

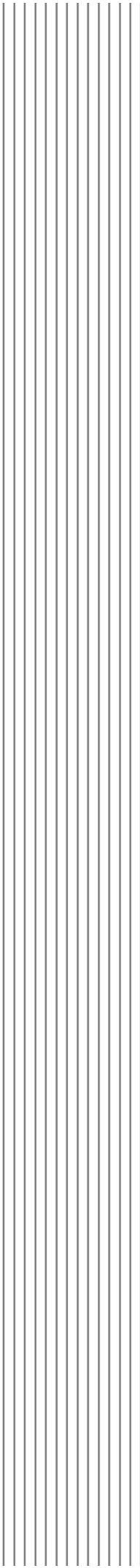
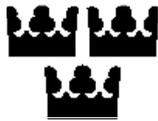
The Budget Statement and Summary

Table of contents

The Budget Statement	3
Summary of expenditure areas	27
Tables and diagrams	47

1

The Budget Statement



1 The Budget Statement

The Swedish people can look forward to the next century with confidence and faith in the future. We will cross the threshold into the twenty-first century with a high rate of growth, low inflation and falling unemployment.

The period of dependency on loans is over. The surplus in public finance will press back central government debt.

We can once again shape our common future – a society where no one is excluded.

Politics can be focused on developing Sweden on firm foundations.

- Unemployment is to be overcome. By the year 2000 unemployment is to be halved to 4 per cent. The goal will then be full employment.
- Schools, care and social services are to be improved. The Government wants to develop the core of welfare. For this reasons, new resources are to be made available primarily for schools, care and social services for children and the elderly.
- Social justice is to be reinforced. When resources are available, those who have borne the heaviest burden in the consolidation of public finances shall be first in line. The choice between tax reductions and changes in grants will be decided by what best favours a fair distribution and contributes most to growth and increased employment.

The Government cannot accept the sacrifices made by wage-earners in the difficult years we have behind us being used to finance tax relief for those with high incomes in the good years that lie ahead of us.

Free and secure people, a dynamic business sector, and international commitment are to characterise our country in the new century. We shall cross the threshold to the twenty-first century with a policy that is in step with the rest of Europe.

Sweden is to be an entrepreneurial nation, encouraging new thinking and innovation. The conditions for business are to be stable and competitive.

The entire country must be involved in the struggle to reduce unemployment. No task is more important than to lead Sweden away from unemployment and into a development for new jobs.

1.1 A policy for employment and social justice

Sweden's economy today is stronger than for a very long time. The foundation for a good development has been laid. Due to the consolidation programme, public finances have improved at a rate unparalleled internationally. The budget policy objectives are being upheld and will be achieved. The general government deficit in the financial balance is estimated to be 1.9 per cent of GDP in 1997. The central government expenditure ceiling will be maintained. In 1998 public finances will be in balance.

Economic policy aims at growth, employment and justice. The policy pursued is focused on economic stability, with sound public finances and stable prices, and improved conditions for transformation and development. Experiences from the first half of the Nineties show the devastating consequences of economic instability with an explosion of central government debt and high inflation for the ability to safeguard employment and welfare.

Employment policy is based on five foundations.

- Unemployment is to be reduced mainly by more people obtaining work or undergoing training that improves their prospects of finding employment. The policy of work rather than benefits and of strengthening the competence of the labour force applies.

- The major part of the increase in employment during the coming years will be in the private sector.
- In the public sector, activities are to be given priority over transfers. Care and social services are the core of welfare.
- A better functioning wage formation is required in order to reduce unemployment by half.
- Central government finances are to be sound and prices stable.

A policy for employment

The strength of the Swedish economy comes from within. The stringent budget policy aimed at consolidating public finances has borne fruit. Interest rates have fallen sharply. Confidence in the Swedish economy and Swedish economic policy has been strengthened among households and businesses.

We now find ourselves in the first cyclical upswing for 30 years which has not been preceded by an expansive economic policy or a devaluation. This strengthening of the level of economic activity is taking place while retaining a low rate of inflation and confidence in price stability.

Freedom of action has been restored by the rapid improvement of public finances. The Government is now concretising the investment in work and education presented in the Spring Fiscal Policy Bill (Government Bill 1996/97:150). Despite these new measures, there will be a substantial reduction in the expenditure ratio in 1998.

- School, care and social services will be strengthened. In 1998 SEK 8 billion kronor will be made available to the local government sector to promote employment and to safeguard the quality of welfare. In this Bill, it is moreover proposed that a further SEK 4 billion be provided to the local government sector each year in 1999 and 2000 in an initiative to raise the level of funds made available. In this way, SEK 16 billion will have been made available to school, care and social services to raise the level in 2000 in comparison with 1996.
- Education is to be expanded to strengthen Sweden's long-term competitiveness. Moreover, this Bill contains a proposal to bring forward the investment in education of 1,000 places in qualified vocational education and 10,000 higher education places to the spring term 1998.
- Policy is focused on sustainable growth. A local and national investment programme will be carried out.

- The climate for business will be further improved. The Riksdag has previously decided to change responsibility for the sick pay period to make employers responsible for day 2 to 28. This has been criticised by both the social partners, despite the proposal having originated from the employers. The Government therefore proposes that the employers shall only be responsible for day 2 to 14. The important issue for wage-earners of the supplementary sick pay benefit will be resolved in a constructive way by the change now proposed.
- Labour market policy is to be strengthened to reduce the risk for exclusion and alienation. This Bill includes a proposal for a strong investment in youth. The Government moreover proposes a new IT training in co-operation with the business sector.

A policy for justice

There has not been any alternative to consolidation of public finances. It was necessary to recreate confidence in the Swedish economy and Swedish economic policy. The consolidation policy has been designed so that the burdens are to be borne justly. Those who are best off shall bear the heaviest burden.

On closer examination of the distribution policy profile, it is apparent that families with children have been affected harder than others. The Government therefore proposes an increase in child allowances and the study grant component of the study aid scheme from SEK 640 to SEK 750 per child and month. Moreover, the supplement for families with three or more children is to be reintroduced also for children born after 1995, since this is well-targeted from the point of view of distribution policy. It is proposed to increase the housing supplement for financially vulnerable pensioners. There is scope for all these measures within the expenditure ceiling and the budget policy target of balance in 1998. Welfare is paid with our own money, not with borrowed money.

In this Bill, the final distributional review of the consolidation programme is made. With the measures now proposed, the conclusion is that the consolidation of public finances has on the whole been carried out in a fair way. The fifth of households with the highest economic standard have contributed 43 per cent of the consolidation, while the fifth with the lowest economic standard have contributed 11 per cent.

A policy for stability

Since spring 1995, the Social Democrats and the Centre Party have co-operated on economic policy. This co-operation has been of decisive importance for political stability and has contributed to reduced interest rates and a stronger krona. The current Budget Bill has been preceded by discussions with the Centre Party which stands behind the guidelines for economic policy and the expenditure ceiling, the distribution of expenditure on areas of expenditure, the measures for budget consolidation, the supplementary budget for 1997, the tax changes now proposed and the Convergence Programme. Through this co-operation, it is confirmed that there is political stability for an economic policy which with regard to public finances aims at balance in 1998, and a surplus in 1999, and a halving of registered unemployment by 2000.

1.2 Economic trends

The level of economic activity internationally has strengthened during 1997. Sweden is in an upswing. After a weak upswing during the first half of 1997, the second half is expected to be better. Unemployment has begun to fall, and private sector employment to increase. The economic situation is expected to improve still further in 1998.

1.2.1 International trends

The European economy is undergoing an upturn, although there is still uncertainty in Germany, France and Italy. The improved public finances in a number of countries has made a decisive contribution to lower interest rates. The confidence of businesses and households in the development of the economy is steadily increasing. Since the budget consolidation is expected to continue and inflation to remain low, there are good prerequisites for continued low rates of interest within the EU, creating favourable conditions for future economic growth. The great problem in Europe is unemployment. In the EU 18 million people are at present out of work, or 11 per cent of the labour force. Of these half have been unemployed for over a year.

The United States is at present experiencing one of the longest periods of growth since the second world war. To date inflation has not accelerated but rather fallen. The strong economic growth has contributed to improving central government finances. In May unemployment was 4.8 per cent, the lowest since 1973. The main reason for the low unem-

ployment is the well-balanced fiscal and monetary policy.

For countries around the Baltic Sea, the prospects have improved during the year. Both Finland and Denmark are expected to have a growth of over 3 per cent despite a stringent budget policy. Growth in Germany has firmed during 1997. GDP growth in Poland and the Baltic republics is expected to amount to almost 5 per cent during the year. The negative development in Russia during recent years is expected to be reversed this year.

TABLE: 1.1 SELECTED STATISTICS 1996–1998 FOR EU AND THE UNITED STATES

ANNUAL PERCENTAGE CHANGE

	1996	1997	1998
GDP			
<i>EU</i>	1.7	2.3	2.6
<i>United States</i>	2.4	3.6	2.0
Consumer prices			
<i>EU</i>	2.5	2.1	2.1
<i>United States</i>	2.9	2.6	2.9
Unemployment, level			
<i>EU</i>	11.4	11.2	10.9
<i>United States</i>	5.4	5.0	5.1

Sources: OECD, National Institute of Economic Research and Ministry of Finance.

In Japan recovery is expected to continue, although slowly. The financial crisis in Asia entails problems for the entire region, however.

1.2.2 Trends in Sweden

At the beginning of the 1990s, total output in Sweden fell for three years in a row. Sweden experienced the first depression since the 1930s. The result was devastating for the Swedish economy. During the last years of the Nineties, central government debt doubled, unemployment tripled and the budget deficit more than quadrupled.

The economic policy which was carried out to reverse this development has been very successful in most respects. In 1995 and 1996, the level of interest rates and inflationary expectations fell as confidence increased in the economic policy pursued. Growth was 3.6 per cent in 1995. However, a weak European development spread to Sweden at the end of 1995. The slackening of exports and stock adjustments led to a decline in optimism and an increase in unemployment. Sweden was affected by the cyclical slackening and growth fell back to 1.1 per cent in 1996.

At the end of 1996, the first signs were observed that the economy was undergoing a cyclical upturn.

In spring 1997 the signals became clearer and later statistics confirm this picture. Again, it is exports that are leading this upturn, but also an increasingly strong private consumption. Despite a very strong development after the fall in the value of the krona in 1992, the increased inflow of orders indicates that exports will continue to expand at a fast rate in future. One positive development is that Swedish businesses do not seem to be increasing prices at the rate that might have been anticipated, and are instead endeavouring to increase market shares. Of the value of the total increase of industrial production from 1996-98, 88 per cent is expected to consist of increases in volume and the remaining 12 per cent of price increases. This can be contrasted with the last major upswing in 1986-89 when increases in volume accounted for 27 per cent, while the remaining 73 per cent consisted of price increases.

The strength of the Swedish cyclical upturn comes from within. The good conjuncture that we are on the threshold of is the first for 30 years that has not been preceded by a devaluation or an expansive economic policy. On the contrary, this period has been characterised by a very stringent economic policy.

The future expectations of households are becoming increasingly optimistic and asset prices are increasing. The effect of lower interest rates is shown, inter alia, by an increased retail turnover and increased car sales. However, investments are depressed and residential construction has been very low during the first six months of the year. Moreover, general government consumption is falling.

The normal pattern is that developments on the labour market lag behind the development of the rest of the economy. This also applies during a cyclical upturn. The marked deterioration of the labour market situation which started in mid-1996 has, however, ceased and employment has begun to rise again.

Inflation is in the lower part of the Riksbank's tolerance interval. The underlying inflationary pressure is still low. After half a year of falling consumer prices, prices have increased moderately during recent months, while the temporary effects of the strengthening of the krona are ebbing out, at the same time as certain indirect taxes have been increased.

1.2.3 The forecast for 1997 and 1998

Growth is expected to be 2.3 per cent in 1997 and 3.1 per cent in 1998. This year the contribution of foreign trade to growth remains high, while its contribution will fall in 1998 as imports rise. As a result of the increased confidence in the future, it is expected that private consumption will increase more

than incomes. Investment is expected to recover next year. The reduction in general government consumption is expected to cease next year, when the additional resources made available to local government will have the intended effect. As there are still unused resources in the economy, growth will be relatively high without an upward pressure on prices and wages being created.

TABLE 1.2 DEMAND AND OUTPUT, 1996-2000

	SEK BN		PERCENTAGE CHANGE IN VOLUME		
	1996	1997	1998	1999	2000
<i>Private consumption</i>	885.3	2.3	2.5	2.0	1.9
<i>Public consumption</i>	434.2	-1.1	0.5	0.4	0.8
<i>Central government</i>	132.2	0.5	0.5	0.5	0.5
<i>Local government</i>	302.1	-1.7	0.6	0.4	1.0
<i>Gross investment</i>	249.6	0.4	5.8	8.0	6.7
<i>Business sector, excluding housing</i>	183.6	5.0	5.4	8.1	5.8
<i>Housing</i>	30.3	-21.2	12.8	15.0	15.0
<i>Agencies</i>	35.6	-3.5	3.2	2.7	5.3
<i>Stock adjustment</i>	-3.2	0.2	0.1	0.0	0.0
<i>Exports</i>	670.4	9.6	7.2	5.2	5.1
<i>Imports</i>	558.2	8.5	7.0	5.1	5.0
GDP	1678.1	2.3	3.1	2.9	2.8

The relatively favourable development of the economy in autumn 1997 and 1998 means that employment will rise at the same time as unemployment falls. Since the first six months of 1997 were weak, the average registered unemployment in 1997 will nevertheless remain high, 8.4 per cent. In 1998, unemployment is expected to fall by one percentage point.

In a few years, the deficit in the balance on current account is has been turned into a growing surplus. The surplus in the balance on current account will rise further in future and is estimated at SEK 70 billion in 1998, or approximately 4 per cent of GDP. In this way, the total net foreign debt will be amortised which will strengthen Sweden.

1.2.4 Scenarios for 1999 and 2000.

Estimates for 1999 and 2000 are based on two decisive assumptions. Firstly, it is assumed that wage formation will function better, so that total wage hikes including wage drift, and the cost of any reduction in working hours will not exceed 3.5 per cent, despite the improvement on the labour market. And secondly, it is assumed that the various labour market policy measures and investment in education will take effect.

Given these assumptions, registered unemployment is expected to fall to 4.5 per cent by 2000. The objective of halving registered unemployment to 4 per cent by 2000 will be upheld. In order to guarantee that this target is reached, the Government will continue to submit a report to the Riksdag every six months on the situation on the labour market. The Government is prepared to take further measures if required to reach this goal.

