REGERINGSKANSLIET

Ministry of Finance

Updated Swedish Convergence Program

November 2001

I Introduction

In accordance with the Council's regulation (EC) 1466/47, Sweden submitted its convergence programme in December 1998. The programme was evaluated and approved by the Council during the spring of 1999. In accordance with the Council's regulation, an update of the convergence programme is to be submitted annually. Updates were submitted in November 1999 and 2000 and approved early the following year. This update has been drawn up parallel to the Government Budget Bill for the year 2002, which was presented to the Riksdag (Swedish Parliament) on 20 September 2001. The Government Budget Bill is based on an agreement between the Social Democratic government, the Left Party and the Green Party.

The update of the convergence programme is based on the assessment of Sweden's economy contained in the Government Budget Bill for the year 2002. This assessment involves a weaker outlook for the year 2001, compared with the forecast in the updated programme for 2000. This is mainly due to the weak global development. The assessment for 2002 involves some recovery in growth. The direction of economic policy and the budget policy targets presented in the convergence programme for 1998 remain unchanged. This means, among other things, that public finances must show a surplus of 2 per cent of GDP on average over a business cycle and that expenditure must not exceed the expenditure ceilings set.

The terrorist acts in the USA on 11 September increase the uncertainty regarding the international economic development. The risk of a slightly worse development this year and a delayed recovery next year has increased. The interest rate cuts by the central banks and clear preparedness for determined economic policy action indicate, however, that the economic consequences of the events in the USA can be restricted. The assessment of economic development contained in the Government Budget Bill therefore remains unchanged.

II Economic policy framework and targets

Economic policy continues to focus on full employment and increased prosperity through good, sustainable growth. Stable prices and sound public finances are a precondition for achieving this. The target of a 2 per cent surplus in public finances over a business cycle remains unchanged and the expenditure ceilings set shall be maintained. The target of a maximum of 4 per cent open unemployment was achieved in 2000. The employment target is now being focused on. In 2004, 80 per cent of persons aged 20 to 64 shall be in regular employment. Moreover, the government has set the target that the number of persons receiving social benefits shall be halved between 1999 and 2004.

The crisis in public finances in the early 1990s indicated in a drastic way the need for guidelines and a framework for fiscal policy. A fiscal policy focused on medium-term budget targets has significantly contributed to the consolidation of public finances and to the favourable development of growth and employment during the last few years.

In accordance with the Stability and Growth Pact, the Member States shall aim for public finances, which are close to balance or in surplus in a medium-term perspective. The Riksdag has supported the government's target of a surplus in general government net lending of 2 per cent of GDP on average over a business cycle. Such a surplus provides a stable basis for the challenges resulting from the sharp increase in the percentage of elderly people in the population in the future. The surplus also provides a safety margin in public finances, making it possible to counter a recession with a counteractive fiscal policy.

A target for each individual year is determined on the basis of the medium-term surplus target. In the Government Budget Bill, the government proposes a target for public finances for the coming year. The target is determined on the basis of an assessment of the economic situation and other relevant factors. The Riksdag has previously approved a surplus target of 2 per cent of GDP for 2002. This target remains unchanged. GDP is expected to develop more weakly than potential GDP during 2001 and the GDP gap to widen. In 2002, growth is forecast to strengthen and the GDP gap to begin to decrease. A surplus target in line with the medium-term target is expected in such a course of economic activity to provide a necessary stimulus to the economy without a risk of overheating, while the long-term sustainability of fiscal policy is maintained. If economic activity were to develop worse than expected in 2002, a surplus less than 2 per cent of GDP can be tolerated so that the automatic stabilisers can operate.

Since 1997, a new budget process has been applied, which includes three-year nominal ceilings determined by the Riksdag for central government expenditure, including expenditure on old-age pensions. The ceilings determined for the years 2002–2004 are SEK 809 billion, SEK 844 billion and SEK 878 billion respectively. As from 2000, a balanced budget requirement applies to municipalities and county councils.

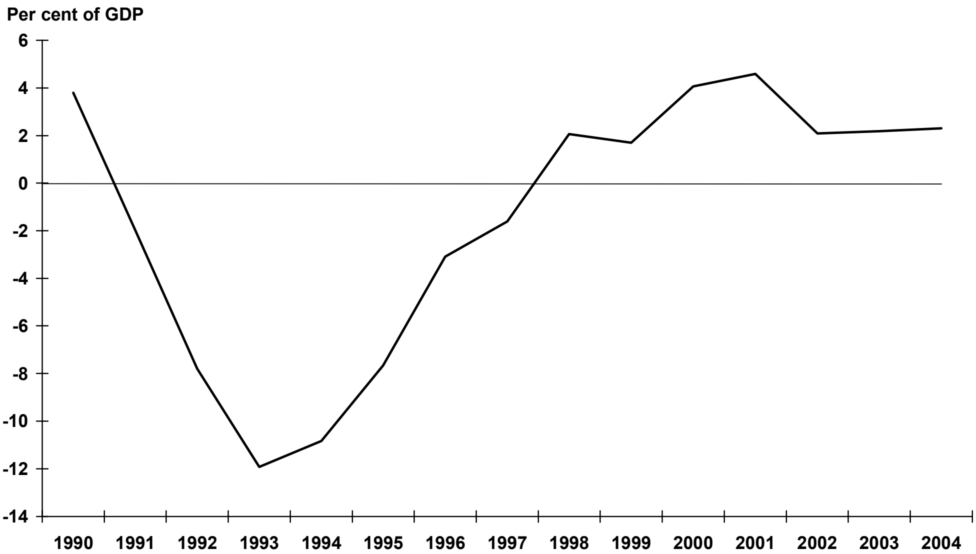
In the legislation concerning the status of the Riksbank, which came into force in 1999, it is laid down that the objective of monetary policy is to maintain price stability. The legislation also means that independent monetary policy decisions are made by an Executive Board of the Riksbank. The Riksbank has defined the target as 2 per cent inflation, +/–1 percentage point, measured by the consumer price index (CPI). The Riksbank has clarified when there may be reason to deviate from this rule. This may apply if the CPI is affected by temporary factors, which are not expected to have a permanent impact on inflation, or if major deviations occur and a rapid return to the target would be associated with large real economic costs. In such situations, the Riksbank makes clear in advance how large a deviation from the inflation target may be justified in a 1–2 year term. In framing monetary policy, the Riksbank normally disregards the effects on inflation of changes in indirect taxes, subsidies and interest expenses for owner-occupied dwellings. This underlying inflation is currently measured by the UND1X index.

In exchange rate policy, the government decides on the exchange rate system, while the Riksbank is responsible for the practical application, e.g. which central rate applies in a fixed exchange rate system. Sweden's experiences of the current monetary policy regime, with an inflation target and a floating exchange rate, are favourable. Pegging the Swedish krona to ERM2 is currently not under consideration.

III Economic policy

After the large deficits in public finances in connection with the deep recession in the early 1990s, a comprehensive consolidation programme followed. During the period 1994–98, general government net lending strengthened as a percentage of GDP by nearly 13 percentage points. Just over half related to consolidation measures and the remainder to strong economic development. In the years 1997–2000, net lending clearly exceeded the targets set.

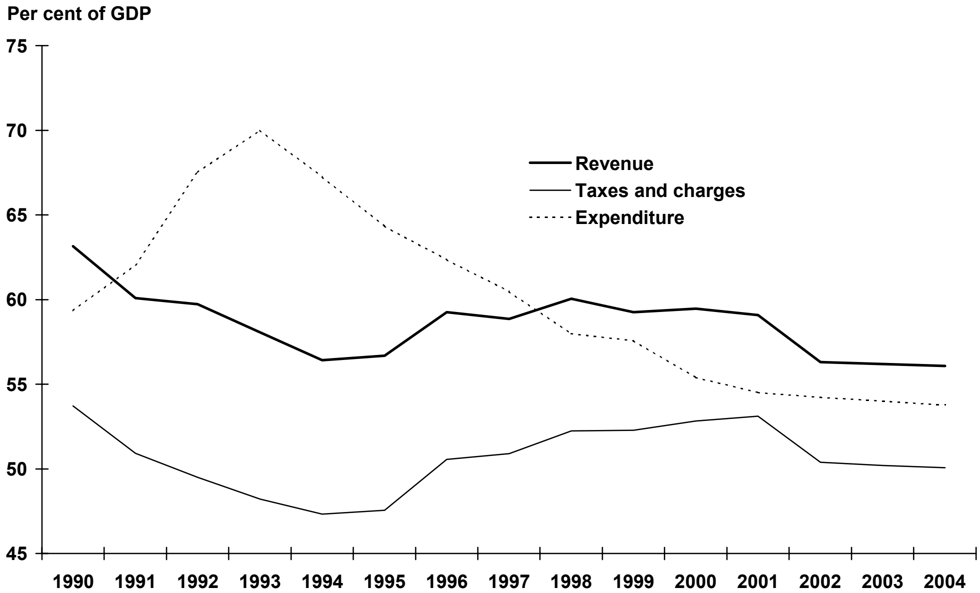
Diagram 1: General government net lending



Sources: Statistics Sweden and Ministry of Finance

The consolidation of public finances has provided scope for expenditure increases in prioritised areas. Since 2000, it has also been possible to implement tax cuts mainly targeted at low-wage and middle-wage earners. Despite these fiscal policy reliefs, the government's surplus targets have been exceeded.

