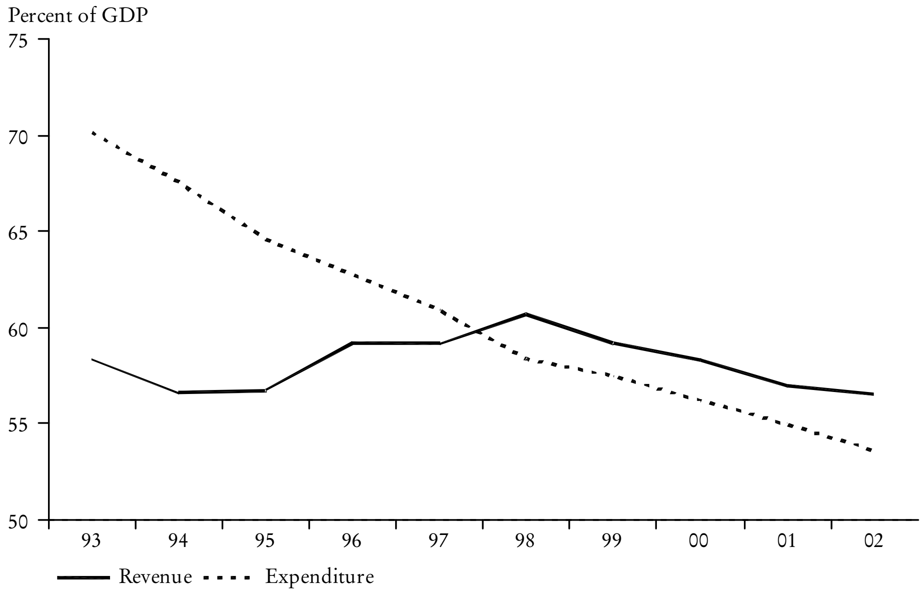
No forecast of the business cycle has been made for 2001 and 2002. The growth anticipated during these years is based on the economy's long-term growth rate, estimated at about 2 per cent a year. Employment is expected to increase by 34,000 persons in 2001 and 2002 at the same time that the labour force will increase by 23,000 persons. Open unemployment will fall to 4.2 per cent in 2001 and remain there in 2002. The employment ratio will then be 77.3 per cent. The Government's target is an employment ratio of 80 percent in year 2004.

Considerable uncertainty exists about the extent to which there will still be available resources in the economy in 2001 and 2002. Higher economic growth may take place if the labour market, and wage formation in particular, function better than indicated by previous experience. In the Budget Bill for the year 2000, two alternatives were calculated for the years 2001 to 2002. The first showed growth at 2.5 per cent a year and the second indicated a growth of 2.8 per cent a year. If the more favourable alternative is realised, unemployment will be 3.5 per cent and the employment ratio will be 78.5 per cent in 2002.

## V Public Finances

In 1998 general government net lending came to 2.3 per cent of GDP.[1] This year net lending is estimated to amount to 1.7 per cent of GDP. Given the proposed tax reductions in the Budget Bill and other measures, the surplus as a per cent of GDP is estimated to come to 2.1 per cent next year. With GDP growth on a rising trend at about 2 per cent a year, net lending is estimated at 2 per cent of GDP in 2001 and at 2.9 per cent of GDP in 2002. Both revenue and expenditure will decline as a percent of GDP in this period.

**Diagram 4: General Government Revenue and Expenditure**




Note: Excludes technical transfer in 2002.

In the projections for 2002, the technical assumption is made that the part of the surplus exceeding the targeted surplus of 2 per cent of GDP will be transferred to the household sector. The fiscal surpluses and sales of the central government's holdings of shares will reduce the general government debt. The consolidated gross debt is anticipated to fall below 60 per cent of GDP as early as next year and the net debt will fall below 1 per cent of GDP in 2002.

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[1] Included in the surplus reported for 1998 is the effect of the transfer of the properties of the National Insurance Pension Fund to a company, which pushes up savings by 0.9 per cent of GDP.