Growth is expected to be somewhat higher than the long-term trend of around 2 per cent. General government finances are improving as the tax bases expand at the same time as expenditure policy is restrained. The additional resources now proposed of SEK 4 billion in 1999 and a further SEK 4 billion in 2000 for the local government sector will contribute to a slight increase in growth in employment in this sector during this period. The increased growth in the economy will be borne up to a large extent by private consumption.

The labour market situation at the beginning of 1997 was disturbing. This was especially true for the public sector. The situation is now looking brighter. During recent months, unemployment has turned downwards and employment has begun to rise. The reason for this reversal is the economic recovery as well as the investments in schools, care and social services proposed in the Spring Fiscal Policy Bill, which have been further detailed in this budget.

Altogether, it is estimated, however, that 46,000 jobs will disappear in the public sector in 1997, the greatest part of the reduction having taken place in the first half of the year. In the private sector, employment is practically unchanged, compared with last year. During 1998, the increase in resources to municipalities and county councils, inter alia, will entail a better development. In 1998 it is expected that 33,000 private sector and 6,000 public sector jobs will be created. In the private sector, it is primarily the service sector which is expanding.

TABLE 1.3 SELECTED STATISTICS, 1997–2000

ANNUAL PERCENTAGE CHANGE

	1997	1998	1999	2000
Number employed	-1.2	1.0	1.6	1.6
Real disposable income	0.0	1.8	2.6	3.6
Household net saving ratio	3.2	2.6	3.1	4.8
CPI, annual average	1.1	1.7	2.0	2.0
Hourly wage cost	4.8	3.5	3.5	3.5
Interest on 5-year treasury bonds	5.82	6.13	6.25	6.25
Interest, German 5-year treasury bonds	4.60	5.13	5.25	5.25
TCW index	121.2	120.5	119.0	118.0
Productivity in the business sector	4.4	2.5	1.6	1.6
Balance on current account, per cent of GDP	3.1	3.8	3.9	4.0

1.2.5 Employment and unemployment

At the beginning of the 1990s, Sweden went from being a country characterised by full employment to a country marked by mass unemployment. Between 1991 and 1994 over 450,000 jobs disappeared. Of these over 350,000 were in the private sector and more than 100,000 in the public sector. At the end of 1994, the situation turned round on the labour market. In 1995 and 1996, 64,000 new job opportunities were created in the private sector at the same time as a further 28,000 public sector jobs disappeared.

TABLE 1.4 EMPLOYMENT, UNEMPLOYMENT AND WAGE DEVELOPMENT

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Relative employment statistic ¹	84.2	83.3	81.1	79.1	77.6	78.2	77.9	77.1	76.9	76.7	76.5

1.3 Sound central government finances and stable prices

Sound central government finances and stable prices are a precondition for long-term high growth. This approach governs the design of economic policy. With a stable economic foundation, the focus can be placed on the Government's most important task: halving registered unemployment from 8 per cent in 1994 to 4 per cent by 2000.

<i>Number employed</i> ²	4 454	4 378	4 185	3 964	3 927	3 986	3 963	3 915	3 954	4 018	4 083
<i>Privatesector</i> ²	3 075	2 986	2 821	2 630	2 633	2 698	2 697	2 697	2 730	2 790	2 841
<i>Public sector</i> ²	1 404	1 404	1 381	1 327	1 291	1 287	1 263	1 217	1 223	1 227	1 241
<i>Registered unemployment</i> ³	1.7	3.0	5.3	8.2	8.0	7.7	8.1	8.4	7.4	6.0	4.5
<i>Cyclical labour market policy measures</i> ³	1.2	2.0	3.6	4.3	5.3	4.4	4.5	4.3	4.7	4.5	4.4
<i>Hourly wage cost</i> ⁴	9.8	5.7	3.7	2.8	2.4	3.3	6.1	4.8	3.5	3.5	3.5

1. Labour force as a percentage of the population aged between 16 and 64.

2. Thousands of persons.

3. As a percentage of labour force.

4. Annual percentage change.

Note: Employment in the private sector and public sector is not consistent with the total for the years 1990 to 1997. Component sectors have been re-computed by Statistics Sweden in accordance with reclassification and changes in methods introduced in 1992/93 and allocated by quotas from SNI89. The total is in accordance with the original series, corrected, inter alia, for classification of ALU employees (labour market programme) and youth trainees. There is also a discrepancy for the years after 1993.

1.3.1 Fiscal policy

Fiscal policy is focused on consolidating public finances. The reason for this is the crisis that affected Sweden at the beginning of the Nineties. The pronounced fall in domestic consumption and the tripling of unemployment together with the financial crisis in autumn 1992, and the weak budgetary discipline at the beginning of the 1990s devastated public finances.

In the Budget Bill in January 1995, the central government borrowing requirement for the fiscal year was estimated at over SEK 229 billion. More than every third krona in the central government budget was borrowed money. This situation was untenable. The foundations of Swedish welfare were under threat. Interest on central government debt crowded out other expenditure. Confidence in Sweden was low. The Government proposed therefore a comprehensive consolidation programme to quickly stop the rise in central government debt. The consolidation programme amounted to SEK 126 billion and is fully implemented as of the budget for 1998. The size and profile of the consolidation programme has been continually adapted to achieve the budget policy goals:

Central government debt measured as a proportion of GDP was to be stabilised at the latest by 1996

This target has been met. Central government debt as a proportion of GDP peaked at 84.3 per cent in 1995. Thereafter, it has steadily declined. At the end of 1998, central government debt is expected to have fallen to 79.4 per cent of GDP to then continue to fall at a rapid rate. The general government consolidated gross debt peaked in 1994 and has since then fallen continually.

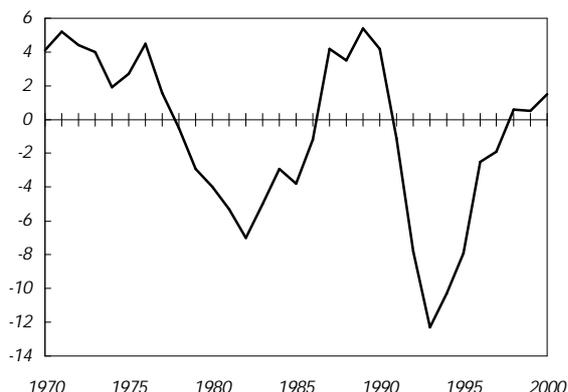
The deficit may not exceed 3 per cent of GDP in 1997.

This target has also been achieved. The deficit is expected to be 1.9 per cent of GDP in 1997, an improvement of 0.2 percentage points since the Spring Fiscal Policy Bill. It is therefore to be expected that Sweden will be removed from the group of EU countries with excessive deficits in public finances.

DIAGRAM 1.1

General government financial balance 1970-2000

Per cent of GDP



Source: Ministry of Finance

In 1998 general government finances are to be in balance.

This target will also be met. In 1998 Sweden will pay for its own welfare with its own money, which many considered to be completely implausible a couple of years ago. In 1993 the general government financial deficit was 12.3 per cent of GDP. This means that, in the space of five years, Sweden has gone from having the second largest deficit in the OECD area to being one of the few OECD countries which does not have a deficit in public finances. This also applies to the structural deficit where OECD's assessment is that Sweden will have a structural surplus already by 1998.

After 1998, general government finances shall be in surplus

In spring 1996 the Government proposed a fourth budget policy goal – a surplus in public finances after 1998. There are a number of reasons why Sweden should have an ambitious goal for public finances:

- With a surplus in public finances, there is a margin to counteract cyclical downturns without the deficit threatening to become too large and leading to an increase in interest rates.

- Sweden must prepare for the future. The number of elderly persons will increase some way into the next century. The public sector must then be sufficiently strong to cope with this development. The situation is not unique for Sweden, but since Sweden has high ambitions for public welfare, Sweden must equally have high ambitions for the strength of the public sector.
- A high level of saving makes possible a high level of investment without Sweden having a deficit in payments with other countries. In that way, Sweden's international indebtedness can be reduced at the same time as production capacity can be increased. A high public saving also contributes to a high national saving, which has a positive effect on long-term growth prospects.

An average surplus of 2 per cent of GDP

In connection with the Spring Fiscal Policy Bill in 1997, the Government proposed, after discussions with the Centre Party, that the surplus target be made concrete. The long-term goal should be a surplus in public finances of 2 per cent of GDP on average over the economic cycle. The Riksdag has given its support to this objective.

With an average surplus of 2 per cent of GDP, the net debt of the public sector will disappear by 2010. In that way, dependency on the financial markets will be reduced. A country with a small public debt has considerably more freedom than a country that is heavily indebted. A repayment of central government debt will also decrease central government interest expenditure. In 1997 interest expenditure is estimated to be SEK 95.3 billion. This is the largest expenditure item in the central government budget, 14 per cent of expenditure.

With a long-term target of 2 per cent surplus, Sweden can in a normal cyclical downturn maintain a good safety margin to EU's so-called reference value for public finances, i.e. a deficit of at most 3 per cent of GDP. Even if Sweden does not take part in the monetary union from the start in 1999, the reference value has considerable importance. The three per cent threshold has become a "yardstick" for almost all countries throughout the world. Moreover, Sweden complies with an important undertaking in the stability and growth pact that all EU countries have concluded - to have a medium-term budget objective close to balance or in surplus.

Five-point programme in the Spring Fiscal Policy Bill

The central government expenditure ceiling of SEK 720 billion kronor for 1998 is to be maintained. The budget policy objective of balance will be achieved.

In connection with the Spring Fiscal Policy Bill, the Government stated that there was scope for carrying out an offensive against unemployment within the framework of the objectives for balanced public finances by 1998. The estimates showed that balance in 1998 could be achieved with an investment of SEK 14 billion. This scope was created by public finances improving more rapidly than was previously estimated, primarily due to expenditure increasing less than expected. In this budget the offensive proposed in the Spring Fiscal Policy Bill will be concretised. This investment focuses on five areas:

- An increase in the level of central government grants to municipalities and county councils of SEK 8 billion to increase the quality of schools, care and social services.
- Increased investment in education to increase the level of knowledge in Sweden and, in this way, make possible a durable high growth and low unemployment.
- Investment in reconstructing Sweden in an ecologically sustainable direction.
- Further improving the conditions for small and medium-sized enterprises.
- An increase on quality on the labour market policy aimed at reducing the risk of shortage situations.

TABLE 1.5 THE FIVE-POINT PROGRAMME IN THE SPRING FISCAL POLICY BILL FOR WORK, EDUCATION AND TRAINING

BILLION KRONOR

	1997	1998	1999	2000
<i>School, care, social services</i>	4.0	8.0	8.0	8.0
<i>Sustainable development</i>		1.5	5.1	5.9
<i>Education and training</i>	0.5	2.5	4.3	6.0
<i>Small businesses</i>		1.6	1.8	1.7
<i>Labour market policy</i>	0.9	2.8	1.9	1.6

New measures for employment and social justice

The budget policy goals mean that balance will be achieved in 1998 and that there is to be a surplus thereafter.

According to present estimates, public finances are now developing more strongly than was assumed in the Spring Fiscal Policy Bill. This applies both to 1997 and 1998 and is due to stronger growth and lower public expenditure. Scope has thereby been created for additional offensive measures. The Government therefore proposes the following measures for employment and social justice.

- The Government proposes additional resources for schools, care and social services. In 1999 the level of grants to municipalities and county councils will be increased by SEK 4 billion and from 2000 by a further SEK 4 billion. Altogether, the initiatives taken by the Government will mean an increase in the level of funds provided by SEK 16 billion in 2000 compared with 1996.
- The Government gives priority to families with children, inter alia, in the light of the fact that the distribution policy evaluations show that families with children have been worse affected than other groups. Child allowances and the study grant component of study aid will therefore be increased from SEK 640 to SEK 750 per child and month from 1 January 1998. The supplement for families with three or more children will be reintroduced for children born after 1995 from the same date.
- The Government gives priority to the worst-off pensioners by strengthening the housing supplement for pensioners, BTP. The Government moreover proposes to bring forward the payment of pensions to the 18th-19th each month.
- The Government gives priority to a measures that have been specially highlighted by the social partners and small business organisations. The period that businesses are to pay sick pay is to be shortened from four to two weeks. In this way, the business climate will be further improved. Moreover, changes are being made to wealth tax.
- The Government moreover gives priority to a prolongation of RRE (Renovation, Rebuilding and Extension) grants and a change in the tax deduction for travel expenses.

The budget policy goals continue to govern budget policy. After the above-mentioned measures, the general government financial balance, when computed on the same basis as applied in the Spring Fiscal Policy Bill, will amount to 0.0 per cent of GDP. The goal of balance will accordingly be achieved in 1998.

Compared with the Spring Fiscal Policy Bill, two calculations are being altered, however, for technical reasons. Firstly, it is proposed that the National Pension Fund's holdings of real estate should be transferred into company form in 1998. This does not affect public wealth. However, as shares are included in the financial balance, while directly-owned properties are not, this will lead to an upward adjustment of the reported financial balance in 1998 by 0.9 per cent of GDP.

In the second place, the EU statistical body, Eurostat, has recommended that dividend from Securum

shall not be included in the reported financial balance. This entails a downward adjustment of the reported financial balance for 1997 and 1998. In 1998 the downward adjustment amounts to 0.3 per cent of GDP.

Since the deficit prior to these two adjustments was 0.0 per cent of GDP, public finances will report a surplus of 0.6 per cent of GDP in 1998. It is to be noted that this is a consequence of a technical accounting measure. Using the same accounting method as in the Spring Fiscal Policy Balance, balance is achieved.

The consolidation of public finances has largely taken place by cuts in public expenditure. Expenditure as a proportion of GDP has fallen by 3.3 percentage units between 1997 and 1998. This is more than double as much as in any other OECD country in the same year. Between 1993 and 1998, the expenditure ratio fell by as much as 11.7 per cent. In 1999 general government expenditure as a proportion of GDP will be lower than in 1990.