Diagram 2: General government revenue and expenditure



Sources: Statistics Sweden and Ministry of Finance

In 2000, the first step was taken in a reform of income tax for households. The reform consists of two parts. The first part involves compensation for individual contributions to the old-age pension system. The second part consists of raising the lower threshold of the tax scale, so that in the long term only 15 per cent of taxpayers will be liable to pay central government tax. In the Government Budget Bill for 2002, the government proposes compensation for an additional one-quarter of individual contributions through tax cuts. Three-quarters of the compensation will thus have been implemented. Moreover, the lower threshold of the income tax scale is to be raised so that 17 per cent of taxpayers will pay central government tax. In the autumn of 2002, the government intends to make an assessment of the economic scope for completion of the income tax reform in 2003. Further tax cuts must be weighed against the economic situation and the development of public finances compared with the surplus target.

Table 1: Tax changes taking effect in 2002
SEK billion

Household income taxes	–20.3
Employer contributions	–0.8
Property taxes[1]	–1.8
Energy taxes	1.8
Other	–3.2
Total tax changes[2]	**–24.3**

[1] Property tax is lowered retroactively from 2001.
[2] Gross effects of rule changes, accrual accounting
Source: Ministry of Finance

In order to avoid an increased tax levy due to sharply increased housing prices in certain regions, property and wealth tax cuts are proposed in the budget for 2002. In addition, a green tax shift is proposed, which involves raising energy taxes and lowering income tax correspondingly by raising the basic allowance. The tax changes proposed in the Government Budget Bill and those previously approved involve tax cuts of SEK 24 billion or 1.2 per cent of GDP, of which SEK 3 billion apply retroactively as from 2001.

In the Government Spring Bill for 2001, certain expenditure reforms were proposed for 2002. Together with the reforms proposed in the Government Budget Bill and decisions previously made, reforms of SEK 21 billion and expenditure cuts of SEK 8 billion will take effect in 2002. Major investments will be made in medical and health care and in the education and training sector. Moreover, general central government grants to municipalities will be increased.

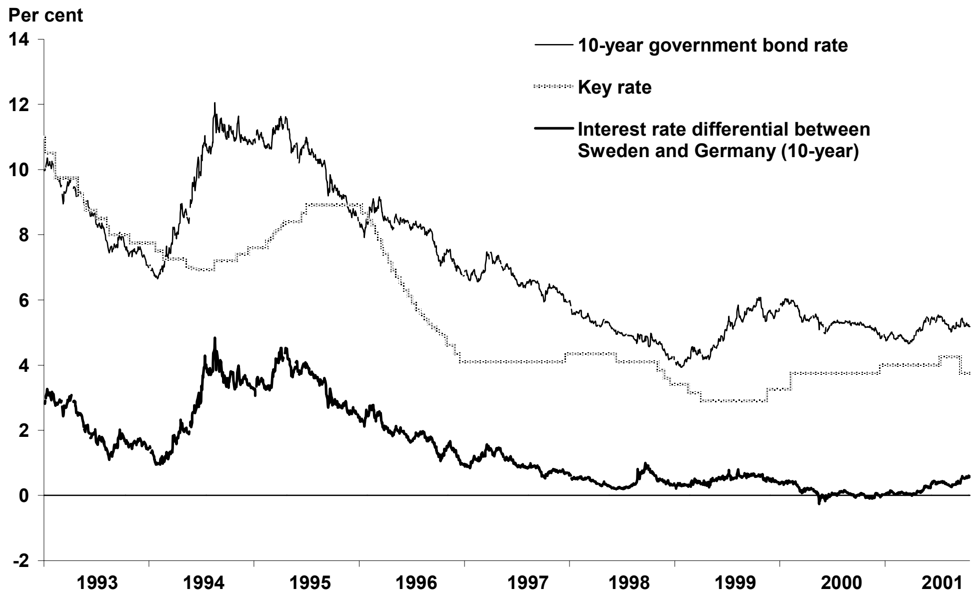
Table 2: Expenditure reforms taking effect in 2002
SEK billion

UO[1] 1–3	Administration and legal system	0.8
UO 7	Development aid	0.2
UO 9	Health and medical care	2.0
UO 10	Economic security in case of illness and disability	0.6
UO 11	Pensions	0.2
UO 12	Economic security for families and children	0.3
UO 13	Labour market	0.6
UO 15	Study assistance	3.5
UO 16	Education, training and research	6.3
UO 17	Culture	0.2
UO 18	Housing	0.1
UO 20	Environment	0.4
UO 23	Agriculture and Forestry	0.5
UO 25	General grants to municipalities	3.8
Infrastructure		1.9
Total expenditure reforms		**21.4**
Financing, reduced expenditure		7.6
Increased expenditure, net		**13.8**

[1] Expenditure area
Source: Ministry of Finance

During the greater part of 1997, the Riksbank held the key rate at 4.1 per cent. In December 1997, the key rate was raised to 4.35 per cent, but was lowered again to 4.1 per cent in June 1998. In November 1998, a series of interest rate cuts began. Between April and November 1999, the key rate was 2.9 per cent. It was then raised in a number of stages to 4.0 per cent. During the spring of 2001, the krona weakened. In order to reduce the risk of inflationary effects as a result of this, the Riksbank intervened on the foreign exchange market in June and then raised the key rate to 4.25 per cent. On 17 September, in connection with a rate cut by a number of central banks following the events in the USA six days before, the key rate was lowered again by 0.5 percentage points to 3.75 per cent.

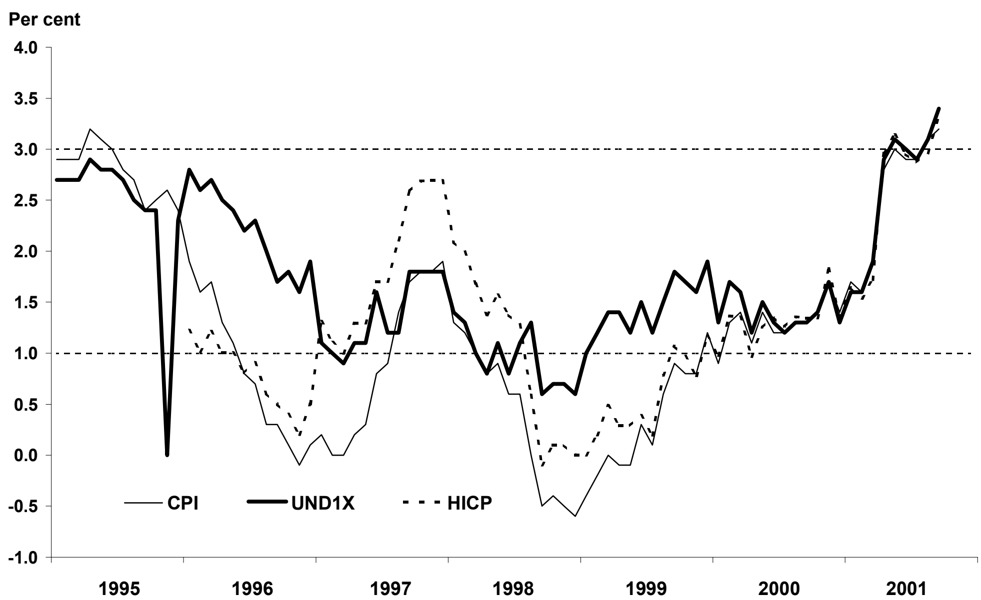
Diagram 3: Interest rates in Sweden



Source: EcoWin

Inflation was low during the years 1998 to 2000. Measured by the CPI, inflation rose from -0.6 per cent in 1998 to 1.3 per cent in 2000. Measured by the Riksbank's underlying measure UND1X, inflation rose from 0.6 per cent to 1.4 per cent during the same period. During 2001, inflation has risen and in September 2001, it was 3.2 per cent measured by the CPI and 3.4 per cent measured by UND1X. A large part of the increase in inflation during 2001 is accounted for by price increases for heating oil, electricity and meat. These increases are considered to be of a temporary nature.