**Table 3: General Government Finances**
Per cent of GDP

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| *Revenue* | 60.7 | 59.2 | 58.3 | 57.0 | 56.5 |
| Taxes and charges | 53.3 | 52.4 | 51.7 | 50.8 | 50.7 |
| Capital income | 3.9 | 3.4 | 3.2 | 2.9 | 2.5 |
| Other revenue | 3.5 | 3.4 | 3.3 | 3.3 | 3.3 |
| *Expenditure* | 58.4 | 57.5 | 56.2 | 55.0 | 53.6 |
| Transfers | 24.3 | 23.0 | 22.6 | 22.0 | 21.3 |
| Consumption | 26.6 | 26.8 | 26.7 | 26.6 | 26.3 |
| Investment, etc. | 1.6 | 2.4 | 2.4 | 2.4 | 2.4 |
| Interest | 5.8 | 5.3 | 4.5 | 3.9 | 3.6 |
| Technical transfer | 0.0 | 0.0 | 0.0 | 0.0 | 0.9 |
| *Net lending* | 2.3 | 1.7 | 2.1 | 2.0 | 2.0 |
| Primary net lending | 4.2 | 3.6 | 3.4 | 3.1 | 3.0 |
| Consolidated gross debt | 71.7 | 66.1 | 58.8 | 54.1 | 52.0 |
| Net debt | 15.4 | 12.2 | 5.7 | 2.8 | 0.7 |

If fiscal policy were to remain unchanged, structural surpluses in the general government sector in excess of the target of 2 per cent of GDP would accumulate. In the Budget Bill for the year 2000, the Government has decided on tax reductions and increased resources for priority areas in line with budget policy objectives.

The change in net lending is explained by such factors as business developments, the change in property incomes and interest expenditure, developments in the tax base in relation to GDP, accrual of tax revenues and the purchase and sale of properties. After the contribution of these factors to the change in net lending has been taken into account, the residual is adjusted net lending. It can be interpreted as a rough indicator of the fiscal stance. As shown in Table 4, adjusted net lending will decline relative to GDP by about 1 percentage point a year in 1999 and 2000. The fiscal stance will provide a stimulus to the economy this year and next. This should be seen in the light of the strong contractionary fiscal stance in the form of the consolidation that took place from 1995 to 1998. The surplus target will be met and estimates indicate that there will be resources available in the economy. According to current plans the fiscal stance, including transfers to households in 2002, is estimated to be almost neutral during 2001 and 2002. The goal of a surplus of 2 per cent of GDP in 2001 and 2002, given the long-term growth rate, will be achieved.

**Table 4: Estimates of the Fiscal Stance**
Per cent of GDP

| | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|
| Total change in net lending | -0.6 | 0.3 | 0.0 | 0.0 |
| *Of which* | | | | |
| Net capital income and net interest expenditure | 0.0 | 0.5 | 0.2 | 0.1 |
| Economic growth including tax base shifts | 2.2 | 0.6 | -0.1 | -0.3 |
| Accrual of tax revenue | -0.8 | 0.3 | -0.7 | 0.3 |
| Net purchase of property | -0.8 | -0.1 | -0.1 | 0.0 |
| **Adjusted net lending after technical transfer[1]** | **-1.1** | **-1.0** | **0.5** | **-0.1** |

[1]Adjusted net lending indicates the fiscal stance. A negative number means that the stance is expansionary while a positive number means that the stance is contractionary.

From 1999 to 2001 the distribution of net lending between the central government and the old-age pension system will be affected by the phasing in of the reforms made to the old-age pension system. In 2002, after the expected transfer to households, central government net lending is estimated to show a deficit of about 0.5 per cent of GDP. The surplus in the public sector will instead come from the old-age pension system, which has net lending estimated at more than 2 per cent of GDP in 2002. In the long term, the pension reform means a very large redistribution of net lending from the central government to the old-age pension system. As a result of the statutory balanced budget requirement for the local government sector, which will be in effect beginning in the year 2000, net lending for the sector as a whole is expected to be positive. In 2000, the surplus is reckoned to be especially high because of the effects of accrual accounting on the local goverment sector's tax revenue.