TABLE 1.6 NEW MEASURES FOR EMPLOYMENT AND SOCIAL JUSTICE

BILLION KRONOR

	1998	1999	2000
<i>School, care, social services</i>	0.0	4.0	8.0
<i>Child allowances</i>	2.9	3.0	3.0
<i>Housing supplement for pensioners</i>	0.3	0.3	0.3
<i>Changed payment date</i>	0.2	0.2	0.2
<i>Higher education</i>	0.6	0.0	0.0
<i>Businesses</i>	2.6	3.2	3.4
<i>Extended RRE grant</i>	0.0	1.0	0.5
<i>Travel deduction</i>	0.0	0.1	0.1
Total	6.5	11.7	15.5
<i>Financing</i>	-2.7	-2.6	-2.7
Net effect	3.9	9.1	12.7

Fiscal policy after 1998

The new budget policy means that the Government, in connection with the Spring Fiscal Policy Bill, is to present proposals for a ceiling on expenditure for the following three years. In the Spring Fiscal Policy Bill for April 1997, the Government proposed an expenditure ceiling for 2000. The central government ceilings for 1998, 1999 and 2000 are to be upheld. The Government proposes a gradual adjustment to the long-term goal of public finance of an average surplus of 2 per cent of GDP. In 1999 the target is to be a surplus of 0.5 per cent of GDP, in 2000 1.5 per cent of GDP, and in 2001 2.0 per

cent of GDP. The Riksdag has given its support to these targets and the expenditure ceiling for 2000.

The targets for these years apply given the growth estimated in the Spring Fiscal Policy Bill. If the growth for cyclical reasons should differ from this, the equivalent deviation in goal fulfilment can be tolerated. If growth is significantly higher, then the level of ambition for the financial balance should be

adjusted upwards, and if growth is significantly lower adjusted downwards.

Wage formation plays a key role here. If the rate of increase of wages in the Swedish economy exceeds 3.5 per cent, the rate of growth of the Swedish economy will in all probability be lower than forecast. This is then a structural and not a cyclical problem.

TABLE 1.7 GENERAL GOVERNMENT FINANCE

PER CENT OF GDP

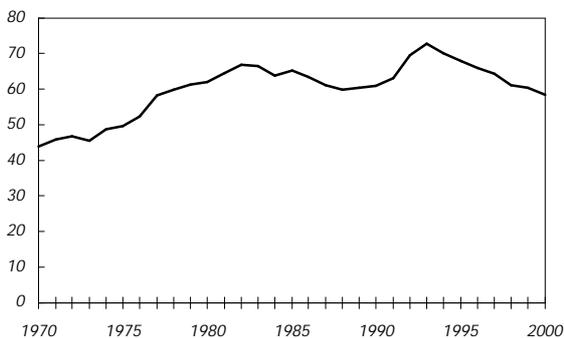
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Income ratio	65.2	61.9	61.6	60.5	59.7	59.9	63.5	62.5	61.7	60.8	59.9
Tax ratio	55.8	52.8	51.1	50.2	49.8	50.0	54.3	53.8	53.2	52.7	51.8
Expenditure ratio	61.0	63.0	69.4	72.8	70.0	67.8	66.0	64.4	61.1	60.3	58.4
Central government debt interest	4.5	4.4	4.7	5.5	6.3	6.5	6.6	6.4	5.7	5.3	4.8
Financial balance	4.2	-1.1	-7.8	-12.3	-10.3	-7.9	-2.5	-1.9	0.6	0.5	1.5
Central government borrowing requirement, SEK bn	25	75	150	242	185	138	21	18	15	-1	-5
General government net debt	-8.2	-5.3	4.8	11.0	21.9	24.0	23.9	26.5	24.9	23.0	21.5
Central government debt	45.5	47.9	61.1	78.3	84.1	84.3	84.1	83.5	79.4	75.3	71.8
General government consolidated gross debt	43.8	53.0	67.1	76.0	79.3	78.2	77.8	77.1	73.9	70.2	67.0

Source: The National Labour Market Board, Statistics Sweden and Ministry of Finance

DIAGRAM 1.2

**Consolidated general government expenditure
1970-2000**

Per cent of GDP



Source: Ministry of Finance

The targeted surplus of 0.5 per cent of GDP in 1999, 1.5 per cent of GDP in 2000 and 2.0 per cent of GDP in 2001 shall be used to pay the off general government net debt.

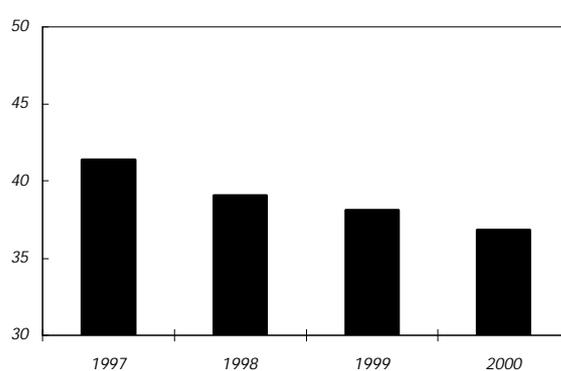
In the Spring Fiscal Policy Bill, it was calculated that in addition to these amortisation's, there would be scope for transfers to households of SEK 15 billion in 1999 and SEK 25 billion in 2000. After the measures now proposed for employment and social justice, only SEK 2.6 billion remains for 1999. For 2000 there remains, however, an amount of approximately SEK 20 billion.

The central government expenditure ceiling in 1997 is 41.4 per cent of GDP. In the subsequent years, the expenditure ceiling is reduced in relation to GDP considerably and will be down to 36.7 per cent by 2000.

DIAGRAM 1.3

The central government expenditure ceiling

Per cent of GDP



Source: Ministry of Finance

1.3.2 Monetary and exchange rate policy

The fundamental assumption of monetary and exchange rate policy is that price stability is a prerequisite for a successful economic policy. Experience shows that high inflation worsens the conditions for a sustainable high growth and thereby also for stable high employment. High inflation reduces the possibilities for a good distribution policy, and a fair distribution of assets and incomes. Experience from the end of the Eighties and the beginning of the Nineties clearly shows the negative consequences for growth, unemployment and income distribution of high inflation.

The overall task of monetary policy is price stability. The Riksbank carries out monetary policy independently and the Riksbank Governing Council has defined the price stability goal so that the in-

crease of the consumer price index is to be limited to 2 per cent with a tolerance of 1 percentage point in each direction. The Government supports this approach to monetary policy and the Riksbank's inflation target.

The position of the Riksbank is to be strengthened

In order to modernise legislation and reinforce the credibility of price stability, a five-party agreement has been concluded on monetary and exchange rate policy. The measures proposed are substantially those that Sweden is obliged by treaty to undertake as a consequence of Swedish EU membership. The agreement applies to three areas:

The Riksbank is given an overall objective for its activities which is established by law. The objective for monetary policy shall be to maintain a stable value of money. In addition, the goals for economic policy formulated by the Riksdag must be considered as giving guidance for agencies under the Riksdag, including the Riksbank. However, this does not need to be regulated by law. The Riksbank should therefore, without setting aside the objective of a stable value of money, support the general economic policy, inter alia with the aim of promoting sustainable growth and high employment.

A prohibition for any agency to give instructions to the Riksbank is to be included in the Constitution. This prohibition is to be complemented by a prohibition being included in the Riksbank Act for senior officials at the Riksbank to seek or take instructions. The existing provision for consultations between the Government and the Riksbank is to be amended so that the Riksbank shall notify the Minister of Finance in advance of all important monetary and exchange rate policy decisions.

The Governor of the Riksbank is to be given a strong position through it being stated in the Constitution that she or he may only be dismissed during the six-year period of office if she or he no longer meets the stipulated requirements to be able to carry out his or her duties, or if she or he is guilty of serious dereliction of duty.

A new executive managerial structure is to be introduced at the Riksbank. This will resemble the managerial structure at many other central banks. An Executive Board is to be introduced consisting of a number of full-time members of which one will be appointed Governor of the Riksbank and at least one as Deputy Governor. All members of the Executive Board will have a six-year term of office with the same rules regarding severance from appointment as the Governor. The Executive Board will be the Bank's operational management which in the first place is responsible for independently making all monetary policy decisions. The Governor of the Riksbank will be its Chairman.

The new Governing Council will have a supervisory function, but has no monetary policy tasks. The Governing Council will appoint the members of the Executive Board. The Riksdag will appoint the members of the Governing Council. The Governing Council shall contribute to giving the Riksbank

good ties to the community. The persons elected as members of the Governing Council shall have a broad experience of political and economic issues. The Chairman and Vice-Chairman of the Governing Council have the right to attend the Executive Board's meetings with the right to speak, but without the right to make proposals or vote.

The right of decision over exchange rate policy

The Government shall decide over exchange the choice of rate system. This change entails an arrangement which coincides with that applied in most other EU countries. The Riksbank shall decide on the central parity rate and the band width when a system of fixed exchange rate is applied, and on the practical application in a system of floating exchange rates.

Since some of these changes concerning the status of the Riksbank and exchange rate policy affect the Constitution, a final decision cannot be taken until after the 1998 election.

The Swedish economy less prone to inflation

There are a number of indications that inflationary tendencies have declined in the Swedish economy:

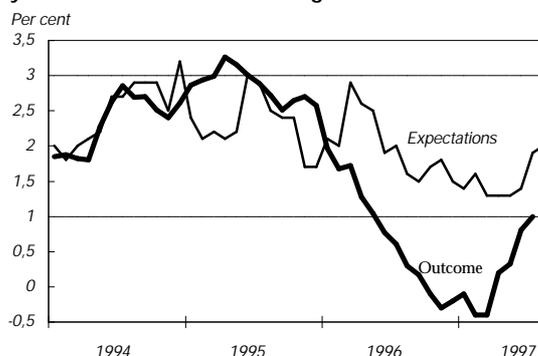
- Household's inflationary expectations have decreased. When the latest wage bargaining round was carried out, inflationary expectations were higher than they are today.
- Awareness has increased on the part of the social partners that Sweden cannot have wage cost increases which markedly differ from our trading partners. This is, inter alia, expressed in an agreement on forms of negotiations in the areas of industry and trade.
- Productivity has sharply increased. In the present year, for example, it is estimated that productivity in the business sector has increased by 4.4 per cent. Throughout the 1980s, the average annual increase in productivity was under 2 per cent.
- Competition has increased in Sweden. Within, for instance, the food industry, and certain service sectors, there are clear indications of increased competition. This reduces enterprises' possibilities to increase their price margins or to pass on cost increases to consumers. The internal market and Sweden's entry into the EU have contributed to this development as well as an in-

creased volume of low-price imports from other parts of the world.

- Companies display a new pricing behaviour.

DIAGRAM 1.4

Household's inflation expectations during the coming year and CPI outcome 1994 - August 1997



Source: Statistics Sweden

Note: The dotted lined in the diagram show the Riksbank's target interval for inflation

Inflationary expectations are in line with the Riksbank's inflation targets. Recently, inflation expectations have increased slightly. This is a natural consequence of inflation previously being extremely low due to temporary factors in connection with the decline in interest rates and the strengthening of the krona.

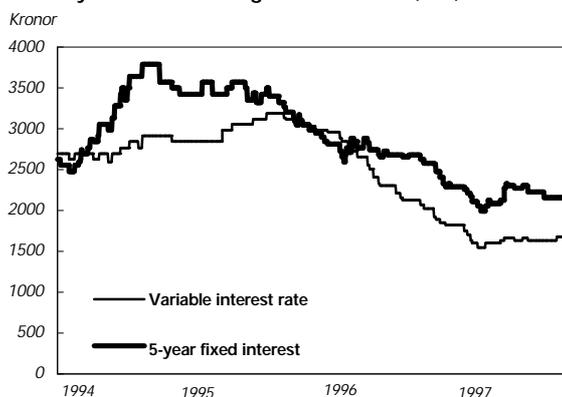
The krona and the rate of interest

The increased confidence in the Swedish economy and Swedish economic policy has meant that most interest rates have practically halved since April 1995. The interest margin in relation to Germany, which was over 4.5 percentage points in summer 1994 for the long interest rates, has fallen to under 1.0 percentage points at the beginning of September 1997. The low rate of inflation and the increased confidence in the policies carried out has meant that the Riksbank was able to reduce the so-called repo rate. At the beginning of 1996, the repo interest was almost 9 per cent. In September 1997, it was just over 4 per cent.

A lower interest rate is positive for the economy in many ways. Investments and employment are stimulated. Interest expenditure for central government debt is falling. The reduction in interest rates has also led to a considerable easing of the situation for many households. In Diagram 1.5 shows how the monthly cost after tax for a normal house loan of SEK 500,000 has fallen since 1994. Compared with April 1995, the monthly cost after tax has fallen by approximately SEK 1,400. A similar development has taken place for tenant-owned hous-

ing loans. Those who live in rented accommodation also benefit from lower interest rates as the falling interest expenditure gradually affects rents.

DIAGRAM 1.5
Monthly cost for a housing loan of SEK 500,000, 1992-97



At the beginning of 1997, the Swedish krona weakened in relation to the German mark. Recently, the krona has appreciated. However, the dollar has appreciated strongly against the krona. One reason for this development is the strong economic development in the United States.

The Government intends in a Bill to the Riksdag in October 1997 to propose that Sweden shall not participate when the common currency in the EMU is introduced on 1 January 1999. The Government's view is that Swedish participation in the European exchange rate co-operation, ERM, will not come into question at this time. Experiences from the existing policy aiming at price stability combined with a currency regime with a floating exchange rate are good.

1.4 A strategy for increased employment

The Government's most important task is to increase employment and reduce unemployment. The target is that registered unemployment should be halved from 8 per cent in 1994 to 4 per cent in 2000. The long-term goal is full employment.

The Government's strategy is based on strengthening Sweden by competent people, a good business climate, and an adaptation to ecological sustainability. In a stable economic environment, the quality of and access to schools, care and social services should be improved to make possible a high participation in the labour force for both women and men. Education, development and competence are to characterise the whole of Sweden. Both young and older, women and men, are to be given the oppor-

tunity to improve their knowledge and competence. Labour market policy is to be more flexible, its quality improved and the use of existing resources improved. There will then be favourable conditions to achieve good growth without increasing income gaps. Policy will be formed on the basis of this strategy.

1.4.1 Increasing entrepreneurship

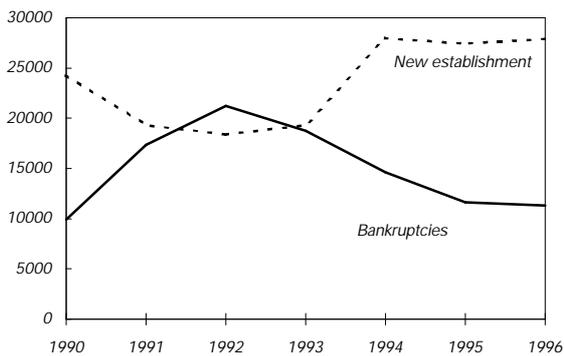
The major part of the increase in employment in the coming years should take place in the private sector. An expansion of the private business sector means a strengthening of public finances and the whole of Sweden's economy. Sweden is to have more entrepreneurs, expanding businesses, and more knowledge-focused entrepreneurship. Sweden must have viable companies which are able to compete successfully in Sweden and abroad.