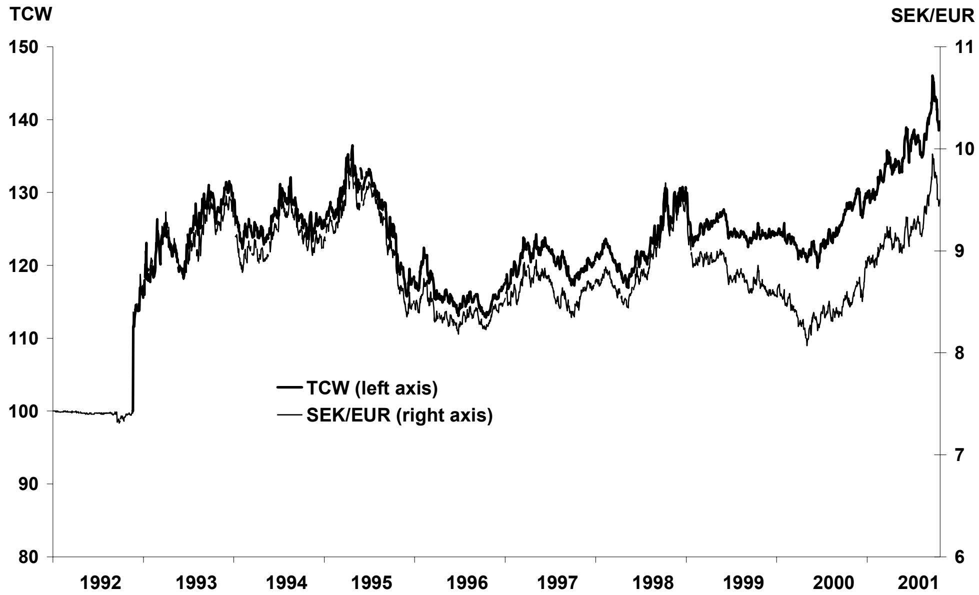
Diagram 4: Inflation and the Riksbank's tolerance interval



Source: EcoWin

During the late 1990s, Swedish government bond rates fell sharply. From a level just over 4 percentage points above equivalent German rates in 1995, the differential fell steadily and the level of interest rates largely coincided with the German level during the period from the second quarter of 2000 to the end of the first quarter of 2001. Swedish government bond rates subsequently rose slightly more than equivalent rates in the euro zone and in the United States. Since May 2001, the interest rate differential between Sweden and Germany has been approximately 0.5 percentage points. The increase in the interest rate differential since the spring is probably due to the increased inflation risk in connection with the weakening of the krona and to increased global uncertainty. The forward rate differential in the long term has, however, only risen marginally and is very low from a historical perspective. From early October the krona has recovered somewhat.

Diagram 5: The krona against the euro and a trade-weighted index, TCW



Source: EcoWin

Since 1992, Sweden has applied a floating exchange rate, which means that the exchange rate is not a monetary policy target variable. With an explicit inflation target and a floating exchange rate, the value of the krona is determined in the short term by capital flows and in the longer term by economic fundamentals. During 1999 and early 2000, the krona strengthened against the euro, before weakening more than expected. There are a number of reasons for this. There has been a strong relationship between the development of the exchange rate and that of the stock market during the past year. The marked downturn in the ICT sector in particular has a clearly weakening effect on the krona. The deterioration in the outlook for exports has been of importance and the trade balance has weakened somewhat during 2001. Currency purchases in consequence of the reformed pension system[1] are to some extent an additional contributory factor. A number of factors which weaken the krona in the short term are expected to be to the krona's advantage in the long term. An upturn in economic activity and share values will be central factors. The assessment is that an appreciation of the krona is to be expected in the long term.

IV Economic development

Economic development and forecasts

The surpluses in public finances and the credibility of the inflation target provide a stable basis for the Swedish economy when the global economy weakens. Following the strong growth of the last few years, the global economic slowdown has had a significant impact on Swedish exports. Household consumption is also slowing.

Table 3: Demand and output[1]

Annual percentage change in volume

	2000	2001	2002	2003	2004
Household consumption expenditure[2]	3.0	1.6	2.7	2.1	2.1
General government consumption expenditure[2]	0.1	1.2	1.1	0.8	0.8
Gross fixed capital formation	4.5	4.3	4.9	5.3	4.7
Change in stocks[3]	0.6	–0.3	–0.2	0.0	0.0
Exports	9.8	–0.4	5.2	6.3	5.7
Imports	9.7	–1.0	5.5	6.3	6.1
GDP	**3.6**	**1.7**	**2.4**	**2.6**	**2.3**
GDP level, SEK bn current prices	**2 083**	**2 151**	**2 248**	**2 357**	**2 464**

[1] The years 2001–2002 are forecast years, 2003–2004 are calculated on the assumption that the output gap will close in 2004.
[2] Excluding the effect of the transfer of the Church of Sweden from the local government sector to the household sector in the National Accounts on 1 January 2000. Including this effect, the corresponding figures for 2000 are 4.1 per cent for household consumption expenditure and –1.7 per cent for general government consumption expenditure.
[3] Change as a percentage of GDP
Sources: Statistics Sweden and Ministry of Finance

This forecast was fixed on 7 September. The terrorist attacks in the USA four days later mean that the uncertainty regarding economic development globally and in Sweden has increased. A number of central banks, including the Riksbank, lowered key rates shortly afterwards to counteract an economic weakening. The assessment of economic development contained in the Government Budget Bill remains unchanged.

In the medium-term perspective, the key rate is assumed to be 4.5 per cent. The exchange rate is assumed to strengthen, so that the TCW index is at 133 at the end of 2001, 128 at the end of 2002 and 120 in the

[1] Payments into the new Premium Pension Authority system were largely invested in foreign securities. In addition, the National Pension Fund's opportunities for investing abroad were increased as from January 2001.

medium-term perspective. The forecast assumptions can be seen in Table A1.

Falling exports and subdued consumption growth will lead to weaker demand in 2001 than forecast in the updated convergence programme for 2000. GDP is expected to increase by 1.7 per cent in 2001, which is 1.8 percentage points lower than the forecast in the updated convergence programme a year ago. Growth of 2.4 per cent is forecast in 2002. The global economic slowdown has been particularly marked in important Swedish export markets, such as Germany and the United States. Imports are falling due to adjustments in stocks and lower exports. In 2002, both exports and imports are expected to rise by approximately 5 per cent. Net exports are only expected to make small contributions to demand during both years. Household consumption is expected to be subdued by the weakened wealth development in connection with falling share values and by the current slowdown in the previous sharp rise in purchases of capital goods. However, household real disposable income is expected to develop favourably despite the economic weakening. The tax cuts proposed in the Government Budget Bill for 2002, the introduction of the maximum charge for child daycare services and other reforms will contribute 1.4 per cent of GDP to household disposable income in 2002 (see Table 8). This will provide scope for both good consumption growth and increased saving in 2002. Investment is expected to rise by approximately 4 per cent in 2001 and by approximately 5 per cent in 2002. The economic slowdown means that the growth in industrial investment and investment in industry-related service sectors is expected to be weaker than previously forecast, while the conditions are favourable for high growth in housing investment. Some continued destocking is expected.