**Table 5: Net Lending and the Central Government Budget Balance**
Per cent of GDP

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| General government | 2.3 | 1.7 | 2.1 | 2.0 | 2.0 |
| Central government | 1.2 | 3.3 | -0.8 | 6.1 | -0.4 |
| Old-age pension system | 1.3 | -1.7 | 2.1 | -4.5 | 2.2 |
| Local government | -0.2 | 0.2 | 0.7 | 0.4 | 0.2 |
| Central government budget balance | 0.5 | 2.8 | 4.0 | 3.8 | 0.3 |
| Central government debt | 77.4 | 70.6 | 63.0 | 55.9 | 53.4 |

## VI Cyclical Sensitivity

According to model simulations done by the Ministry of Finance, the elasticity in general government net lending will come to 0.75 when variations in GDP are taken into consideration. This means that an increase in GDP of 1 per cent will increase net lending by 0.75 per cent of GDP. Time series analyses indicate a somewhat higher elasticity. The likely explanation for the latter result is that the effects of discretionary policy have not been separated from cyclically dependent variations in net lending. In the 1990s the strengthened budget process has most likely affected the outcome of fiscal policy. Fiscal policy is conducted from a medium-term perspective in which general government net lending should show a surplus and the expenditure ceiling must be adhered to. The Riksbank's objective is to maintain low and stable inflation. Thus the framework for the economic policy also contributes to less cyclical sensitivity in the public finances. The 1998 convergence programme includes sensitivity analyses of the public sector with respect to the interest rate level. In addition, two different sensitivity analyses of the public finances concerning alternative courses of development for the Swedish economy are shown. These calculations were done partly in connection with the 1998 Spring Budget Bill and the 1999 Budget Bill. In these calculations GDP growth is weaker than in the various main scenarios at the same time that the present tax and expenditure regulations remain unchanged. According to these analyses, general government net lending will worsen over a two-year period by the equivalent of 0.5 to 0.6 per cent of GDP for every percentage point that the real GDP level deviates from the base scenario. The calculations also show that the impact on public finances will vary, depending on the factors behind the weaker growth. Generally a downturn in the business cycle generated by weaker international growth has less impact on the public finances than a downturn determined mainly by domestic factors.

## VII Structural Policy

The Government has taken a number of measures aimed at improving the functioning of the markets and render welfare system more efficient.

With the support of five parties, the Riksdag gave final approval to the pension reform in June 1999. The new old-age pension system is constructed to withstand changes in the long-term rate of growth and demographic changes. In addition it includes stronger financial incentives for gainful employment.

The tax reductions proposed in the Budget Bill are the first step in a comprehensive tax reform. Talks are under way at present with all the parties in the Riksdag on the future tax system. The Government's goal is a simple and uniform tax system with broad tax bases. In addition, the Government intends to undertake a long-term effort to reduce the poverty traps and marginal effects that the combination of tax and welfare systems, together with municipal charges, produce. The systems should be designed so that education and work provide a better reward. Room has been created from 2001 for a phased introduction of a universal pre-school and a maximum childcare charge.

In the 1980s, deregulation of the credit and foreign exchange markets began. A stricter competition law and the introduction of a law on public procurement followed in the early 1990s. After that came membership in the European Economic Area (EEA) and the EU and adjustment to the EU's regulatory regimes in a number of areas, such as improved competition by increased integration in the single market. Reforms carried out in the transport, telecommunications, and energy sectors in the 1990s have led to increased competition. However, evaluations show that certain barriers to efficient competition remain, especially when it comes to markets targeting households. Therefore economic reforms in these markets will also be an important element in the Government's policy in the future. The aim is to lower prices for the benefit of consumers and reduce inflationary tendencies in the economy. The Government has commissioned the Swedish Competition Authority to conduct more detailed surveys, analyses and evaluations of how competitive conditions in the Swedish market have developed in the 1990s. A commission of inquiry has recently been appointed to ascertain why Swedish consumer prices are higher than in many other EU countries. In addition, Sweden is working actively for the removal of the remaining obstacles to free movement in the single market. A more detailed description of Sweden's measures to improve the way in which the markets function can be found in the Swedish National Report on Economic Reform: Product and Capital Markets. The report forms a part of EU co-operation on economic reforms in product and capital markets, known as the Cardiff process, which aims at improving the way in which the single market functions.