The general conditions for entrepreneurial activity in Sweden are good:

- The consolidation of public finances has led to a substantial fall in interest rates, making it relatively more profitable to invest in businesses.
- The downward shift in the rate of inflation has led to a greater possibility of planning for the future, which contributes to an improvement of the conditions for profitability.
- Sweden has a modern infrastructure, an efficient administration and a knowledgeable and flexible work force.
- Taxation on Swedish businesses is low. Corporate taxation in Sweden is 28 per cent. This is one of the lowest in the OECD countries.
- The level of education and competence among Swedish labour force is high and increasing.
- The level of profits is high in Sweden and is further increasing. The share of profits in industry is approximately 35 per cent.

An example of the favourable climate for business is the reduction in the number of bankruptcies and the number of newly-established businesses. Production in the business sector is anticipated to grow very strongly until 1998. This means that a total of 33,000 new jobs will be created in the business sector in 1998 compared with 1997.

DIAGRAM 1.6
Trends for business bankruptcy and new establishment
1990 - 1996



In connection with the so-called five-point programme, which the Government presented in the Spring Fiscal Policy Bill, a number of measures were proposed aimed at improving the business climate:

- Employees have the right to a leave of absence for at most six months to start their own business.
- The conditions for food production are further improved by SEK 0.7 billion being invested, inter alia, in an expansion of the environmental programme for agriculture. Half of this is financed by EU. In this way, the environmental support is fully made use of at the same time as agriculture's role as a coming sector is reinforced.
- Funds have been set aside to promote co-operative entrepreneurship and female entrepreneurship.

The Budget Bill also contains recommendations for a further improvement of the business climate.

- The employer period in the health insurance scheme is shortened from 28 to 14 days.
- New investment in education and training.

Each region's potential and conditions must be made use of. Large regional imbalances restrict the potential for employment and growth that exists throughout the country. New technology and new knowledge mean new possibilities.

Business and regional policy is to be focused to meet the new challenges. Business support is to be made more flexible in order to be better adapted to regional and local conditions. Overall responsibility is stressed. Many different areas of policy must work together to make use of growth potential.

The regional institutions of higher education have received a greatly increased number of places and have been given the opportunity of further developing research and development initiatives in co-operation with regional business and industry. Within two sectors of great importance for em-

ployment in vulnerable regions, the tourist industry and wood processing activities, two comprehensive programmes for employment and growth have been put forward.

Regional policy in the EU has brought with it a more developed regional partnership with increased co-operation between different parties in the business sector and society. The possibilities of a more effective implementation of the EU structural fund programme will be reviewed.

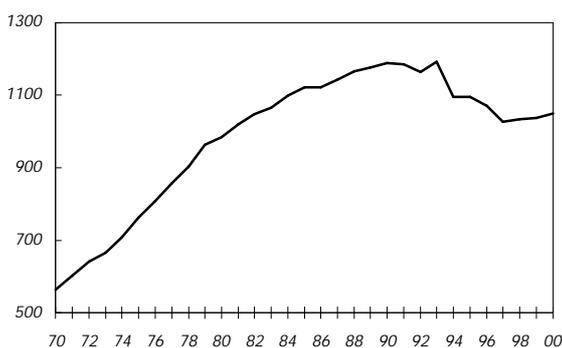
1.4.2 School, care and social services

Since taking office, the Government has consistently given priority to schools, care and social services. The reasons for this priority is simple. A few years with a lower material standard can be made up for at a later date. An insecure care during the first years of life or a lost school time is, however, almost impossible to compensate for.

This priority has been of decisive importance for the policy carried out. In the consolidation programme of SEK 126 billion, central government grants to municipalities and county councils have been exempted from savings despite almost all other budget items being affected by extensive demands for cutbacks. However, it has not been possible to shield the local government sector completely from the effects of the weak economic development. Municipalities and county councils have been exposed to difficult financial strains. However, the alternative - not doing anything about the problem of central government finances - would have been much worse for municipalities and county councils. Growing interest costs for central government debt would rapidly have pushed aside important expenditure.

As a result of the successful economic policy, the Government in the Spring Fiscal Policy was able to propose initiatives in the framework of the budget policy objectives for the local government sector. In the supplementary budget for 1997 a further SEK 4 billion was made available to municipalities and county councils. In accordance with the Spring Fiscal Policy Bill, the current Budget contains a proposal for an increase of SEK 8 billion in the level of funds provided to municipalities and county councils in 1998. In this way, schools, care and social services are given further priority. The consequences of the additional resources made available is that employment in the local government sector will be stabilised. Through resource work, public sector employers will be given a special opportunity to improve quality in schools, care and social services.

DIAGRAM 1.7
Total employed in the local government sector
 Thousand



Source: Statistics Sweden

Note: There is a break in the time series in 1987 due, inter alia, to a changed sector definitions.

In 1999 a further investment of SEK 4 billion to the local government sector is proposed, and a further SEK 4 billion in 2000. Altogether, the proposed increase in resources amounts then to SEK 16 billion in 2000 compared with 1996. With this permanent increase in level, it is calculated that the local government employment can increase slightly in 1999 and 2000. School, care and social services will be reinforced.

1.4.3 A second educational revolution

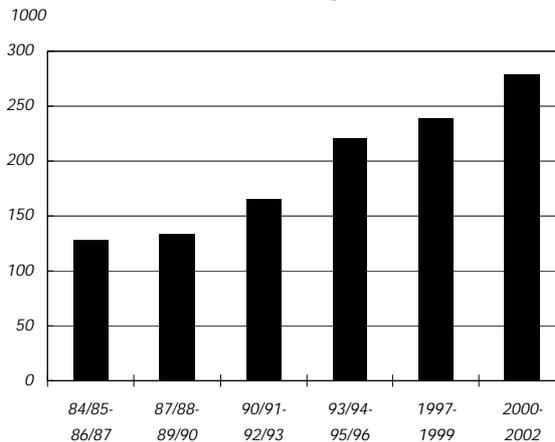
Sweden's future is in a qualified workforce with good education. A high level of education in Sweden is a necessary condition for sustainable high growth and employment.

There is no better method for increasing employment in the long-term than consistently investing in education and competence at every level. A well-educated person is much better able to adapt to another job than a person without such education. The proposals put forward by the Government and adopted by the Riksdag are nothing less than an educational revolution for Sweden. Sweden is equipping itself for the future.

During the period 1997-2000, 60,000 permanent higher education places and 140,000 adult education places in the special programme to increase competence, the Knowledge Lift, will be created.

In addition to this a number of other initiatives will be taken. The upper secondary school will be developed by the creation of a new modern apprenticeship training. The qualified vocational training will be expanded to 9,000 places. New IT training will be introduced.

DIAGRAM 1.8
Number of full-time students in higher education
 1000



Source: Ministry of Education

At the most recent admission to universities and other institutions of higher education, many failed to obtain a study place. To deny people education in a period of high unemployment is a waste of resources and of people's will to educate themselves and improve themselves. This budget therefore contains a recommendation to bring forward the previously proposed investment in education to spring term 1998 with 1,000 places in qualified vocational training and 10,000 higher education places.

1.4.4 The labour market

Labour market policy has an important role in economic policy. Labour market policy shall be imbued with the Government's target of halving registered unemployment by the year 2000. It aims at facilitating the matching of vacancies and those looking for work. This counteracts passivity and enables an expansion of employment when the demand for labour increases. It does this by increasing flexibility on the labour market, counteracting inflationary short-ages and generally promoting a well-functioning wage formation, strengthening the competence of labour and preventing the exclusion of people from working life.

Work and education are to be given priority and to be self-evident, attractive alternatives compared with passivity. The great resource which the total supply of labour represents must be made use of and further developed in order to retain a stable foundation for welfare. Labour market policy must be based on the following principles:

- Labour market policy shall ensure that vacant places are filled as soon as possible.
- The work and competence line is to apply.

- Labour market policy is to counteract passivity and exclusion. The task is to equip the individual. Activity takes precedence therefore over passivity. The goal is that the unemployed person should find a job. Employment is given priority over a labour market programme measure.
- A high degree of subsidy in labour market measures may be justified, but only if the measure does not take the place of regular jobs on the labour market and does not worsen the unemployed person's prospects for finding ordinary work.
- Vulnerable groups such as the long-term unemployed, disabled persons and young people are to be given priority.
- Labour market policy is to promote knowledge and competence. It is to increase the prospects for the unemployed to find work in sectors where jobs are being created or need to increase thereby avoiding bottlenecks. This is to take place by contributing to both occupational and geographical mobility. In that way, labour market policy will contribute to a non-inflation-driving wage formation which is of key importance for being able to reach and maintain full employment.
- Labour market policy is to be permeated by an equal opportunities perspective. An important task is to break down the gender divisions on the labour market.
- Labour market policy is the responsibility of central government. It shall combine a holistic approach at the national level with high efficiency at local level. The local influence is of key importance to adapt policy to local conditions.
- Unemployment benefit is to be an adjustment insurance and not a permanent means of subsistence. It shall function as a safety net and as a springboard. It shall contribute to security in adaptation from one occupation to another. A high level of compensation is desirable, but this has to be combined with a demand that the unemployed shall do everything in their power to find employment. The insurance scheme must not create locking effects or hinder the unemployed from taking temporary employment.

In accordance with the above principles, labour market policy will undergo a continual transformation. The intention is to make labour market policy more offensive.

A national IT training programme

At present, there is a shortage of competent, skilled personnel in the IT field. Therefore, the Government has concluded an agreement with the Federation of

Swedish Industries and representatives of IT companies on a national IT training programme. It is estimated that 10,000 students will take part in this training during the period 1 December 1997 to 1999. The intention is to increase the prospects of finding work and to improve the functioning of the labour market by eliminating shortage situations.

Generation shift

The purpose of the "generation shift" is to create mobility on the labour market. By letting younger long-term unemployed enter the labour market, the risk of a permanent exclusion of young people is reduced. The generation shift is a temporary solution motivated by today's high unemployment - not least among young people.

Youth measures

The high unemployment among young people is one of the greatest threats in Sweden. A high youth unemployment cannot be accepted. The Government therefore proposes a programme for young unemployed persons aged between 20 and 24 which means that activating measures and competence-developing programmes can be set in at an early stage. After 100 days, unemployed youths shall be offered some form of full-time, fulfilling measure by the municipality. The availability of support will be very limited for young people who refuse to accept the initiatives offered. In this way, a harmful dependence on social welfare grants will be counteracted.

Development of competence in care and social services

The Government proposes that the local employment offices should have increased possibilities to invest in the development of competence in care and social services. This investment can be combined with other measures, such as resource work, training in companies, etc.

Bottlenecks

The Government actively monitors trends on the labour market with regard to bottlenecks and shortage situations in various areas.

Wage formation

During the past 20 years, Swedish wage formation has not functioned satisfactorily. This must be changed. Without a satisfactorily functioning wage formation, the target of 4 per cent's unemployment by 2000 will not be achieved. In order for it to be possible to achieve this target, the coming pay negotiations must lead to considerably lower nominal wage rises than the previous round of negotiations.

The consequences of weakness in wage formation are different today. It was previously possible to live with the consequences of failure during a transitional period. This is no longer the case. Higher wage increases in Sweden than in our trading partners will lead to persistent mass unemployment.

In connection with the Spring Fiscal Policy Bill in 1996 the Government invited the social partners to give their view of wage formation and the possibility of making a joint formulation of the necessary changes to the bargaining and wage formation system. Many of the responses given by the partners drew attention to the possible need to reinforce the mediation function. The Government has therefore appointed a commission of inquiry which will examine this issue among others. This commission, working closely with the social partners, has also been given the task of assessing the possible effects on wage formation and the structural level of unemployment of the other measures proposed by later. A final report will be presented in November 1998 with proposals for effective measures so that the necessary improvement of wage formation takes place.

1.4.5 Sustainable Sweden

A sustainable development means that we who live today meet our needs without hazarding the conditions of life for future generations. A reduced load on the environment, more efficient use of resources, and increased use of renewable resources are in accord with high growth and are a prerequisite for it. The policy of adapting Sweden to ecological sustainability contains a potential for growth in itself and is therefore part of the policy required to strengthen the Swedish business sector and increase employment. The global market for environmental technology, environmentally-compatible and resource-efficient products is expanding rapidly. If Sweden and Swedish industry are in the vanguard of a development towards ecological sustainability, this can provide competitive advantages in future markets.

The Government has done a lot to turn development towards an ecologically sustainable direction. In the Spring Fiscal Policy Bill, a number of measures were proposed to hasten this adjustment:

Local investment programmes for ecological sustainability

In the Spring Fiscal Policy Bill, the Government proposed support for local investment programmes of SEK 5.4 billion for a three-year period. Support is given to local investments that increase ecological sustainability. Municipalities will be responsible, working together with businesses and other inves-

tors, for elaborating local investment programmes. The decision on which municipalities will receive support in the first round will be taken at the beginning of 1998. The municipalities which wish to be considered have already started work in developing local programmes. These programmes are to improve the environment and create new jobs.

National investment programmes

The adaptation of the energy system is one component of Sweden's endeavour to be in the forefront as regards creating an ecologically sustainable development. The Riksdag has decided on a programme of SEK 9 billion for a seven-year period to improve the efficiency of energy consumption and to increase the use of renewable sources of energy. The main focus of the programme is on a strong, long-term investment in research, development and demonstration of new energy technology.

In the Spring Fiscal Policy Bill, a national investment programme was announced for increased infrastructural investments to lead to a high, long-term growth potential for Sweden, at the same time as employment is promoted in the short-term. This programme is now being realised. A negotiator is now working on behalf of the Government on developing a proposal for an agreement between the state and local and regional actors on the financing, construction and operation of the Bothnia railway route. The Government is proposing an increased government support for the Inland railway route. National financing will be made available for the important transport projects in Stockholm and Gothenburg pending investigations into other forms of financing.

Guidelines for future work

Work on increasing sustainability is being carried out on a broad front according to the general guidelines presented in a separate communication. This also presents the current programmes of action in the respective ministries' area of activities. A corresponding report will be made annually in conjunction with the Budget Bill.

Goods and services which aim at the objective for ecologically sustainable development are to be preferred in procurement as far as possible. A delegation will be created with more responsibility for driving public procurement in this direction. The Government intends to invite the Swedish business sector to an open dialogue on the possibilities for using energy and materials more efficiently, and for further limiting emissions and discharges. An investment to promote export of environmental technology and ecologically sustainable products is being prepared. Voluntary environmental labelling of schools is to be introduced.