Table 4: Contribution to GDP growth

Percentage points

	2000	2001	2002	2003	2004
Final domestic demand	2.4	1.8	2.6	2.2	2.2
Household consumption expenditure[1]	1.5	0.8	1.4	1.1	1.1
General government consumption expenditure[1]	0.1	0.3	0.3	0.2	0.2
Gross fixed capital formation	0.8	0.7	0.9	0.9	0.9
Change in stocks	0.6	–0.3	–0.2	0.0	0.0
Net exports	0.6	0.2	0.2	0.3	0.1
Exports	4.3	–0.2	2.4	3.0	2.8
Imports	–3.7	0.4	–2.2	–2.7	–2.7
GDP	**3.6**	**1.7**	**2.4**	**2.6**	**2.3**

[1] Contributions for 2000 are shown excluding the effect of the inclusion of the Church of Sweden in the household sector as from 2000.
Sources: Statistics Sweden and Ministry of Finance

Employment growth during the first half of 2001 has, despite declining economic activity, been stronger than forecast in the updated convergence programme for 2000. As an annual average, employment is estimated to rise by 1.7 per cent in 2001 and by 0.5 per cent in 2002. The regular employment ratio for persons aged 20 to 64, which according to the government's target shall be 80 per cent in 2004, is estimated to rise from 75.9 per cent in 1999 to just over 78 per cent in 2002. Development during 2001 is characterised by falling average hours worked and weak productivity growth both in industry and the service sector.

The rapid increase in inflation was a surprising feature of economic development during the first half of 2001, both in Sweden and the EU area as a whole. At the end of 2000, inflation measured as the change in the CPI was approximately 1.5 per cent. Barely six months later, inflation had risen to approximately 3 per cent. The increase in inflation is largely related to the rising prices of heating oil, electricity and meat. These price increases are mainly expected to be temporary. Inflation is thus expected to fall to approximately 2 per cent in 2002 and then remain at that level. The inflation forecast is based on the assessment that resource utilisation is expected to fall during 2001 and that the risks of overheating on the labour market will decrease. The inflation forecast is also based on an assumption that wages will rise by 3.5 per cent per year.

Table 5: Selected statistics[1]

Percentage change, unless otherwise stated

	2000	2001	2002	2003	2004
CPI, Dec-Dec	1.4	2.7	1.8	2.0	2.0
HICP, Dec-Dec	1.3	2.9	1.9	–	–
UND1X, Dec-Dec	1.3	3.0	1.7	–	–
GDP deflator	0.8	1.5	2.0	2.2	2.2
Increase in hourly wages	3.8	3.5	3.5	3.5	3.5
Number of employed	2.2	1.7	0.5	0.4	0.3
Open unemployment[2]	4.7	3.9	3.8	3.9	4.0
Labour market policy programmes[2]	2.6	2.4	2.2	2.0	1.7
Labour productivity	2.3	0.9	1.9	2.0	1.8
Current account balance[3]	2.9	2.3	2.6	3.0	3.3
Disposable income[4]	2.6	4.3	5.4	2.4	1.7
Savings ratio[5]	–1.6	1.1	3.6	3.9	3.4

[1] See also Table A1 for forecast assumptions
[2] Per cent of labour force
[3] Per cent of GDP
[4] Real change. The figure for 2000 is calculated excluding the effect of the transfer of the Church of Sweden to the household sector.
[5] Per cent of disposable income. Excluding saving in pension fund reserves.
Source: Ministry of Finance

Medium-term scenario

It is expected that there will still be available resources in the economy as a whole at the end of 2002. A gradual reduction in the number of persons in labour market policy programmes and a population increase of approximately 0.5 per cent per year will further increase the labour force. A relatively sharp increase in age groups with a low employment ratio will, however, slow down the increase in employment and thus also the underlying GDP growth. The overall assessment of the resource situation in the economy means that the GDP gap, i.e. the difference between actual and potential output, is not expected to close until 2004. In 2003 and 2004, growth is expected to be 2.6 per cent and 2.3 per cent respectively, exceeding the estimated long-term growth rate of approximately 2 per cent.

V Public finances

General government net lending and consequences of the Government Budget Bill for 2002

In 2000, general government net lending amounted to just over 4 per cent of GDP. In 2001, net lending is estimated to rise to 4.6 per cent of GDP, despite the economic downturn. The high net lending in 2001 is partly due to the incomplete allocation of taxes in the National Accounts and to one-off tax revenues. In 2002, net lending is expected to fall to 2.1 per cent of GDP, i.e. slightly higher than the target of 2 per cent of GDP. The relatively sharp fall in net lending between 2001 and 2002 is partly a result of the proposed tax cuts and expenditure reforms. For the years 2003 and 2004, net lending is estimated to amount to 2.2 and 2.3 per cent of GDP respectively, i.e. slightly higher than the medium-term target.

Table 6: General government finances[1]

Per cent of GDP

	2000	2001	2002	2003	2004
Revenue	59.5	59.1	56.3	56.2	56.1
Taxes and charges	52.8	53.1	50.4	50.2	50.1
Capital income	3.3	2.7	2.6	2.7	2.8
Other revenue	3.4	3.3	3.3	3.3	3.3
Expenditure	55.4	54.5	54.2	54.0	53.8
Transfers	22.4	22.1	21.9	22.2	22.2
Consumption	26.3	26.6	26.6	26.4	26.2
Investment	2.4	2.5	2.5	2.5	2.5
Interest expenditure	4.3	3.4	3.2	2.9	2.9
Net lending	4.1	4.6	2.1	2.2	2.3
Primary net lending	5.1	5.3	2.7	2.4	2.4
Consolidated gross debt	55.6	52.3	49.7	47.3	45.2
Net debt	2.0	–3.1	–5.5	–7.8	–10.0

[1] A more detailed breakdown is presented in Table A3.
Source: Statistics Sweden and Ministry of Finance

General government tax revenues have risen sharply in the last few years and amounted to 52.8 per cent of GDP in 2000. In 2001, taxes have been cut by approximately 1 per cent of GDP. Despite the tax cuts, the tax ratio reported will rise to 53.1 per cent of GDP, partly due to the above-mentioned incomplete tax allocations and to one-off tax revenues[2]. In 2002, the tax ratio is expected to fall by nearly 3 percentage points to 50.4 per cent of GDP. The tax cuts will amount to 1.2 per cent of GDP.

[2] A contributory factor is that tax on funds distributed by the insurance company Alecta (formerly SPP) temporarily raises tax revenues in 2001 by approximately 0.5 per cent of GDP.

In addition, the tax ratio will fall as a result of the accounting practice with tax revenue and the loss of one-off tax revenues. The expenditure reforms amount to 0.6 per cent of GDP. Growth in GDP and continued falling interest expenditure contribute to a continued reduction in the expenditure ratio to 54.2 per cent of GDP in 2002.

Structural surpluses and fiscal impact
The target of a surplus in general government net lending equivalent to 2 per cent of GDP on average over a business cycle may be seen as the anchor of fiscal policy.

In order to assess whether the surplus target is met in individual years, an indicator is used, which reflects the structural level of the surplus, adjusted for temporary effects. Temporary effects mainly consist of cyclical variations in taxes and expenditure, but one-off effects of a different type may also occur, such as one-off tax revenues and the accounting practice with tax revenue.

Fiscal policy is in balance in relation to the surplus target when the structural surplus in public finances is in the region of 2 per cent of GDP. A higher or lower structural surplus may, however, be necessary if the initial balance differs greatly from the surplus target.

The estimate of the cyclically adjusted surplus is based on an assessment of the economic situation, e.g. through the output gap, and on the effects of the economic situation on public finances. The output gap is estimated on the basis of an overall assessment of a number of indicators of output, the labour market and price and wage formation. The Ministry of Finance's assessment is that a 1 percentage point change in the output gap has on average an impact on the general government balance of 0.75 per cent of GDP.[3]

The surplus is forecast to amount to 4.6 per cent of GDP in 2001. The output gap is estimated at –1.2 per cent of GDP, which means that actual output is estimated to be lower that the potential output level. The relatively large gap is due to the weak development of GDP in 2001. Adjusted for the output gap, the surplus amounts to a full 5.5 per cent of GDP, of which one-off effects and the accounting practice with tax revenue account, however, for 1.6 percentage points. The structural balance is therefore estimated to amount to 3.9 per cent of GDP.