To achieve the objective of an employment ratio of 80 per cent in 2004 requires a number of measures. The rate of increase in wages must be compatible with the growth in productivity and the Riksbank's inflation target. At the same time economic policy needs to concentrate on increasing the supply of labour and strengthening the work principle and the skills principle. In autumn 1999, the Government will present a bill with measures to improve conditions so that wage formation will function in a way that is compatible with a sustainable healthy growth in employment. One way of supporting the work principle is the decision to broaden the tax reduction for employing long-term unemployed persons. In this year's Budget Bill, there is a proposal to set the limit for open unemployment or participation in labour market policy measures to two years, compared with three years previously. By a massive effort in adult education, a very great number of people, mainly those who were previously unemployed, have had the opportunity to improve their skills and strengthen their position in the labour market. From 1997 to 2002, post-secondary education is being expanded by 89,000 permanent new study places.

# Appendix

## A1 The New National Accounts

Three main features of the restructuring of the national accounts in spring 1999 were:

1. An adjustment of definitions and concepts to the new European System of National and Regional Accounts (ESA 1995).
2. A review of data sources and methods of calculation, (a general revision).
3. A new method for calculating constant prices (the chain index).

Because of the change, GDP increased by SEK 69 billion in 1998, which is equivalent to 3.8 per cent. The greater part of the increase was due to changes in definitions, above all concerning general government consumption and gross investment. Under ESA 1995 certain payments by the general government sector previously booked as subsidies are now classified as consumption. In addition consumption of fixed capital in roads, bridges and comparable infrastructure are now considered to be part of general government consumption. Gross fixed capital formation has increased with the changeover. The definition of what can be counted as an investment with respect to economic life has been shortened from three years to one year. This change will increase the level of investment. In addition the concept of investment has been broadened to include the purchase or production of software, which raises the level of investment still more.

The most important conceptual change affecting general government net lending is the requirement that revenue and expenditure are recorded when an economic activity takes place, not when the payment is made, as was previously the case. In certain cases this involves considerable reallocation between years, especially of taxes and interest. The classification of consumption and investment noted above affects the general government sector's balance sheet totals, but in principle it does not have any impact on net lending. In addition general government revenue and expenditure (but not net lending) are affected by the fact that transactions with the EU are now recorded as direct payments between the EU and firms in Sweden. The most important change for the household sector is the introduction of a new savings concept. Changes in pension funds reserves has been transferred from the business sector to the household sector. However this reclassification does not affect households' disposable income. Instead changes in pension funds reserves is added to households' savings.

Previously the fixed base method was used to calculate volume changes. Base years were normally changed at five-year intervals. The new method can be described as a method for calculating constant prices that changes the base year annually. The big advantage of the chain index is that volume calculations are based on recent weights (prices) to permit the capture of relative price changes over time. The chain index method has not been used in calculating the present forecast. Instead 1998 has been used as a (fixed) base year in the forecast for 1999 to 2002.