The use of energy and natural resources should be considerably more efficient. The factor 10 concept

(that resource use needs to be on average 10 times more efficient over a couple of generations) can serve as a compass in this work and stimulate debate and the necessary new thinking.

Within a generation regional environmental problems such as acidification and entrophication should be solved and functioning ecocycles established for most materials.

1.4.6 Working together for employment

Employment is an issue of common interest for the EU Member States. Sweden has pursued this line for a number of years. At the EU summit meeting in Amsterdam, the basis was laid for intensified co-operation on employment. The Swedish initiative at the Inter Governmental Conference led to a new section on employment in the Treaty. This entailed both an increased level of ambition in combating unemployment and greater co-ordination of employment policy. A resolution on growth and employment was adopted.

- By studying each other's successes and mistakes, we can learn from one another. Co-operation and the exchange of information and experiences between Member States improves the prospects for reducing unemployment.
- Common goals such as the planned co-ordination and monitoring procedures create the conditions for a common view on the issue of employment among the Member States. In this way, employment measures can have a greater impact.

In Amsterdam, it was decided that the new treaty provisions are to be applied as soon as possible. The Government will place great weight on this in the lead up to the summit. Another important theme at the summit should be to achieve increased flexibility on the labour market by reinforcing the individual's competence and prospects - a positive flexibility. Further components of policy on a European level should be to promote ecological sustainability, research and education and training, and to increase the pressure of competition in the economies by deepening and developing the internal market and carrying out a generous trade policy in relation to the union's trading partners.

The expansion of the EU to countries in Central and Eastern Europe is an important task and a historical opportunity which is strongly supported by the Swedish government. A stable democratic development and a rapid transition contributes to peace and security, and promotes growth in both old and new Member States. This expansion places great demands on the EU. The need for a fundamental

reform of agricultural and structural fund policy is reinforced by the expansion process. This also applies to the financial perspective where the loadstar must be budgetary restraint and efficiency. The present ceiling for the EU budget of 1.27 per cent of the total EU gross national income, GNI, is to be unchanged even after the EU has been expanded with new members.

A further summit meeting on employment is to be held in November 1997.

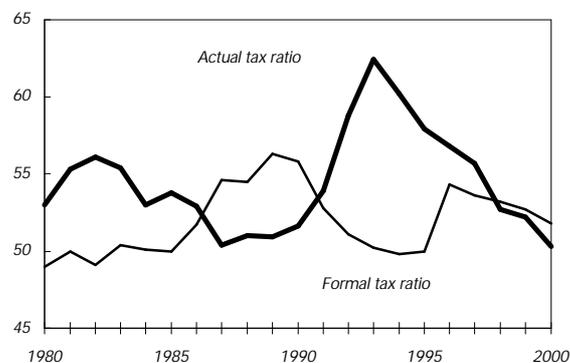
1.5 Tax policy

Welfare cannot be based on borrowed money. Unfinanced tax reductions and increase in expenditure is nothing other than future tax increases. The tax take-up in Sweden was therefore increased as a part of the consolidation of public finances.

The tax ratio, tax revenue in relation to GDP, has increased in recent years. However, tax ratio measure does not take into consideration the fact that unfinanced tax reductions only postpone the tax take-up in time. One way of demonstrating this is to add the tax ratio to the public deficit. A picture is then obtained of the real tax ratio. In the diagram below, it can be clearly seen that the real tax ratio has fallen considerably since 1993 when the deficit was highest. The real tax ratio shows how much tax must be paid to finance welfare.

One reason why Sweden has a high formal tax ratio compared with other countries is technical. In Sweden many transfers are taxable such as, for instance, health insurance. Moreover, we have grants in Sweden where other countries have tax reductions, such as, for instance, child allowances. In this way, the formal Swedish tax ratio tends to be higher than in other countries with a public sector of similar size.

DIAGRAM 1.9
The actual tax ratio
Per cent of GDP



Source: Ministry of Finance

Besides financing common welfare, taxes fill other functions. Taxes are significant for distribution policy, but most important for a fair distribution is that everyone has the opportunity of employment and a good education. The tax system must also be economically efficient. This means that distorting effects and expensive administration must be avoided.

The conditions for businesses and entrepreneurship have been considerably improved in recent years despite businesses also having contributed to consolidation of public finances. Corporate taxation in Sweden has for a long time been favourable in an international comparison. The Government has made a series of proposals to improve conditions for small and medium-sized enterprises and stimulated female entrepreneurship which is relatively less extensive than male.

- Easing of owner taxation by SEK 4 billion has been introduced to improve the conditions for new investment and capital supply in unlisted companies.
- Reduction of employer contributions focused on small and medium-sized enterprises has been expanded up to the equivalent of a wage sum of SEK 850,000 as from 1998. This tax relief amounts to SEK 2.7 billion.
- Taxation of sole traders and partners in partnerships has also been eased.
- The Government is engaged in a broad-based work to simplify regulations and routines, especially for small-sized enterprises.
- A new system for reporting and payment of taxes and contributions will come into effect on 1 January 1998. The new system with so-called tax accounts will make easier and simplify work both for enterprises and tax administrations.
- The rules on issue of "F" [business] tax cards will be changed.

During spring the Riksdag has decided on a new form of wealth tax legislation. As before, principal owners of companies listed on the Stockholm Stock Exchange after 1991 are exempted from wealth tax on certain conditions. The Government is making proposals in this Bill which entail changes to wealth tax to avoid unfavourable effects on the functioning of the stock market.

The tax reform

The tax reform introduced in 1990-1991 entailed a comprehensive change of the entire Swedish tax system. There was broad political unity that the previous tax system had had its day. It neither gave fair

taxation, a reasonable distribution of the tax take-up or good conditions for work and investment.

The purpose of the tax reform was to modernise the tax system and to reduce the distorting effects on the economy. The tax rules were to be simplified, the supply of labour stimulated and the possibilities of tax evasion reduced. The aim was thus not to reduce the total tax take-up. The reform was to be financed, nor was it to lead to an increased spread of economic standard.

An important change was that the previous high marginal effects were reduced which meant that the value of various possible deductions was considerably less. Capital taxation was also made more uniform which contributed to counteract speculative tendencies in the Swedish economy. The Government reports in Annex 6 on its final assessment of the tax reform.

The aims of the reform have been achieved in almost all parts. One of the most important objectives of the tax reform was that it should fully finance its own tax reductions. However, it is not possible to assert that the tax reform was fully financed. In order to make the system more equitable and contribute to the outstanding financing of the tax reform, a new and higher level of state tax will be introduced for those with the highest incomes.

An increase in child allowances was also an important component of the tax reform. Due to the state of central government finances, it was, however not possible to carry out the increase fully according to plan. When consolidating public finances, the Government was instead forced to propose a reduction of the child allowance. The Government now proposes an increase of child allowance and the study grant component of study aid from SEK 640 to SEK 750 per child and month at the same time as the supplementary allowance for families with three children or more is reintroduced. This contributes to improving the distribution profile in line with the intention of the tax reform.

By the threshold for state tax not being increased at the rate of income increases, large groups of wage-earners have begun to pay state income tax. This development should be reversed, in order to achieve, over the long-term the intended effect of the reform that at most 15 per cent of wage-earners should pay state tax.

The tax reform was also the starting point for a "greener" tax system. The future design of energy taxation is to be reviewed by the Government Office. Important starting points are the Riksdag's decision on energy policy measures in spring 1997, the competitiveness of energy-intensive industry, the reports presented by the Tax Shift Committee and the Alternative Fuels Commission and the EU Commission's recommendations on a new energy tax directive. Road traffic tax should also be reviewed, with the intention, within the framework of an un-

changed tax take-up, of improving the steering effects with respect to traffic safety and the environment. In this Bill the Government also presents proposals on new guidelines for taxation of biofuels in vehicle transport.

The international dimension in tax policy will become increasingly important. The possibilities for each country to debit taxes and apply its own rules are changing. The Government is working within the framework of the EU and OECD to establish a code of conduct to prevent individual countries attempting to attract businesses and capital by unfair tax competition. One example that this work can be successful is the common rules on value-added tax on telecommunications services agreed by the EU countries. The rules contribute both to counteracting tax flight from the EU Member States and to counteracting distortion of competition between domestic and foreign telecom companies.

Tax fraud is to be combated

The combating of economic crime and tax fraud is important for the nation as a whole. Economic crime means that the whole burden of taxes and contributions is placed on honest taxpayers and reputable companies. Tax fraud exposes the serious entrepreneur to a distortion of competition. The combating of tax fraud is therefore an important part of a policy for enterprise. The Government has proposed a number of measures:

- It is proposed that the general clause against tax evasion be given a new and more stringent formulation within the framework of preservation of the rule of law.
- The rules for tax audits have been reviewed and reinforced. In future, audits shall take place in the course of the financial year and by third parties.
- An obligation to submit a statement to the tax authorities has been introduced for share sales.
- It is proposed that special crime-investigation units be established at the tax authorities. In this way, the competence and experience that exists at the tax authorities can be more effectively made use of in combating crime.
- In the struggle against international criminality, the exchange of information is of decisive importance. The Government has presented proposals for new legislation which will clarify and regulate the information activities and the crime register of the Customs authorities. Sweden is also taking an active part in the work which is in progress to reform the transit system within the EU.

- In connection with Sweden's entry into the EU major changes were made in the Customs Authority's operations. A special investigation has been given the task of making an assessment of the dimensioning and organisation of the Customs Authority.

The Tax Evasion Commission has made recommendations on, inter alia, improved possibilities for supervision and collection of excise taxes and increased identity checks. It is planned to introduce a Bill on the basis of this report in spring 1998.

Social security contributions

The social security system has undergone great changes in recent years. Both the rules for social insurance benefits and the take-up of social security contributions have been changed at the same time as the economic crisis at the beginning of the Nineties led to a change in patterns of behaviour. This has contributed to revenues from the various charges not being equivalent to the costs of the insurance's that they are to finance. The Government therefore proposes a redistribution of social security contributions within the framework of an, in principle, unchanged take-up to achieve a closer match between revenue and expenditure in, inter alia, the health insurance scheme. At the same time, the general insurance contribution to health insurance will be transformed into a pensions contribution

1.6. Distribution policy

Only three years ago Sweden was on the verge of a collapse of central government finance. In the Budget Bill in January 1995, the borrowing requirement for one year was estimated at SEK 229 billion. Interest expenditure alone for this debt was equivalent at the then 12 per cent interest to over SEK 400 per month for every Swede of working age and capacity. One more year at this level of debt would have doubled the amount.

It is not possible to build secure welfare on borrowed money. If there is no firm foundation consisting of sound finances, there will be no scope in the long run for a fair distribution policy. This is why the weakest groups have most to win from strong public finances.

In order to overcome the crisis of central government finance, almost all citizens have had to make considerable sacrifices. The programme to consolidate public finances amounts to SEK 126 billion. Almost half of that amount consists of taxes, the remainder of expenditure cuts. As of the 1998

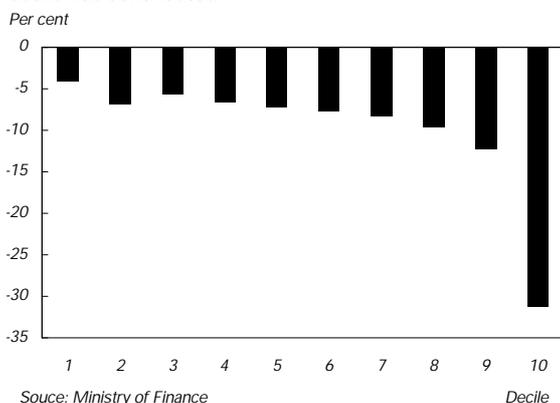
budget, the consolidation programme will have been fully implemented.

The consolidation policy has been designed with the aim that all citizens should share the burdens fairly. With the aid of distribution calculations, the Government has analysed on a continual basis and reported the effects of changed rules in the tax and grants systems. These computations are important bases but they do not provide a complete picture of the outcome of distribution since they do not take into account the fact that schools, care and social services have been given priority or that income distribution has also been affected by the consolidation improving the economy, for example, that the rate of interest has been almost halved since summer 1994. They are also static; the distribution outcome had been more favourable if it had been possible to compare the effects of the consolidation programme with what would have been the case in the absence of the budget reinforcements or with a policy that had not given priority to fair distribution.

A more detailed distribution analysis of the consolidation programme is presented in Annex 7, where the calculations have been updated taking into consideration new decisions in the Riksdag, changed economic assumptions and the measures now proposed in this Budget Bill. Households have then been divided into ten groups of equal size, deciles, so that the households with the lowest disposable income, taking into consideration the number of dependants, have been included in Decile 1, those with next lowest in Decile 2, and so on to Decile 10 with households with the highest economic standard.

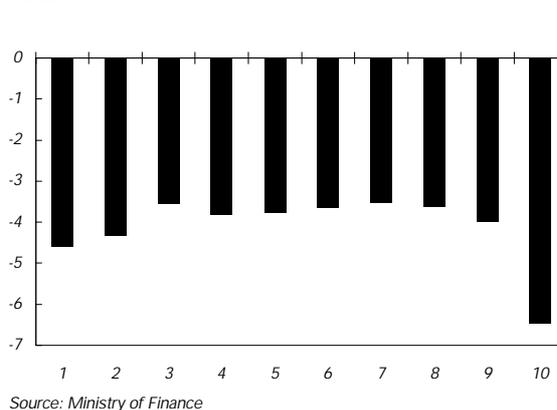
The fifth of households which have the highest economic standard (deciles 9 and 10) have contributed over 43 per cent of the total budget reinforcements, while the fifth with the lowest economic standard (decile groups 1 and 2) have contributed under 11 per cent (diagram 1.10). Households in decile group 10 have contributed 31 per cent.

DIAGRAM 1.10
Proportion of the consolidation programme which each decile has contributed



The distributional effects may also be shown by computing what each decile has contributed as a percentage of their disposable income, i.e. the relative contribution of each decile. These computations show that the tenth with the highest economic standard have experienced the greatest relative income reduction as a result of the consolidation programme (Diagram 1.11). Households with a lower economic standard have also been hit somewhat harder than other groups although, after the measures now proposed, the differences have been considerably reduced. The results for the first decile are hard to interpret since it contains many households which only temporarily have a low income, for instance, in connection with studies, national military service, or time off work. Households with a low economic standard often benefit from care and social services being given priority and by the considerable investment in education.