After the proposed tax cuts for 2002, the surplus in public finances is estimated to amount to 2.1 per cent of GDP. A significant output gap is also expected next year. The cyclically adjusted surplus is estimated at just under 3 per cent of GDP. The incomplete allocation of tax revenues

[3] In various external estimates, sensitivity is estimated to be on average in the interval 0.7–0.9. Budget sensitivity varies between years, however, depending on the development of GDP components and of employment.

leads to the structural surplus being marginally weaker than the cyclically adjusted surplus. The structural balance amounts to 2.7 per cent of GDP, which means that there remains a certain margin to the medium-term target even after the proposed tax cuts.

The surplus is forecast at 2.2 per cent of GDP in 2003 and at 2.3 per cent of GDP in 2004. The output gap closes gradually, but the structural balance is estimated to exceed the medium-term target in these years as well.

Table 7: Structural surplus in the general government sector
Per cent of GDP

	2000	2001	2002	2003	2004
Net lending	**4.1**	**4.6**	**2.1**	**2.2**	**2.3**
Adjustment for GDP gap	0.6	0.9	0.8	0.3	0.1
Cyclically adjusted balance	**4.7**	**5.5**	**2.9**	**2.5**	**2.4**
Allocation of taxes	0.4	–1.2	–0.2	0.2	–0.1
One-off effects	–0.1	–0.4	0.0	0.0	0.0
Structural balance	**5.0**	**3.9**	**2.7**	**2.7**	**2.3**
GDP gap	–0.8	–1.2	–1.0	–0.4	–0.1

Source: Ministry of Finance

The annual changes in general government net lending may be seen as a rough indicator of the effects of public finances on demand. The effect can be divided into discretionary fiscal policy, automatic stabilisers and other factors.

Table 8 shows the change in general government net lending for the years 2000–2004. It can be seen from the table that discretionary fiscal policy had an expansionary effect on the economy during 2000. The tax cuts and expenditure reforms implemented were equivalent to 1.4 per cent of GDP. The expansionary effect was, however, counteracted by the automatic stabilisers, which had a restraining effect. Other factors contributed to a relatively strong restraining effect of public finances on the economy. General government net capital income was strengthened through reduced interest expenditure. In addition, an increased wage share and sharply increasing capital gains during 1999 led to a very strong increase in tax payments by households. The effect of the allocation of tax revenues alone was equivalent to a strengthening of public finances by 1 per cent of GDP between 1999 and 2000.

In 2001, discretionary fiscal policy is still expansionary and a certain stimulus also arises through the automatic stabilisers, as a result of the weak growth. As in 2000, other factors affecting the balance have, however, a restraining effect. Accounting practice with tax revenue strengthens public finances substantially between 2000 and 2001. General government net capital income is also strengthened this year through reduced interest expenditure. The one-off payment of tax by companies as a result of funds distributed by the insurance company

Alecta (formerly SPP) is a further contributory factor. The overall effect of general government net lending on the economy is almost neutral, despite the expansionary direction of discretionary fiscal policy.

Table 8: Indicator of effects on demand

Change in per cent of GDP

	2000	2001	2002	2003	2004
General government net lending	**2.4**	**0.5**	**–2.5**	**0.1**	**0.1**
contribution from					
Discretionary fiscal policy	**–1.4**	**–1.7**	**–1.7**	**–0.5**	**–0.4**
of which					
Direct effect on household disposable income	–0.7	–1.2	–1.4	–0.2	0.0
Automatic stabilisers	**1.1**	**–0.3**	**0.2**	**0.5**	**0.2**
Other factors	**2.7**	**2.5**	**–1.0**	**0.1**	**0.3**
of which					
Allocation of taxes, etc.	1.0	2.0	–1.4	–0.4	0.2

Source: Ministry of Finance

In 2002, public finances are expected to provide a strong stimulus to demand. Discretionary fiscal policy will contribute 1.7 per cent of GDP. Other factors are estimated to provide a stimulus of 1.0 per cent of GDP. The fall in capital gains in 2001 mainly accounts for the delayed weakening of tax revenues in 2002. In addition, tax payments by companies as a result of funds distributed by Alecta in 2001 led to a one-off increase in tax revenues, which will not be repeated in 2002.

As emphasised above, the change in net lending should only be seen as a rough indicator of the effect on demand. The effect of the various components is difficult to assess. Tax cuts and transfers targeted at households have, however, a direct impact on disposable income, stimulating consumption. In 2002, tax cuts and expenditure reforms are together estimated to increase disposable income by 1.4 per cent of GDP.

The structural surplus is expected to exceed the medium-term target in both 2001 and 2002. The fiscal policy stimulus in 2002 thus occurs within the scope of long-term sustainable public finances. In these circumstances, fiscal policy is considered to be well balanced in the economic situation forecast. It is estimated that there will be available resources in the economy in 2002 as a result of the weak development in 2001. Following several years of historically low levels of the household savings ratio, with a high degree of loan financing of investments in cars and other durable goods, the savings ratio is expected to return to a higher level, which has a restraining effect on demand in the economy. The increase in household saving risks being strengthened by increased uncertainty regarding future employment and income and by reduced wealth values as a result of the stock market fall in 2001. The fiscal policy stimulus counteracts household uncertainty regarding income development. Overall, GDP is expected to be able to grow slightly more rapidly than the potential growth without capacity shortages arising.

In 2003 and 2004, GDP is assumed to grow slightly more rapidly than the long-term trend. The output gap will gradually close, which means that the effect of the automatic stabilisers on public finances will decrease. Proposed budget measures to date, which take effect in 2003 and 2004, amount to 0.5 and 0.4 per cent of GDP respectively.

Net financial wealth and gross debt
General government net financial wealth was positive in 1990. During the deep crisis in the early 1990s, the financial position deteriorated rapidly. Net wealth was replaced by net debt of nearly 27 per cent of GDP in 1996. After that, the consolidation program and the strong growth of GDP contributed to a rapid decline in net debt. In 2000, net debt is estimated to have amounted to approximately 2 per cent of GDP. The surpluses in general government net lending result in a continued improvement in the financial position. Net debt will be replaced by net wealth of approximately 3 per cent of GDP in 2001, which is estimated to grow to approximately 10 per cent of GDP by 2004.

Table 9: Consolidated gross debt
Per cent of GDP

	2000	2001	2002	2003	2004
Consolidated gross debt	**55.6**	**52.3**	**49.7**	**47.3**	**45.2**
Change in consolidated gross debt	–9.6	–3.3	–2.6	–2.5	–2.0
contribution to change					
Primary deficit	–7.5	–7.6	–5.0	–4.8	–4.8
Interest (consolidated)	3.5	3.0	2.9	2.6	2.5
Nominal GDP growth	–2.8	–1.8	–2.3	–2.3	–2.1
Other factors	–2.8	3.0	1.8	2.0	2.4

Note: Primary deficit refers to net lending excluding consolidated interest. Consolidated interest is calculated by the Ministry of Finance on the assumption that interest rate on the consolidated debt is the same as on the gross debt.
Sources: Statistics Sweden and Ministry of Finance

Consolidated gross debt, which was already below the reference value in the EC Treaty of 60 per cent of GDP in 2000, continues to fall. In 2004, it is expected to be approximately 45 per cent of GDP.

Allocation of net lending between sectors
The allocation of net lending between central government and the old-age pension system is affected by the phasing-in of the reformed old-age pension system. As from 2002, when the phasing-in is complete, central government net lending is estimated to show a deficit of approximately 0.5 per cent of GDP. The surplus in the general government sector arises instead in the old-age pension system, whose net lending is estimated to be between 2.5 and 3 per cent of GDP in these years. The balanced budget requirement for the local government sector means that the sector is expected to show net lending around zero.

Table 10: Net lending and central government budget balance
Per cent of GDP

	2000	2001	2002	2003	2004
General government sector	**4.1**	**4.6**	**2.1**	**2.2**	**2.3**
Central government	1.3	8.9	–0.6	–0.7	–0.4
Old-age pension system	2.7	–4.6	2.4	2.8	2.8
Local government sector	0.1	0.3	0.2	0.0	0.0
Central government budget balance	**4.9**	**2.7**	**0.7**	**–0.4**	**–0.4**
Central government debt	**61.4**	**52.2**	**48.8**	**46.5**	**44,6**

Sources: Statistics Sweden and Ministry of Finance

VI Sensitivity analysis and comparison with previous update

Considerable uncertainty is inherent in the assessment of economic development. It is difficult to determine how deep and protracted the current economic slowdown, both globally and in Sweden, will be. Particularly the development of the ICT sector, which is important for growth in Sweden, is an uncertain factor. The assessment of the long-term sustainable growth rate and of how the current economic situation compares with normal resource utilisation is also associated with considerable uncertainty. The terrorist attacks in the USA of 11 September further increase uncertainty.