## A2 Comparison With the 1998 Convergence Programme

GDP growth in 1998 was roughly in line with the forecast in the convergence programme. In this update of the convergence programme, the forecast increase in GDP has been revised upwards by 1.4 percentage points in 1999 and by 0.4 percentage points in 2001. The upward revision is chiefly a result of stronger domestic demand. Net exports also provide a greater contribution to growth than that estimated in the convergence programme. The negative impact of the Asian crisis on the growth in world markets for Swedish exports was less than expected and the Swedish export industry has been very successful in expanding sectors such as telecommunications. Stronger demand is leading to a greater increase in employment than that forecast in the convergence programme. The only negative piece of new information compared with the 1998 convergence programme is higher long-term interest rates. Net lending in the public sector will improve in 1999 and 2000 for cyclical reasons. In 2000 there is scope for lowering taxes. There was no technical transfer to households reported in the 1998 convergence programme. Net lending was 3 per cent of GDP in 2001, which is equivalent to 2.5 per cent under ESA 79. The differences in the various forecasts are reported in Table A.1. The chief reason for the lower debt ratio as a percentage of GDP is the higher GDP in the the convergence programme update.

**Table A.1: Basic Economic Indicators: Deviation from the Convergence Programme**
Percentage points

| | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|
| *Demand and Output* | | | | |
| Household consumption expenditure | -0.3 | 0.6 | 0.5 | 0.2 |
| General government consumption expenditure | -0.5 | 0.7 | 0.4 | 0.4 |
| Gross fixed capital formation | 0.2 | 1.1 | -1.7 | -1.3 |
| Stocks | -0.1 | -0.1 | 0.2 | 0.0 |
| Exports | 1.4 | 0.6 | 0.7 | 0.1 |
| Imports | 0.8 | -1.8 | 0.1 | 0.6 |
| GDP | -0.2 | 1.4 | 0.4 | -0.3 |
| *Key Indicators* | | | | |
| Inflation, Dec-Dec | -0.4 | 0.4 | 0.0 | 0.0 |
| Hourly wage increase | 0.5 | 0.5 | 0.0 | 0.0 |
| Ten-year interest rate (level)[1] | 0.0 | 0.5 | 0.7 | 0.4 |
| Exchange rate, SEK/EUR[1] | 0.0 | -0.1 | 0.0 | 0.1 |
| Employment | 0.1 | 1.8 | 0.6 | -0.5 |
| Unemployment level, per cent of labour force | -0.1 | -0.5 | -0.8 | -0.5 |
| Net lending, per cent of GDP[2] | -0.2 | 1.0 | -0.3 | -0.2 |
| Consolidated gross debt, per cent of GDP | 0.0 | -3.0 | -5.9 | -2.0 |

[1]Annual average
[2]ESA 79 definition and adjustment in 2001 of the forecast in the 1998 convergence programme to the net lending target.
Note: The difference between the growth rates in GDP components in 1998 can mostly be explained by changes in definitions.

**Table A.2: General Government Finances as per ESA 79**
Per cent of GDP

| | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|
| *Net lending* | | | | |
| Updated convergence programme | 1.3 | 1.3 | 1.3 | 1.3 |
| 1998 convergence programme | 1.5 | 0.3 | 1.6 | 1.5 [1] |
| *Consolidated gross debt* | | | | |
| Updated convergence programme | 74.2 | 68.4 | 60.8 | 56.0 |
| 1998 convergence programme | 74.2 | 71.4 | 66.7 | 58.0 |

[1]Adjustment of the forecast to the net lending target.
Note: In 1998 the conversion of the National Insurance Pension Fund's properties into an independent subsidiary company is included in net lending.

## Statistical Appendix

### Table B.1: Assumptions for the Forecast

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| GDP OECD[1] | 2.3 | 2.4 | 2.2 | 2.1 | 2.2 |
| CPI OECD | 1.4 | 1.4 | 1.6 | 1.7 | 1.8 |
| SEK/USD[2] | 8.0 | 8.2 | 7.8 | 7.2 | 7.0 |
| SEK/EURO[2] | - | 8.8 | 8.7 | 8.7 | 8.7 |
| German10-year interest rate[2] | 4.6 | 4.4 | 4.9 | 5.1 | 5.1 |
| 10-year interest rate | 5.0 | 4.9 | 5.4 | 5.5 | 5.3 |
| 6-month interest rate[2] | 4.3 | 3.2 | 3.6 | 4.1 | 4.4 |
| Repo rate[3] | 3.4 | 2.9 | 3.8 | 4.0 | 4.3 |