DIAGRAM 1.11
Change in disposable income adjusted for number of dependants, as a result of the consolidation programme



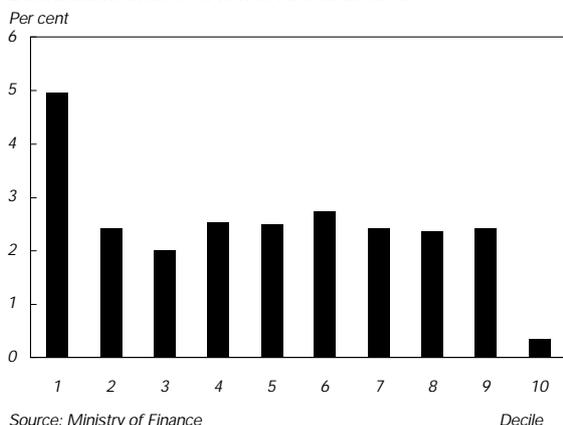
The detailed analyses in the distribution policy account (Annex 7) moreover show the following:

- The net effects of the consolidation programme are on average equally large for men and women. Men are affected to a greater extent by tax measures, women by reduced transfers. The consolidation programme has had reasonable equal opportunity effects.
- Families with a large number of children and lone parents have been somewhat worse affected by the budget measures than other types of families. It is therefore reasonable that these groups are given priority when there is economic scope. After the measures now proposed, the difference is considerably reduced. Even here it should be taken into account that women and families with children would have been affected even more had not priority been given to schools, care and social services.

- Entrepreneur and white collar families have paid more of the consolidation than blue-collar households.
- Old age pensioners and young people have as groups come out relatively well while wage-earner households have experienced the greatest reduction in income.

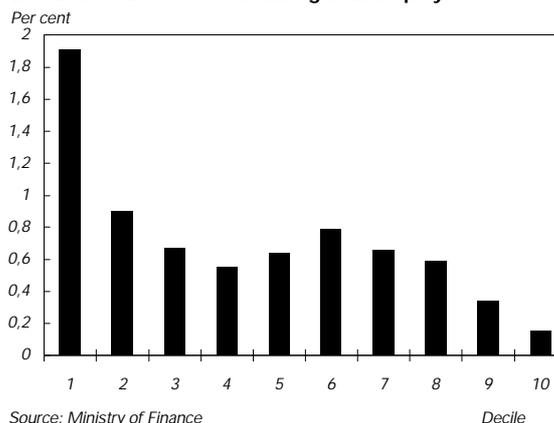
These calculations do not include the distributional effects of the reduced rate of interest. A central task of the economic policy and consolidation measures has been to create the conditions for a lower rate of interest. In September 1994, interest on a ten-year government bond was 11.2 per cent. Three years later, in September 1997, the equivalent interest rate is 6.5 per cent. As is shown by Diagram 1.12, the distribution effects of lower interest rates are largely positive.

DIAGRAM 1.12
Distribution effects of lower rate of interest



The greatest distributional injustice is, however, between those out of work and those in employment. The diagram below shows a calculation of the direct distributional effects of a halving of unemployment. The distributional effects are very good. This is one of many reasons why the Government has as an objective the halving of registered unemployment by 2000.

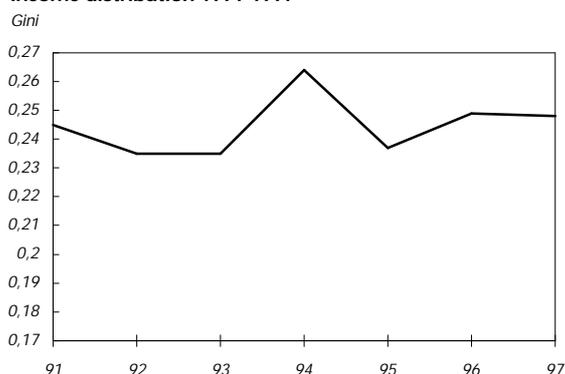
DIAGRAM 1.13
Distributional effects of a halving of unemployment



In the distribution policy report (Annex 7), the rule analyses of the consolidation programme are complemented by an analysis of the development of distribution of the economic standard from 1991 to 1997. Accordingly, this includes the total effects of the consolidation programme, other measures in the tax and transfer system and general economic development. It is based on the application of the 1995 distribution of income for 1996 and 1997. The results for these years thus do not show the actual distribution of income but an assessment of the probable outcome. Diagram 1.14 shows the development of the Gini coefficient between 1991 and 1997, a high value means a more inequitable income distribution than a lower. The main results are as follows:

- No clear trend can be distinguished in the distribution of income during the Nineties to date.
- The total equalisation effect of taxes and transfers has increased from 1991 to 1997.

DIAGRAM 1.14
Income distribution 1991-1997



Källa: Household Income Surveys, Statistics Sweden and Ministry of Finance

- Broad groups of ordinary wage-earners, young people and also persons with high incomes have had a considerably reduced economic standard

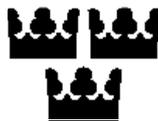
to date during the 1990s, despite some recovery in recent years.

- Families with three or more children have lost most while old-age pensioners as a group have had a higher standard during the crisis years.
- The proportion of households with a weak economy (under 50 per cent of median income) has increased somewhat during the period. This statistic is affected, however, by the increase in the number of students. The proportion of total

income that is held the well-off has not increased.

In summary, it can be said that the consolidation of public finances has on the whole taken place in a fair way. Sweden has coped with the economic crisis without gaps increasing markedly. Thanks to the successful consolidation of public finances, Sweden is once again strong. There is therefore a good basis for a more offensive distribution policy.

Summary of expenditure areas 1–27



Area of expenditure

NO	AREA OF EXPENDITURE
1.	The Swedish political system
2.	Economy and fiscal administration
3.	Tax administration and collection
4.	Justice
5.	Foreign policy administration and international co-operation
6.	Total defence
7.	International development assistance
8.	Immigrants and refugees
9.	Health care, medical care, social services
10.	Financial security in the event of illness and disability
11.	Financial security in old age
12.	Financial security for families and children
13.	Financial security in the event of unemployment
14.	The labour market and working life
15.	Study support
16.	Education and university research
17.	Culture, the media, religious organisations and leisure
18.	Planning, housing supply and construction
19.	Regional balance and development
20.	General environment and conservation
21.	Energy
22.	Communications
23.	Agriculture and forestry, fisheries, etc.
24.	Business sector
25.	General grant to municipalities
26.	Interest on Central Government Debt. etc.
27.	Contribution to the European Community

1. The Swedish political system

SEK 4.0 BILLION

This area of expenditure includes expenditure for the Head of State, the Government and Parliament. It also includes expenditure for the mass media, grants to political parties, and certain central government agencies.

One important objective of this area of expenditure is to support diversity in the media sector.

The priorities for 1998 primarily concern the Riksdag.

A temporary operational grant for daily newspapers was also introduced for 1997 and 1998.

Savings and reforms will be carried out in this area of expenditure as announced in the Spring Budget Bill.

1. The Swedish political system SEK 000s	A	Head of State	72 404
	B	The Riksdag and its ombudsmen	955 960
	C	The Government, etc.	2 222 155
	D	Central agencies	47 057
	E	Media-related issues	679 124

2. Economy and fiscal administration

SEK 2.1 BILLION

This area of expenditure comprises a number of agencies, including the National Audit Bureau, the Agency for Administrative Development, Statistics Sweden, the National Institute for Economic Research, the National Debt Office, the National Judicial Board for Public Lands and Funds, the National Property Board and the Financial Supervisory Authority, among others. The costs for central government borrowing and loan management fall under this heading, and certain time-limited undertakings as well as the Parliamentary Auditors.

Important objectives of the area of expenditure are reliable analyses and assessments of the development of the economy and central government finances, a stable and efficient financial system, and effective supervision of central government activities.

Priorities for 1998 include improvement of the quality of the national accounts and forecasts for the Swedish economy. This will take place as a consequence of EU membership and the expenditure ceiling decided upon.

Approximately SEK 700 million is being transferred to expenditure area 26 from the appropriation "Expenses for Borrowing and Central Government Debt Management". This transfer is being made to create a better incentive for cost-effective central government debt management.

The Government is also proposing certain changes with regard to the present staff agencies. The National Premises Authority is to be wound up on 1 January 1998. The National Audit Office's activities are to be concentrated on auditing tasks. A new agency is to be established for the overall central government economic control function. A review of the work of the Agency for Administrative Development is proposed.

The proposals for savings announced in the Spring Budget Bill will be carried out and specified in detail. In addition, proposals will be made for the final allocation of the cuts in expenditure areas 2 and 3 announced in last year's Budget Bill.

2. Economy and fiscal administration SEK 000s	A	Central agencies and boards	1 856 441
	B	Temporary measures	189 700
	C	The Parliamentary auditors	16 673

3. Tax administration and collection

SEK 5.7 BILLION

This expenditure area includes the National Tax Board, the Tax Authorities (Tax Administration), and the Swedish Board of Customs.

The objective for tax activities, which is the main task of the tax administration, is to ensure that tax is debited according to the extent, distribution, and at the time and order stipulated in current tax legislation. The objective for the Swedish Board of Customs is to levy customs dues, value-added tax and other charges so as to ensure correct collection and to supervise transport into and out of the country in compliance with import and export regulations.

Priority tasks for the tax administration in 1998 are continued rationalisation of basic processing to provide scope for reinforced tax checks and well-targeted transfer control. Furthermore, the participa-

tion of the tax administration in combating financial offences is to be reinforced.

Priority tasks for the Swedish Board of Customs are to continue work on simplifying rules and procedures. Computerisation is an important tool in this context. The agency shall also make quality improvements in all areas of its activity. Reliable, effective customs procedures will release resources for use within the Board of Customs' supervisory activities, for instance.

This Bill contains proposals for a final distribution of the cuts announced in last year's Budget Bill in expenditure areas 2 and 3. The proposals for savings announced in the Spring Budget Bill will be carried out.

3. Tax administration and collection SEK000s	A Tax administration and the Customs Office	5 662 254
--	--	-----------

4. Justice

SEK 21.0 BILLION

This expenditure area includes primarily the police, the prosecution and state authorities, the national prison and probation administration, the enforcement service, and state legal aid.

The objective for the justice system is the legal rights of the individual. The objective of penal policy is to reduce criminality and increase security.

The struggle against crimes of violence, drugs offences and financial offences is to be given priority by the crime-fighting agencies. Special attention is to be given to serious and cross-border criminality, mc-related criminality, crimes with racist components and crime against women.

Society's efforts against everyday criminality are to increase. The neighbourhood police organisation is to be the driving force in this work and will be reinforced and developed. Crime-prevention activity is to be expanded and made more effective and the work of reforming the legal system is to be based on a citizen perspective.

As announced in the Spring Budget Bill, SEK 200 million is to be made available to the expenditure area as from 1998. In addition, the Government proposes that SEK 444 million be redistributed from the penal service mainly to the police from 1998 to 2000. The proposals for savings announced in the Budget Bill for 1997 will be carried out.

4. Justice SEK 000s	A Police	11 473 693
	B Prosecution authority	814 705
	C Court system, etc.	2 979 279
	D Penal care	3 376 390
	E Enforcement service	1 283 651
	F Other activities of the legal system	1 106 452

5. Foreign policy administration and international co-operation

SEK 2.8 BILLION

This expenditure area comprises primarily the administrative expenses of the Ministry for Foreign Affairs, and the 100 missions abroad, contributions to certain international organisations, information about Sweden abroad, disarmament and security policy issues, and other foreign policy issues including strategic export control and information about Europe.

The objective of this expenditure area is to safeguard Sweden's interests in its relations with other

countries. Special attention will be given in 1998, inter alia, to expanding and strengthening EU co-operation, active work in the UN Security Council and, through other measures, to continued support for the work of the UN and other organisations for international peace, security and human relations. Another prioritised activity is expanded regional co-operation around the Baltic Sea.

The proposals for savings announced in the Spring Budget Bill will be carried out.

5. Foreign policy administration and international co-operation SEK000s	A Foreign policy administration	1 763 483
	B International organisations	906 270
	C Information on Sweden abroad	60 583
	D Disarmament and security policy issues	57 373
	E Other foreign policy issues	23 601

6. Total defence

SEK 41.2 BILLION

This expenditure area includes military defence and parts of civil defence activities, boards and supporting activities for military and civil defence. The expenditure area also includes the activities carried out by the Coastguard Authority and by the National Rescue Services Board within the framework of peacekeeping activities carried out abroad by Swedish military contingents.

In December 1996, the Swedish Riksdag adopted a decision on the development of total defence for the five-year period 1997–2001 in accordance with the Government Bill "Total Defence in Renewal -

Phase 2" (1996/97:4). Priority in this expenditure area is to be given to implementation of the defence decision by all agencies in 1998.

When computing the appropriations for the years 1998–2000, the Government has worked on the assumption that certain changes would take place in the expenditure area, among others with regard to form of financing, and budgeting principles for parts of the civil defence. Savings will be carried out in the expenditure area as announced in the Spring Budget Bill.

6. Total defence SEK 000s	A Military defence	37 153 519
	B Certain civil defence functions	2 638 514
	C Coastguard, etc.	483 725
	D Supporting activities	968 107

7. International development co-operation

SEK 11.4 BILLION

This expenditure area includes international development assistance and co-operation with developing countries and Central and Eastern Europe.

The overall objective for Sweden's international development assistance is to increase the living standards of poor peoples. The Riksdag has established six objectives for development assistance: the promotion of economic growth, economic and political independence, economic and social equality, the development of democracy, sustainable use of natural resources and the environment, and equality of opportunity between women and men.

During recent years, the Government has carried out extensive policy work and reorganised the development assistance administration. Sweden has a leading role in the reform of the UN's economic and social operations, which is now entering a decisive phase. During 1998, the Government will produce a communication to the Riksdag on democracy, development and the role of development assistance. A new Africa policy is under consideration.

The objectives for co-operation with Central and Eastern Europe are to promote a security commu-

nity, deepen the culture of democracy, a socially sustainable economic development, and environmentally sustainable development. In addition, the Government has decided that all co-operation is to be imbued with a gender perspective. Initiatives aiming at integrating the countries of Central and Eastern Europe in European co-operation are to be given priority. The Swedish Riksdag has decided on a SEK 4,010 million programme for the years 1995–1998 for co-operation with countries in Central and Eastern Europe. In spring 1998 the Government intends to present proposals to Riksdag on the approach and extent of co-operation for the years 1999–2001.

The ambition is that Sweden should again meet the one per cent target for international development co-operation when the state of public finances to permits. In its estimate of the frame for the expenditure area, the Government has assumed that the assistance frame for 1998 and 1999 should amount to 0.7 per cent of GNP, increasing to 0.72 per cent in 2000.