This section presents base, low-growth and high-growth scenarios for the economic development. The base scenario comprises the forecasts and estimates on which the Government Budget Bill for 2002 and this convergence programme are based.

Low-growth scenario
In the low-growth scenario, the global recession is assumed to be more prolonged than in the base scenario. The Swedish economy is assumed to be badly hit mainly by the sharp fall in world market growth for Swedish exports. Fiscal policy is assumed to remain unchanged compared with the base scenario. In view of the balanced budget requirement, local government consumption is, however, adjusted downward as a result of the weaker development of the tax bases. The Riksbank's repo rate is assumed to be adjusted downward due to slightly lower price and wage increases than in the base scenario. GDP growth in 2001 and 2002 is assumed to be weaker than in the base scenario, which means that resource utilisation is lower and the GDP gap larger in 2002. During 2003, a recovery begins, which continues in 2004. The depth of the economic downturn in 2001 and 2002 means that the recovery phase is not completed in 2004. GDP can rise more rapidly than the trend growth rate even after 2004, without overheating problems arising.

Continued weak growth in the economy leads to a deterioration in public finances compared with the base scenario. Lower employment and household consumption result in the tax bases and thus general government revenues developing more weakly. Higher unemployment results in higher general government expenditure. In this respect, the increase in expenditure is, however, restricted by the expenditure ceilings. Overall, the surpluses in general government finances fall by just over 1 per cent of GDP in 2002, compared with the base scenario.

The general government transfer systems involve a strong automatic stabilisation of household disposable income. Transfers such as unemployment benefit, social benefit and housing benefit increase and partly compensate for the reduction in earned income. Despite the fact that employment is nearly 2 per cent lower than in the base scenario, household real disposable income is only 1 per cent lower and household consumption can be maintained.

The balanced budget requirement for local government is assumed to lead to a reduction in local government consumption growth rate of 0.5 percentage points in 2002–2004. A weakened volume of activity in the local government sector strengthens the economic downturn, but at the same time alleviates the negative effects on public finances.

Table 11: GDP growth, GDP gap and general government net lending

	2000	2001	2002	2003	2004
GDP growth					
Base	3.6	1.7	2.4	2.6	2.3
Low	3.6	1.2	0.6	2.3	2.9
High	3.6	1.7	2.8	3.6	3.0
GDP gap					
Base	–0.8	–1.2	–1.0	–0.4	–0.1
Low	–0.8	–1.5	–2.8	–2.4	–1.5
High	–2.7	–3.1	–2.6	–1.1	0.0
Net lending					
Base	4.1	4.6	2.1	2.2	2.3
Low	4.1	4.3	0.8	0.7	1.3
High	4.1	4.6	2.3	2.9	3.3

Source: Ministry of Finance

The surpluses, which have been built up in public finances during the last few years, provide a buffer in case of a recession. The automatic stabilisers can be allowed to operate without unsustainable deficits arising.

High-growth scenario

In the high-growth scenario, the labour market is assumed to function better than in the base scenario. This means that employment can continue to grow rapidly without inflationary price and wage increases arising. The employment target is met in 2004. The high-growth scenario involves a permanently higher level of GDP and thus of the tax bases. At the same time, expenditure on unemployment benefit, housing benefit and social benefit falls. The permanent strengthening of public finances is estimated to amount to approximately 1 per cent of GDP, providing further scope for reforms. As a result of the limited margin to the expenditure ceiling, the scope for reforms in 2002 and 2003 can, however, only be utilised for tax cuts. Not until 2004 is there also some scope for reforms on the expenditure side.

Comparison with updated programme for 2000

Table 12 compares this updated programme with the updated programme for 2000. Growth in 2000 was strong, but marginally lower than stated in the updated programme for 2000. In this update, the forecast GDP increase for 2001 has been revised downward by 1.8 percentage points compared with the updated programme for 2000. The GDP increase for 2002 has been adjusted upward by 0.3 percentage points.

Table 12: Comparison with updated convergence programme for 2000

Percentage change, unless otherwise stated

	2000	2001	2002	2003	2004
GDP					
Updated convergence programme for 2000	3.9	3.5	2.1	2.1	–
Updated convergence programme for 2001	3.6	1.7	2.4	2.6	2.3
Difference, percentage points	–0.3	–1.8	0.3	0.5	–
Net lending					
Updated convergence programme for 2000	3.4	3.5	3.3	3.6	–
Updated convergence programme for 2001	4.1	4.6	2.1	2.2	2.3
Difference, percentage points	0.7	1.1	–1.2	–1.4	–
Consolidated gross debt					
Updated convergence programme for 2000	58.9	53.2	50.2	48.2	–
Updated convergence programme for 2001	55.6	52.3	49.7	47.3	45.2
Difference, percentage points	–3.3	–0.9	–0.5	–0.9	–

Source: Ministry of Finance

Consolidated gross debt in 2000 was 3.3 percentage points lower than the forecast in the previous updated programme. This is a result of the higher financial surplus and of the pension system's higher than estimated holding of Treasury bonds. For the years 2001 to 2003, the consolidated gross debt is estimated to be 0.5-1 percentage point lower than the forecast in the updated programme for 2000.

Net lending in 2000 developed better than expected in the updated convergence programme for 2000. The forecast for 2001 has also been revised upward. Tax revenues have risen more than expected. This is partly a result of employment developing better than expected. Moreover, household capital gains and company profits were unexpectedly high in 2000, leading to higher tax revenues in 2001. In this update, a surplus just over the medium-term target is shown for 2002. This is 1.2 percentage points lower than in the updated convergence programme for 2000. The difference is mainly due to additional tax cuts and expenditure reforms. Adjusted for this, the balance is slightly stronger than in the previous assessment.

VII Structural policy and the quality of public finances

Labour market measures

In the 1996 government declaration, the government stated that open unemployment was to be halved to four per cent of the labour force. The target was achieved at the end of 2000. During the first seven months of 2001, open unemployment has been on average 4.0 per cent. The Government Budget Bill for 1999 included a target for employment. The target means that the percentage of the population aged 20 to 64 in regular employment shall increase from 74 per cent in 1997 to 80 per cent in 2004. During the first seven months of 2001, on average 78.2 per cent of the population aged 20 to 64 was in regular employment.

Labour market training has changed emphasis during the last few years and has focused more on vocational training in order to overcome the shortage of labour within certain occupational groups. The percentage of persons who obtain employment after completing vocational training has gradually increased.

A number of measures have been taken in order to increase the integration of immigrants in the labour market. An Activity Guarantee was introduced in August 2000 for persons who are or risk being registered unemployed for a long period. The aim is to improve the chances of obtaining employment in the regular labour market as quickly as possible and to break the vicious circle between measures and open unemployment, as well as to ensure that unemployed persons actively seek employment. New rules for unemployment insurance were introduced in February 2001. The aim is to improve the functioning of the labour market. The new rules strengthen the nature of unemployment insurance as an adjustment insurance. The previous risk of a vicious circle between various measures and open unemployment is counteracted by participation in labour market policy programmes no longer entitling a person to a new benefit period.

Changes in taxes and family policy

The income tax reform described in Section III began in 2000. The emphasis of the reform is on reduced marginal taxes and average taxes, particularly for low-wage and middle-wage earners. For example, the fully implemented reform – one-quarter remains after the Government Budget Bill for 2002 – will mean a reduction in marginal taxes of nearly 5 percentage points for 85 per cent of taxpayers. This will in turn result in an increase of 7–8 per cent in the marginal wage, which is of interest to the labour supply. This will have a positive impact on the labour supply, particularly for women. The maximum charge for child daycare services and pre-school education, which will be introduced from 2002, is part of the efforts to reduce marginal effects and improve the job opportunities of parents of small children, and thus to increase the labour supply. The maximum charge reform will lead to reduced marginal effects, particularly for single parents. An important part of the decision from an employment perspective is to offer the children of unemployed parents the right to pre-school education as early as 1 July 2001. This facilitates the opportunities of parents of small children to look for work effectively and accept a job offer. The reforms also contribute to increased equality between men and women on the labour market, since high marginal effects particularly affect single parents and low-wage earners, groups where women are overrepresented.