[1]Annual percentage change, GDP OECD and CPI OECD refer to the OECD 16
[2]Annual average
[3]Value at year-end

### Table B.2: General Government Net Lending and Consolidated Gross Debt
Per cent of GDP

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Defict in net lending | -2.3 | -1.7 | -2.1 | -2.0 | -2.0 |
| Stock flow adjustments | 3.1 | -1.0 | -2.3 | -0.2 | 2.0 |
| Net accumulation of financial assets | 1.6 | -1.0 | -2.5 | -2.0 | 1.8 |
| Public sector consolidation | 0.1 | 0.9 | 0.5 | 2.5 | 0.2 |
| Impact of exhange rates on central government debt | 1.4 | -0.9 | -0.4 | -0.7 | 0.0 |
| Effect of nominal increase in GDP | -2.7 | -2.9 | -2.9 | -2.4 | -2.2 |
| Change in gross debt | -1.9 | -5.6 | -7.3 | -4.6 | -2.1 |
| Gross debt (level) | 71.7 | 66.1 | 58.8 | 54.1 | 52.0 |

**Table B.3: General Government Finances**
Per cent of GDP

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Revenue | 60.7 | 59.2 | 58.3 | 57.0 | 56.5 |
| Taxes and charges | 53.3 | 52.4 | 51.7 | 50.8 | 50.7 |
| Direct taxes | 23.1 | 22.2 | 21.8 | 20.9 | 21.2 |
| Taxes on products and production | 15.7 | 16.7 | 14.6 | 14.6 | 14.4 |
| Social security contributions | 14.5 | 13.5 | 15.4 | 15.2 | 15.1 |
| Capital income | 3.9 | 3.4 | 3.2 | 2.9 | 2.5 |
| Other revenue | 3.5 | 3.4 | 3.3 | 3.3 | 3.3 |
| Expenditure | 58.4 | 57.5 | 56.2 | 55.0 | 53.6 |
| Transfers | 24.3 | 23.0 | 22.6 | 22.0 | 21.3 |
| Households | 20.8 | 20.2 | 19.6 | 19.3 | 19.0 |
| Business | 2.5 | 1.7 | 1.8 | 1.5 | 1.1 |
| Foreign | 1.1 | 1.1 | 1.2 | 1.2 | 1.1 |
| Consumption | 26.6 | 26.8 | 26.7 | 26.6 | 26.3 |
| Investment, etc. | 1.6 | 2.4 | 2.4 | 2.4 | 2.4 |
| Investment and stocks | 2.7 | 2.6 | 2.5 | 2.5 | 2.5 |
| Purchase less sale of land and real property | -1.0 | -0.2 | -0.1 | -0.1 | -0.1 |
| Interest | 5.8 | 5.3 | 4.5 | 3.9 | 3.6 |
| Technical transfer | | | | | 0.9 |
| Net lending | 2.3[1] | 1.7 | 2.1 | 2.0 | 2.0 |
| Primary net lending | 4.2 | 3.6 | 3.4 | 3.1 | 3.0 |
| Consumption of fixed capital and net capital transfers | 2.3 | 2.3 | 2.2 | 2.2 | 2.2 |
| Capital accumulation | 1.6 | 2.4 | 2.4 | 2.4 | 2.4 |
| Net saving | 1.7 | 1.8 | 2.2 | 2.3 | 2.2 |
| Consolidated gross debt | 71.7 | 66.1 | 58.8 | 54.1 | 52.0 |
| Net debt | 15.4 | 12.2 | 5.7 | 2.8 | 0.7 |

[1] Included in the surplus reported for 1998 is the effect of the transfer ot the properties of the National Insurance Pension Fund to a company, which pushes up savings by 0.9 percent of GDP.