7. International development co-operation SEK000s	A	International development co-operation	10 623 600
	B	Co-operation with Central and Eastern Europe	810 800

8. Immigrants and refugees

SEK 3.9 BILLION

This expenditure area includes immigration policy, comprising of issues relating to refugee policy, immigration to Sweden, reception of asylum-seekers, aliens' right to stay in Sweden, and international co-operation in the field of immigration policy. The expenditure area also includes the integration of immigrants, issues concerning immigrants' introduction to Sweden, integration and influence, measures directed against ethnic discrimination, xenophobia, and racism, and payments to municipalities for their refugee reception activities.

The Government Bill (1997/98:16) Sweden, the Future and Diversity, includes proposals by the Government on the objectives and approach of inte-

gration policy in future. The Government proposes that a new agency for integration issues be set up, with responsibility for integration policy goals with an approach that has an impact in various areas of society, and that actively stimulates the integration process in society. It is proposed that the Ombudsman against Ethnic Discrimination be part of the new agency's organisation.

SEK 100 million has been allocated to the expenditure area in 1998 from expenditure area 25 "General Grants to Local Governments" to cover costs of municipal payments for refugee reception.

Savings will be carried out in the expenditure area as announced in the Spring Budget Bill.

8. Immigrants and refugees SEK000s	A	Immigration policy	1 748 234
	B	Integration of immigrants	2 115 700

9. Health care, medical care, social services

SEK 22.5 BILLION

This expenditure area includes the major part of government expenditure on medical care and social services, costs for a number of agencies under the Ministry of Health and Social Affairs, grants to organisations and certain stimulation and development grants in the social sphere as well as assistance to sector research.

Government expenditure in this area makes up only a minor share of total public expenditure on health and medical care, since these activities are primarily the concern of the municipalities and county councils.

The objectives for results in the expenditure area include five areas of activities. The most important objectives are:

- ensuring good health and achieving high quality health and medical care with efficient use of resources, meeting the needs of the individual
- safeguarding the health and financial situation of the individual in connection with the need for costly medical treatment and/or dental treatment
- stimulating and contributing to the maintenance of good dental health among adults. In addition, providing special support in this field for vulnerable groups
- offering care for the elderly and the disabled that provides good conditions of life for elderly persons and those with functional disabilities with varying requirements of service, care and nursing, and which is based on the individual's participation and self-determination
- achieving a social care of good quality with efficient use of resources which meet the individual's needs for support and assistance in connection with social and other disabilities, problems with substance abuse, and difficulties in earning a living, and which ensures that children and young people grow up in secure and good conditions

- limiting the damaging effects of alcohol by reducing total alcohol consumption
- striving for a narcotics-free society by initiatives to reduce the availability and demand for narcotics
- increasing the knowledge of the state of, processes and effects relating to health and social welfare.

The largest item of expenditure in this area is the appropriation for medical benefits including expenditure for pharmaceuticals, and dental care together with certain payments to health authorities. According to an agreement between the Government and the Federation of County Councils, the responsibility for meeting the cost of pharmaceutical benefits and consumable articles for incontinence is to be transferred from central government to the county councils as from 1 January 1998, which will entail a special appropriation for central government grants being created in the expenditure area. The changes in the pharmaceutical benefits which were introduced on 1 January 1997 will contribute to dampening the increase in expenditure this year and it is estimated that expenditure for 1998 and thereafter will be lower than previously assumed.

The costs for state payments to assisting personnel make up the second largest item of expenditure in the area. In the Spring Budget Bill (Government Bill 1996/97:150), the Government proposed two measures to check the rapid increase in expenditure. These measures mean that local government will take over the responsibility for costs for the first 20 hours and that a standard hourly payment level is to be introduced. In the assessment of the Government, these measures are not sufficient to bring down the increase in costs with respect to the category of patients affected and the average number of hours of assistance per person. The level of expenditure is therefore estimated to be higher than previously assumed.

9. Health care, medical care, social services SEK000s	A	Health care and medical care	16 387 184
	B	Care for the elderly and persons with functional disabilities	4 960 950
	C	Measures for children, social treatment and alcohol and narcotics policy	679 567
	D	The National Board of Health and Welfare	369 636
	E	Research grants	102 425

10. Financial security in the event of illness and disability

SEK 37.2 BILLION

This expenditure area includes two areas of activities, financial security for illness and disability, and the social insurance administration, i.e. the National Social Insurance Board and the social insurance offices. The social insurance benefits provided in illness are daily allowances, such as sick pay, rehabilitation allowance, close relative allowance and some occupational injury payments. This expenditure area also includes national basic pension and pensions supplement in the form of disability pension.

The objectives for results in the expenditure area include two areas of operations. Social insurance shall:

- be universal and provided in the framework of a public insurance
- be based on standard security and provide compensation related to loss of income and be imputed by the "work over benefits policy"
- meet the requirements of security, justice and efficiency.

The social insurance administration shall:

- administer and strive for national insurance which provides economic security in illness, disability old age and for child care.
- endeavour to prevent and reduce ill-health and to contribute to enabling sick persons and those

with functional disabilities to work again by offensively working with and co-ordinating rehabilitation

- ensuring and meeting the demands for good service, uniformity, quality and cost-efficiency in handling insurance and grant matters.

Savings will be carried out in the expenditure area as announced in the Spring Budget Bill. The Government intends to present proposals to the Riksdag regarding the income on which sickness benefit is based later during autumn 1997.

The proposal on the shortening of the sick pay period to 14 days has been taken into consideration when calculating appropriations.

The Riksdag has adopted the Government's proposal for guidelines in the present organisation regarding the social insurance administration (Government Bill 1996/97:63, bet 1996/97:SfU 12, rskr, 1996/97:273). These guidelines entail a reinforcement of the role of the social insurance offices and that the role of the National Social Insurance Board in social insurance is made clearer by amendments to Chapter 18 of the National Insurance Act (1962:381) and in the instructions given to the Board.

10. Financial security in the event of illness and disability	A	Financial security in the event of illness and disability	32 257 900
	B	Social insurance administration	4 934 576
SEK 000s			

11. Financial security in old age

SEK 62.7 BILLION

This expenditure area includes the national basic pension and pension supplement in the form of old age pension, survivor's pensions, housing supplement for pensioners and pension supplement for these benefits.

The objective for the expenditure area is to provide financial security which assures reasonable, basic consumption requirements and access to housing of a satisfactory standard. The pension system is to be stable in the long-term and reliable regardless of changes in the general situation.

The Government proposes that the portion of housing costs in the interval SEK 100–4,000 per month which can be covered by the housing supplement for pensioners should be increased to 85 per

cent from 1 January 1998. The Government's view is that national basic pension, supplementary pension and housing supplement is to be paid on the 18th and 19th each month respectively from 1 January 1998. As from 1 January 1998, private pensions insurance will not be taken into consideration when assessing the income for widow's pensions. Furthermore, a change is being made in the definition of summer houses in the income concept in the housing supplement for pensioners for spouses where one of them lives in care on a permanent basis. The Government proposes that the lower age limit for receiving an old age pension be increased from 60 to 61 from 1 January 1998.

11. Financial security in old age SEK 000s	A	Financial security in old age	62 701 000
		<i>Old age pensions, appropriation frame</i>	52 492 000
		<i>Survivor's pensions for adults, appropriation frame</i>	555 000
		<i>Housing supplement for pensions, appropriation frame</i>	9 654 000

12. Financial security for families and children

SEK 35.8 BILLION

This expenditure area includes financial support for families and children (with the exception of housing benefits which are included in expenditure area 18 and study allowances which come under expenditure area 15). These benefits consist of child allowance, parental insurance, including the pregnancy cash benefit, maintenance advance payments, allowances toward the cost of international adoptions, national basic pension in the form of child pensions, and care grants to children with functional disabilities.

The objective of the expenditure area is to make more equal the living conditions between families with and without children, to support parents' ability to combine paid employment with parenthood, and to provide special financial support to families with children in vulnerable situations.

The Government further proposes that child allowance be increased on 1 January by SEK 1,320 per child and year. From the same date, the supplementary grant for families with three or more children is to be provided at SEK 2,400 per year for the third child, SEK 7,200 for the fourth and SEK 9,000 for the fifth and each additional child.

The level of benefits in parental insurance is to be increased to 80 per cent of the income on which the benefit is based as from 1998. The rule changes announced in the Spring Budget Bill will be carried out by the Government presenting legislative proposals for changes in rules relating to care grants during hospital stays, compensation for extra costs, and that temporary parental benefit shall be made available in certain cases of temporary residence.

12. Financial security for families and children SEK 000s	A	Financial security for families and children	35 813 561
		<i>General child pensions, appropriation frame</i>	17 018 000
		<i>Parental insurance, appropriation frame</i>	14 759 000
		<i>Maintenance assistance, appropriation frame</i>	2 125 661
		<i>Grant for costs for international adoptions, appropriation frame</i>	24 000
		<i>Child pensions, appropriation frame</i>	291 000

13. Financial security in the event of unemployment

SEK 42.7 BILLION

In accordance with the Government's proposal for 1998, this expenditure area primarily includes expenditure for unemployment insurance and wage guarantee payments. In addition, expenditure for measures which are, wholly or partially, financed on the basis of unemployment benefit, are included in the area, for example, temporary retirement compensation, and resource work. The level of expenditure is primarily affected by the level of registered unemployment with respect to expenditure for unemployment benefit and by the number of bankruptcies with respect to expenditure for the National Wage Guarantee compensation. The total expenditure in the expenditure area is estimated to amount to SEK 42.7 billion in 1998, of which expenditure for unemployment benefit accounts for 95 per cent. Expenditure for unemployment insurance and cash labour market assistance has increased substantially during recent years.

Unemployment insurance and the National Wage Guarantee are to contribute to facilitating and stimulating adjustment and in this way increasing flexibility on the labour market. In the light of this, unemployment insurance has recently been reformed and a new act on unemployment insurance will come into force on 1 January 1998.

Within the expenditure area, priority will be given in 1998 to a larger extent than previously on activity and adjustment during unemployment. Opportunities for a "generation shift" are to be made available as from 1998. These measures will aim at providing younger long-term unemployed with employment by allowing people who have attained the age of 63 at the latest by 31 August to retire early. This is to be a one-off measure.

Savings will be carried out in the expenditure area as announced in the Bill concerning A General, Unified Unemployment Insurance System (Government Bill 1996/97:107).

13. Financial security in the event of unemployment SEK 000s	A	Unemployment compensation	42 723 356
		<i>Unemployment benefits, appropriation frame</i>	40 681 334
		<i>Grants for wage guarantee payment's, appropriation frame</i>	2 042 022

14. Labour market and working life

SEK 47.5. BILLION

This expenditure area includes labour market measures, the Labour Market Administration, the National Board of Occupational Safety and Health and other agencies, and research and development in the field of the labour market and working life. The area also includes certain expenses for Samhall AB's operations, matters relating to equality of opportunity, and to the state in its role as employer.

The objectives for the expenditure area aim primarily at contributing to the achievement of the Government's target of reducing unemployment to 4 per cent by 2000 by active labour market policies aimed at effective employment exchange activities, development of competence and a reduction in long-term unemployment.

Within the expenditure area, priority in 1998 is given to counteracting bottlenecks, including filling vacancies by a reinforcement of the employment offices. Furthermore, priority is given to a continued

increase in local influence in labour market policy and measures to avoid staff being made redundant by municipalities and county councils.

In order to counteract youth unemployment, the Government proposes that it be made possible for municipalities to offer development initiatives for unemployed young people aged from 20 to 24. Furthermore, the Government proposes in the supplementary budget that a national programme for IT training be introduced within the framework of labour market training.

The Government proposes further investment in higher education places, which are of strategic importance for employment and growth. This investment will have a one-off effect on the expenditure area in 1998. 10,000 higher education places and 1,000 places in qualified vocational training will be brought forward.

14. Labour market and working life SEK 000s	A	Labour market	33 922 550
	B	Working life issues	5 484 529
	C	Equal opportunities	31 081
	D	The state in its capacity of employer	8 103 792

15. Study support

SEK 21.3 BILLION

This area primarily consists of study assistance to upper secondary pupils in the form of study grants, boarding allowances, etc., study aid and various forms of adult study support.

Study support is an important part of educational policy, and is to contribute to the achievement of the overall goals of educational policy. Study support is to assist recruitment and contribute to high participation in education, and thus work for equality and promote social justice.

In the adult education sector, priority is given to continued expansion of the adult education initiative previously decided upon. Adult education is to be expanded in 1998 as announced in the 1997 Spring Budget Bill.

The Budget proposal is based on an investment in adult education and on the expansion of higher education announced by the Government in the 1997 Spring Budget Bill. The major part of the planned expansion of 15,000 permanent places in autumn 1998 will be brought forward to spring 1998. Also included in the budget proposal is an increase in study grants in study aid following on from the increase of child allowances from 1 January 1998.

Proposals for savings in the expenditure area are in compliance with the measures announced in the 1997 Spring Budget Bill. Among other things, proposals have been made for the abolition of hourly payments for Swedish tuition to immigrants, more stringent rules for study abroad, and more stringent control of income in the study aid system.

15. Study support SEK 000s	A	Study support	21 333 755
--------------------------------------	---	---------------	------------

16. Education and university research

SEK 27.1 BILLION

This expenditure area includes education and child care, adult education, qualified vocational training, higher education and research, and central government agencies in the sphere of responsibility of the Ministry of Education.

In child care, the most important objectives are to give children support and stimulation in their development, and to facilitate for parents to combine paid employment or studying with caring for and being responsible for children.

The aim of the educational service is that children and young people regardless of sex, geographical residence, and social and economic conditions, should have equal access to education of the same standard. All children and young people shall be given the opportunity of achieving the goals of the Education Act, the curricula and the syllabi.

The objective for adult education is, as stated in the Education Act and the curriculum, to overcome educational gaps, to contribute to change in working life, to contribute to full employment, and to satisfy adults' individual wishes for expanded study and educational opportunities, and to give them the opportunity to complement their education.

Universities and other institutions of higher education have as their most important objectives to offer education of a high and uniform quality in all parts of the country and to contribute to a regionally balanced development through research at all the country's institutions of higher education.

Research is to promote critical thinking and a scientific approach and to contribute important new knowledge for the benefit of health, culture, welfare, the environment, economic development, employment and the adjustment to sustainable development.

The priorities for the year within child care and school are to develop a common approach to the development of children and young people and to learning from an early age to create the conditions

for integrating pre-school and school. Further, priority is to be given to the work of developing the quality and uniform standard of school education.