Structural education and training measures

Significant efforts have been made in the education and training sector in the past few years, in order to increase the supply of skilled labour. Higher education has been gradually expanded and resources for 68,000 new permanent places were provided in 1997-2000, with a particular emphasis on science and technology. The government's long-term target is that half of school leavers in any year shall have begun university studies by the age of 25. The aim is also to broaden recruitment. The expansion of the last few years has led to an increase of nearly 60 per cent in the number of students in undergraduate education since 1990.

Following the substantial additional funding of higher education, new resources will be focused to a greater extent on compulsory education in the next few years. The aim is to increase staffing levels. This year, compulsory education is to receive SEK 0.5 billion. The allocation will then increase by SEK 1 billion per year until a level of SEK 5 billion is reached. The funds will then be incorporated in the general central government grant to municipalities. In addition, investments are being made in adult education in order to give individuals with a weak position in the labour market an opportunity to increase their skills and thus improve their position in the labour market.

Measures to promote competition

Economic reforms on the product and capital markets are a central part of the government's policy for growth and employment. The credit market was deregulated in the mid-1980s and the electricity, telecommunications, postal and transport markets were deregulated in the 1990s. Despite extensive reform work, the Swedish price level is still approximately 20 per cent above the EU average, which is partly due to lack of competition in certain sectors. The government is therefore implementing continued measures to increase competition and reduce the price level.

The competition rules are continuously being tightened in order to increase the effectiveness of the legislation. Since the beginning of the year, Articles 81 and 82 of the EC Treaty on concerted practices to restrict competition and on the abuse of dominant position have been applied directly in Sweden by the Swedish Competition Authority. On basis of the proposals from the Commission to Combat Cartels the Government intends to present a bill in the spring of 2002. The proposals in the bill will include lowering or making concessions for fines for impeding competition for firms that disclose restrictive trade practices. Further, it will be proposed to guarentee the anonymity of sources of information in competition matters.

Measures are being taken to further increase competition in the network industries. For example, competition in the electricity market and in domestic aviation is being investigated. In the light of these investigations, the government will take measures to increase competition in these sectors. In addition, the whole gas market will be opened up to competition in 2003.

Competition and the price trend in important sectors such as food and building materials are being investigated. Public procurement is being made more efficient. On the basis of the Public Procurement Committee's proposals, which include measures to improve compliance with regulations, a bill on public procurement is planned for the spring of 2002.

Efforts are also being made to strengthen the functioning of the capital markets. For example, a proposal is being prepared to reform the legislation for banks and credit market institutions, which aims, among other things, to increase competition in deposit and lending activities. The government intends to present a bill on this matter during 2002.

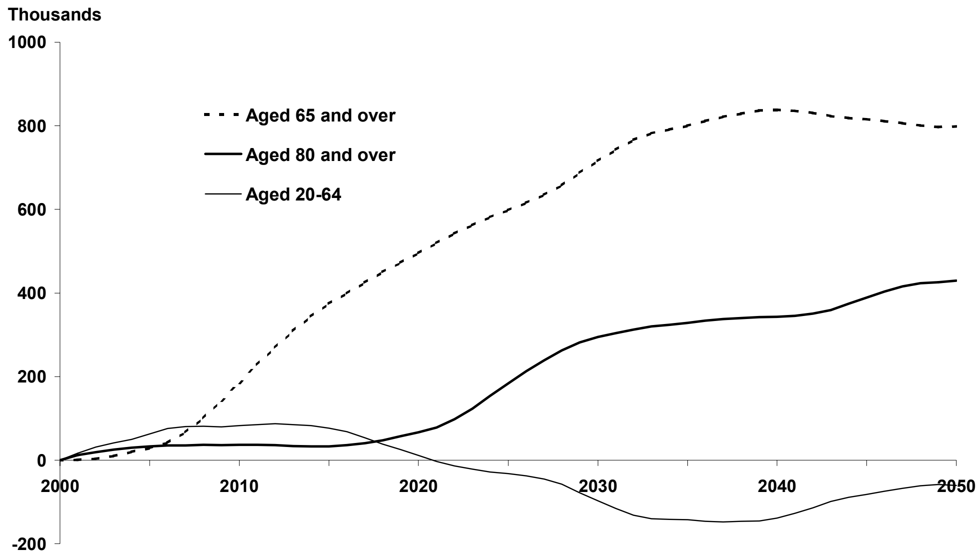
VIII Sustainability of public finances

During the next few decades, the population structure will change substantially in Sweden. By the middle of the century, the number of persons over the age of 64 is estimated to rise by approximately 800,000. Half of this increase consists of persons aged 80 and over. The working-age population, aged 20 to 64, is estimated to remain unchanged during the same period. The dependency ratio, calculated as the number of persons over the age of 64 relative to persons aged 20 to 64, will increase from just under 30 per cent to nearly 47 per cent.

The demographic trend will subject the public welfare systems to major strains. In order to ensure the long-term stability of public finances, medium-term fiscal policy focuses on maintaining a surplus in the general government sector of 2 per cent of GDP. General government net debt is thereby reduced. Net interest improves, providing scope for the anticipated increase in expenditure. As a result of the pension reform, assets are currently being accumulated in the old-age pension system. The return on these assets contributes to finance future pensions.

The effects of the demographic changes are mitigated by a rising employment ratio. Through a close correlation between benefits and contributions, the reformed pension system provides clear incentives for the individual to extend his or her working life.

Diagram 6: Population changes



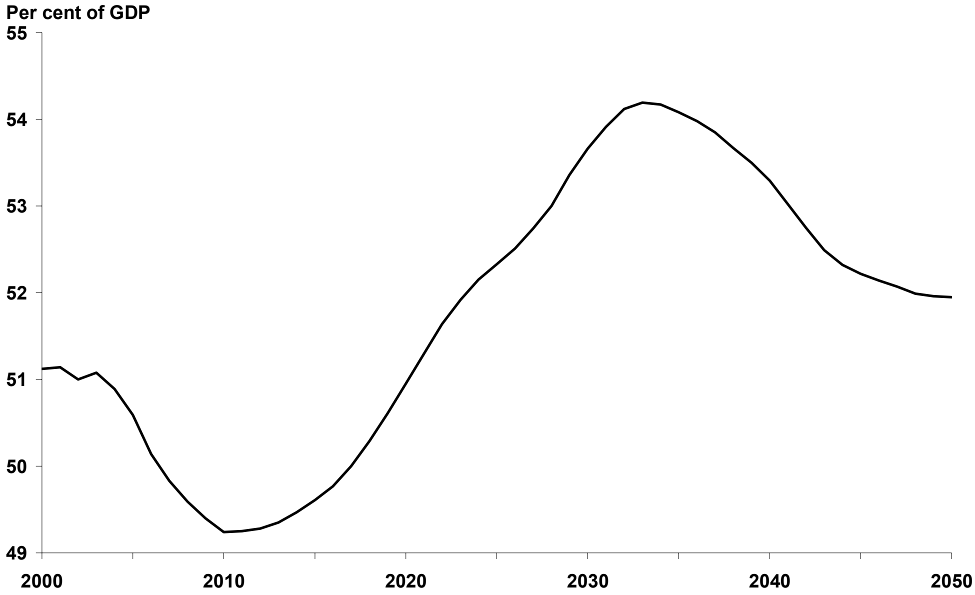
Source: Ministry of Finance

The long-term scenario for public finances described in this section is a further development of the estimates presented in the Government Spring Bill for 2001 and in the updated concergence program 2000. The estimates are, however, partly based on new material.

Projections over such a long time scale are uncertain and should not be interpreted as forecasts. Technical and institutional changes, for example, are not taken into account. The estimates are essentially based on current regulations and conditions. The long time scale means, however, that such a principle leads in certain cases to obviously absurd results. The value of nominally unchanged child benefits would, for example, be substantially eroded. It is therefore assumed in the scenario that the standard of general government consumption and certain transfers will develop in line with average household consumption expenditure. Central assumptions for the estimates in other respects are shown in Table 13.

The development of primary expenditure[4] as a percentage of GDP can be seen in Diagram 7. Owing to an increased employment ratio, GDP growth is expected to be just over 2 per cent in the next few years. At the same time, the demographic pressure on expenditure is still limited. A demographic projection of expenditures implies that the expenditure ratio falls up until 2010. Between 2010 and 2035, the percentage of elderly persons in the population increases and the expenditure ratio will rise again by approximately 5 percentage points.

Diagram 7: General government expenditure excluding interest



Source: Ministry of Finance

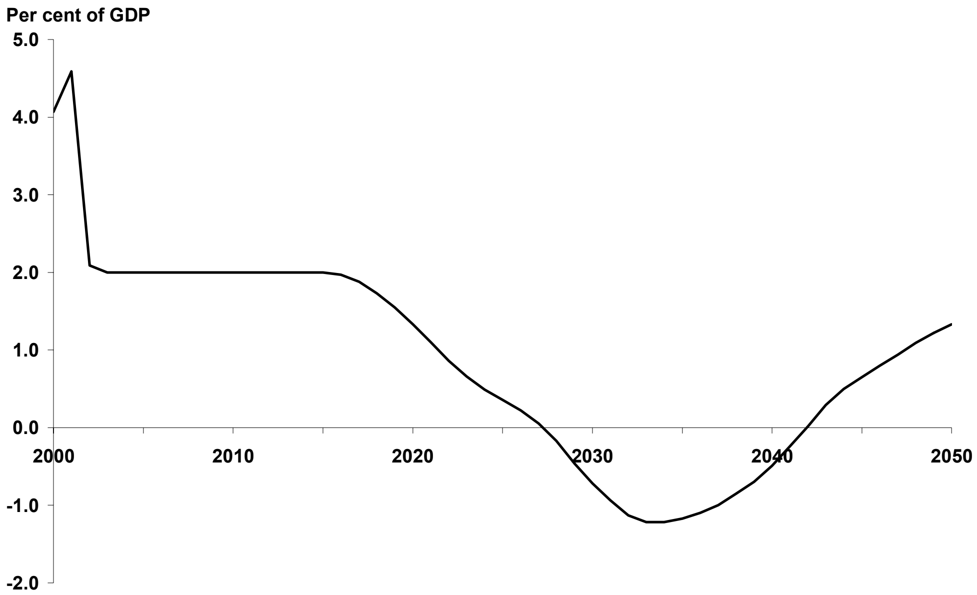
The target for the surplus in public finances is assumed in the estimates to amount to 2 per cent of GDP up until 2015. The scope that arises in excess of the surplus target due to the falling expenditure ratio is, as a technical assumption, utilised for tax cuts. The assumption is motivated by the fact that there is probably a need of a certain adjustment of the tax-ratio to the rest of the world, inter alia due to the fact that the international mobility of tax bases will increase. A government commission is presently analysing the issue of international mobility of tax bases.

After 2015, the tax rules are assumed to remain unchanged in the scenario. The rising pressure on expenditure means that public finances deteriorate and that net debt again begins to increase. Both the deterioration in the balance and the increase in debt are, however, limited. A strong contributory reason for this is that general government

[4] Public expenditure excl. Interest.

capital income increases by 2 percentage points relative to GDP during the period – from net expenditure of 1 per cent of GDP to net income of 1 per cent. This is due to the improved financial position as a consequence of the surplus target for general government finances.

Diagram 8: General government net lending



Source: Ministry of Finance

The estimate presented is sensitive to the assumptions made regarding economic growth and increased standard in the general government expenditure systems. Weaker economic growth or a more rapid increase in standard may create an accelerating increase in debt in the long term. On the other hand, the increasing average life expectancy is an expression of the improved state of health of the older section of the population. The estimate does not take into account that the health care needs of a 75-year-old will probably be lower in 50 years' time than today.

Table 13: Long-term sustainability of public finances

Per cent of GDP

	2000	2005	2010	2015	2030	2050
Total revenue	**59.5**	**55.3**	**53.6**	**53.7**	**54.9**	**55.0**
Old-age pension contributions	8.7	8.2	8.1	8.1	8.4	8.7
Other primary revenue	47.5	44.4	42.5	42.5	43.3	43.7
Capital income	3.3	2.8	3.0	3.2	3.2	2.6
Total expenditure	**55.4**	**53.3**	**51.6**	**51.7**	**55.6**	**53.6**
Old-age pensions	9.0	9.3	9.5	10.2	11.4	10.6
Medical care, care of elderly	8.8	8.6	8.6	8.9	10.9	11.6
Other primary expenditure	33.3	32.6	31.2	30.5	31.4	29.8
Interest expenditure	4.3	2.8	2.4	2.1	1.9	1.7
Net lending	**4.1**	**2.0**	**2.0**	**2.0**	**–0.7**	**1.4**
Primary net lending	5.1	2.0	1.4	1.0	–1.9	0.4
Assumptions						
GDP[1]	3.6	2.2	2.1	1.4	1.0	1.4
Real wages	2.9	1.9	2.1	2.1	2.0	2.0
Labour force participation, aged 20–64	81.5	82.5	84.0	84.4	84.1	83.9
Open unemployment	4.7	4.0	4.0	4.0	4.0	4.0

[1] In the calculation of GDP growth it is assumed that labour productivity growth in the public sector is zero, according to the rules in the Swedish National Accounts. An increased share of public consumption implies reduced GDP productivity. Added to this the population of working age will decrease.

Source: Ministry of Finance

Table appendix

Table A.1: Forecast assumptions

Annual averages, unless otherwise stated

	2000	2001	2002	2003	2004
GDP global[1]	4.6	2.4	3.4	4.0	3.9
GDP global, excluding EU	4.9	2.6	3.7	4.3	4.2
GDP EU-15	3.4	1.8	2.2	2.7	2.6
HICP EU	2.1	2.5	1.8	1.9	1.8
Hourly wage in Sweden, cost[1]	3.8	3.5	3.5	3.5	3.5
SEK/USD	9.2	10.2	9.7	8.8	8.1
TCW index	124.6	134.1	130.3	125.8	121.8
SEK/EUR	8.45	9.12	8.94	8.75	8.65
USD/EUR	0.92	0.89	0.93	0.99	1.06
German 10-year government bond rate	5.3	4.9	5.0	5.0	5.0
Swedish 10-year government bond rate	5.4	5.2	5.2	5.2	5.2
Swedish 6-month interest rate	4.1	4.2	4.5	4.6	4.6
Oil price, (Brent, USD/barrel)	28.2	26.0	25.5	–	–
World market growth, excl. EU	14.3	2.0	5.3	8.2	8.3

[1]Annual percentage change

Source: Ministry of Finance

Table A.2: General government finances

Per cent of GDP

	2000	2001	2002	2003	2004
Revenue	**59.5**	**59.1**	**56.3**	**56.2**	**56.1**
Taxes and charges	52.8	53.1	50.4	50.2	50.1
Direct taxes	22.5	22.5	19.8	20.0	20.1
Product and production taxes	14.7	15.0	15.1	14.9	14.7
Social security contributions	15.5	15.5	15.3	15.2	15.1
Capital income	3.3	2.7	2.6	2.7	2.8
Other revenue	3.4	3.3	3.3	3.3	3.3
Expenditure	**55.4**	**54.5**	**54.2**	**54.0**	**53.8**
Transfers	22.4	22.1	21.9	22.2	22.2
Households	19.1	19.1	18.9	19.3	19.1
Business sector	2.0	1.9	1.7	1.6	1.8
Abroad	1.2	1.1	1.3	1.3	1.4
Consumption	26.3	26.6	26.6	26.4	26.2
Investment, etc.	2.4	2.5	2.5	2.6	2.6
Investments and stocks	2.5	2.5	2.6	2.6	2.6
Purchase and sale of land and properties, net	–0.1	–0.1	–0.1	–0.1	0.0
Interest expenditure	4.3	3.4	3.2	2.9	2.9
Net lending	**4.1**	**4.6**	**2.1**	**2.2**	**2.3**
Primary net lending	5.1	5.3	2.7	2.4	2.4
Fixed capital consumption and capital transfers, net	2.3	2.5	2.5	2.5	2.5
Fixed capital formation	2.4	2.5	2.5	2.6	2.6
Lending, net	4.2	4.6	2.1	2.1	2.3
Consolidated gross debt	**55.6**	**52.3**	**49.7**	**47.3**	**45.2**
Net debt	**2.0**	**–3.1**	**–5.5**	**–7.8**	**–10.0**

Source: Ministry of Finance