In adult education, priority is given to expansion of adult education. In 1998 adult education is to be expanded to a total of 124,300 places, of which 10,000 places are for popular education (expenditure area 17). This expansion also includes expansion of qualified vocational education to a total of 8,800 places in autumn term 1998. Due to the great demand for qualified vocational education, the Government proposes that the expansion be brought forward by 1,000 places in spring 1998. The expansion of adult education must also include a successive renewal, organisationally and pedagogically, as well as with regard to its content. In 1998 activities in the area of adult education will be concentrated on supporting and stimulating development work.

Around SEK 750 million will be made available to higher education each year in the coming four years by the increase in stages from 1997 –2000 by 60,000 new permanent places. The expansion of higher education was announced by the Government in the 1997 Spring Budget Bill. The major part of the planned increase of 15,000 permanent higher education places in autumn 1998 will be brought forward to spring 1998. In addition to the expansion of higher education, priority will be given to reinforcing the quality of research and postgraduate education. Furthermore, a reform of postgraduate education is proposed and a modernisation of the organisation of higher education.

The proposals for savings previously announced will be carried out and presented in detail. Furthermore, proposals have been made on implementation of a saving of SEK 150 million in research presented by a special investigator, on which a decision has been made. This proposal has been circulated for comment and a part of it will be included in this Budget Bill.

16. Education and university research SEK000s	A	Child care, schools and adult education	5 181 740
	B	Universities	19 198 839
	C	Higher education agencies	391 483
	D	National and international research resources	2 219 603
	E	General sector purposes	58 889

17. Culture, the media, religious organisations and leisure

SEK 7.3 BILLION

This expenditure area includes general cultural activities, support to popular education, youth issues and matters relating to popular movements and sport.

The most important objectives in the area of culture are safeguarding freedom of expression, universal participation in cultural life, cultural diversity, artistic renewal and quality, the prerequisites for culture to be a challenging and independent force in society, and the safeguarding and use of the cultural heritage.

Within the expenditure area, priority will be given in 1998 among other things to initiatives to

improve the conditions for artists, to strengthen literature and reading, and measures to achieve a better regional balance in cultural initiatives. The role of culture in regional development and an ecologically sustainable development in society will be brought to the fore. 1998 will be a year of culture for the whole of Sweden. In 1998 an initiative relating to the industrial history heritage will be embarked upon.

Savings will be carried out in the expenditure area as announced in the Spring Budget Bill.

17. Culture, the media, religious organisations and leisure SEK 000s	A	General cultural activities	314 333
	B	Theatre, dance and music	1 424 397
	C	Libraries, literature and cultural magazines	219 025
	D	Art and other forms of art handicrafts	80 145
	E	Remuneration and grants to artists	249 312
	F	Archives and records	285 355
	G	Cultural environments	423 916
	H	Museums and exhibitions	932 558
	I	Film and media	164 049
	J	Research	37 772
	K	Religious organisations	55 700
	L	Popular organisations	2 497 187
	M	Youth issues	108 490
	N	Popular movements and sport	542 728

18. Community planning, housing supply and construction

SEK 22.8 BILLION

This expenditure area includes the planning, construction and housing sector, geotechnological issues, county administrative boards, regional self-government bodies, land surveying activities, and support to ecological adjustment and development.

The most important objectives are to safeguard all people's needs for good housing at a reasonable cost and a secure local environment, and to promote ecological sustainable development in planning and construction.

In the 1998 fiscal year, priority will be given to adjustment to ecologically sustainable construction and living.

The Government proposes that the Act (1993:737) on Housing Allowances shall be included in the legislation listed in the Act concerning Homosexual Partners (1987:813) from 1 January 1998.

Savings will be carried out in the expenditure area as announced in the Spring Budget Bill. In addition, central government expenditure for interest subsidies will decrease more rapidly than estimated in the 1997 Budget Bill, inter alia due to a more positive trend in interest rates than anticipated

18. Community planning, housing supply and construction SEK 000s	A	Planning, construction and housing	19 922 744
	B	Geotechnology	22 555
	C	County administrative boards, etc.	1 658 711
	D	Land survey and real estate data	421 523
		Support for ecological adjustment and development	800 000

19. Regional balance and development

SEK 3.6 BILLION

This expenditure area includes, inter alia, various forms of regional policy enterprise assistance, and funds at the disposal of the County Administrative Boards for regional project activities, as well as part of the Swedish co-financing of the EC structural programme. The expenditure area also includes payments from the EC's regional fund which partly finance the EC's grant to the structural fund programmes.

The overall objective of the area of activity is to facilitate the development of the business sector in areas given priority in regional policy in order to meet the goals of regional policy.

The Government intends in a regional policy Bill inter alia to take up in more detail the future conditions and the objectives and guidelines for regional policy.

The Government makes the assessment that there is scope within the expenditure area for implementing a new SEK 500-million programme for regional business sector policy and special regional policy ini-

tiatives. It is important that a start can be made on these initiatives already during the current year, and the Government has accordingly requested authority from the Riksdag for this in the supplementary budget.

Within the expenditure area, priority is to be given in 1998 to carrying out throughout the country the proposals which have been produced in the work with the new growth-oriented regional business sector policy. This means, among other things, increased collaboration between the various central government measures which are important for the development of the business sector. Furthermore, the possibilities for making the implementation of the EC structural fund programmes more effective are to be examined.

The proposals for savings presented in the Spring Budget Bill will be carried out and specified in detail.

19. Regional balance and development SEK 000s	A	Regional balance and development	3 604 853
---	---	----------------------------------	-----------

20. General environment and nature conservation

SEK 1.2 BILLION

This expenditure area includes matters relating to biological diversity and nature conservation, air and water conservation, waste management, car exhaust issues, environmental protection, environmental and ecocycle research, chemical control, radiation protection, nuclear safety and safety issues related to nuclear power and international environmental co-operation.

The most important objectives in the expenditure area are to protect people's health, to preserve biological diversity, promote long-term good management of natural resources, and to protect the natural and manmade landscape.

In spring 1998 the Government intends to present a general environmental policy bill on the threshold of the twenty-first century, including proposals on new and reworked environmental goals. In late

autumn 1997, the Government intends to produce a Bill including proposals for an Environmental Code to the Riksdag. The guidelines for the continued work of the Government on ecologically sustainable development will be presented to the Riksdag in a separate communication.

In the expenditure area, priority will be given in 1998 to biological diversity inter alia by means for investment in land for nature conservation and care of such land being retained unchanged.

Nuclear safety and radiation safety work will receive additional resources due a start being made on the winding-up of nuclear power. In relation to the Spring Budget Bill, the expenditure area will increase by SEK 23.5 million to reinforce nuclear safety and radiation safety work

20. General environmental and nature conservation	A	Environmental protection	933 816
	B	Radiation protection, nuclear safety, etc.	244 236

SEK 000s

21. Energy

SEK 1.6 BILLION

This expenditure area includes measures to adapt and develop the energy system, and measures to promote the development of efficient energy markets and good emergency reserves.

The most important objectives in the expenditure area are:

- to safeguard short and long-term access to electricity and other energy on internationally competitive terms in order to promote a good economic and social development in Sweden.
- to create conditions for an efficient use of energy and a cost-effective Swedish energy supply with low negative effect on health, the environment and the climate
- to facilitate the transition to an ecologically sustainable society.

Within the expenditure area, priority will be given in 1998 to the energy policy programme adopted by the Riksdag (Government Bill 1996/97:84, bet. 1996/97:NU 12 rskr. 1996/97:272) for adaptation of the Swedish energy system. This investment amounts to a total of over SEK 9 billion and will continue until 2004. The programme includes measures aiming at reducing the use of electricity for heating, using the existing electricity system more efficiently, and increasing the supply of electricity and heating from renewable energy sources in a cost-effective way. Special measures will be taken to develop the supply of electricity and heating in southern Sweden.

Energy policy investments in the climate area will be carried out. A new central energy agency will be established on 1 January 1998.

Savings will be carried out in the expenditure area as announced in the Spring Budget Bill.

21. Energy	A	Adaptation and development of the energy system	163 041
	B	Energy research	1 420 000

SEK 000s

22. Transport and communications

SEK 24.1 BILLION

This expenditure area comprises road and rail transport, shipping, aviation, postal communications, telecommunications and general information technology issues. Sector research and environmental issues are also included in the expenditure area.

The most important objectives for the expenditure area are:

- citizens and the business sector throughout the country are to be offered satisfactory, secure and environmentally friendly transport facilities at the lowest possible socio-economic cost
- individuals and agencies in the various parts of the country shall have access to effective telecommunications
- there shall be a nation-wide postal service throughout the country, which means that letters

and parcels can be delivered to all persons regardless of address at uniform and reasonable prices.

Within the expenditure area, priority will be given in 1998 to infrastructural measures which should lead to growth and employment in all parts of the country, lead to improved transport quality, reduce noise disturbances from traffic, and be designed on the basis of the highest level of ambition for traffic safety. The Government will make a general proposal to the Riksdag on future transport policy. The approach is to achieve an environmentally compatible transport system, that promotes welfare and growth.

Measures will be carried out and specified in detail in the expenditure area as announced in the Spring Budget Bill.

22. Transport and communications SEK 000s	A	Infrastructure	21 491 752
	B	Shipping and air transport	697 275
	C	Post and telecommunications	679 408
	D	Swedish State Railways, public transport and public service procurement	830 194
	E	Communications research and meteorology	401 935

23. Agriculture and forestry, fisheries, etc.

SEK 13.7 BILLION

This expenditure area consists primarily of agriculture and market gardening, fisheries, reindeer husbandry, animal protection and animal health care, food controls, certain research and education as well as the forestry sector.

The most important objectives for the expenditure area are to apply the EU common agricultural policy, to strive for a reform of this policy towards more market-oriented and consumer-friendly policies that facilitate the expansion of the EU, to strengthen the consumer perspective, and to strive for a rational production of safe good-quality food, to safeguard the natural and manmade environment, and to develop food production for increased employment, regional balance and sustainable growth.

In 1998 it is recommended that a total of SEK 13,726 million be allocated to the expenditure area. Two-thirds of this expenditure will be financed from

the EC budget. The major part of the EC support, approximately SEK 6,850 million, relates to mandatory measures such as area grants, livestock grants, intervention and export grants. To this is added partially EC financed voluntary assistance and finally grants which require national financing. These include environmental payments, support to less-favoured areas, and structural assistance.

In the expenditure area, priority will be given in 1998 to, inter alia:

- an expanded environmental programme for agriculture
- increased resources for fisheries management
- expansion of the number of places at the Swedish University of Agricultural Sciences.

23. Agriculture and forestry, fisheries and related industries SEK 000s	A	International co-operation	37 414
	B	Agriculture and market gardening	11 379 890
	C	Fisheries	193 448
	D	Reindeer husbandry, etc.	109 738
	E	Animal protection and health	268 349
	F	Food policy	176 548
	G	Education and research	1 228 920
	H	Forest industry	331 316

24. The business sector

SEK 2.7 BILLION

This expenditure area consists of industrial policy, technological infrastructure, competition issues, technical research and development, foreign trade, export and investment promotion, issues relating to co-operatives and consumer issues.

The most important objectives within the expenditure area are.

- to contribute to reinforcing the growth and international competitiveness of the business sector
- that consumers should have a strong position on the market and that their interests are met
- to contribute to a long-term sustainable development by developing consumption and production patterns that reduce pressure on the environment.
- initiatives to stimulate new establishment of businesses, and expansion primarily of small and medium-sized enterprises
- to continue measures to develop the tourist industry
- to continue initiatives to promote exports especially by small and medium-sized enterprises
- to concretise the environmental goal in consumer policy
- to strengthen the position of consumers as market actors in Sweden and the EU
- a start is to be made on the programme for development of the wood industry.

Savings measures will be carried out and specified in detail in the expenditure area as announced in the Spring Budget Bill.

24. The business sector	A	The business sector	855 222
SEK 000s	B	Technological infrastructure	155 537
	C	Competition-related issues	65 579
	D	Technical research and development	1 246 568
	E	Foreign trade, export and investment promotion	272 420
	F	Consumer issues	103 004

25. General grants to local government

SEK 93.0 BILLION

This expenditure area includes the major part of the central government grant to municipalities and county councils. These grants aim as far as possible to create good, equivalent preconditions for municipalities and county councils to achieve the national objectives in various activities.

In order to improve employment in the local government sector and safeguard care, social services and education, the Government proposed in the 1997 Spring Budget Bill that an additional SEK 4,000 million should be made available to the expenditure area in 1997 and announced that a further SEK 4,000 million would be made available in 1998. In 1998 the Government proposes in this Bill that SEK 100 million of these funds is to be allocated as a one-off payment to expenditure area 8, Immigrants and refugees, under the appropriation *Local Government Payments for Refugee Reception*.

The Government further considers that there are socio-economic conditions for a further increase of the additional funds made available to local gov-

ernment after 1998. In 1999 a further SEK 4,000 million will be made available and a further SEK 4,000 million in 2000. The additional funds will thus total SEK 12,000 million by 1999 and SEK 16,000 million by the year 2000. The Government will make a further announcement in next year's Spring Budget Bill as regards how the increased additional funds for 1999 and 2000 should be made available to the local government sector.

In autumn 1996 the Government stated that it was prepared to issue a so-called repayment cover of up to SEK 2,600 million, by virtue of the Government's decision to adjust upwards the preliminary tax revenues for 1997. In this Bill SEK 2,600 million was allocated in 1999 to finance this cover, i.e. a further SEK 300 million compared with the estimate in the Spring Budget Bill.

In addition, the level of the expenditure area will be affected by regulation of central government measures which impact on local government economy.

25. General grants to local government	A Grants and payments to municipalities and county councils	93 048 700
SEK 000s		

26. Interest on Central Government debt, etc.

SEK 109.1 BILLION

This expenditure area includes interest on central government debt, unforeseen expenditure and the National Debt Office's commission costs in connection with lending and debt management. The computational item "Reduction of Appropriation Balances" is also included in the expenditure area, although these expenditures are accounted for separately. The expenditure area central government debt etc. is not included in the expenditure ceiling.

Expenditure for central government debt is determined by a number of factors such as:

- The size of the central government debt at the beginning of the period
- The development of the borrowing requirement
- The borrowing technique applied by the National Debt Office.

26. Central Government	A Interest on central government debt	108 415 000
Expenditure, etc.	B Unforeseen expenditure	10 000
SEK 000s	C The National Debt Office	700 000

27. The contribution to the European Community

SEK 19.6 BILLION

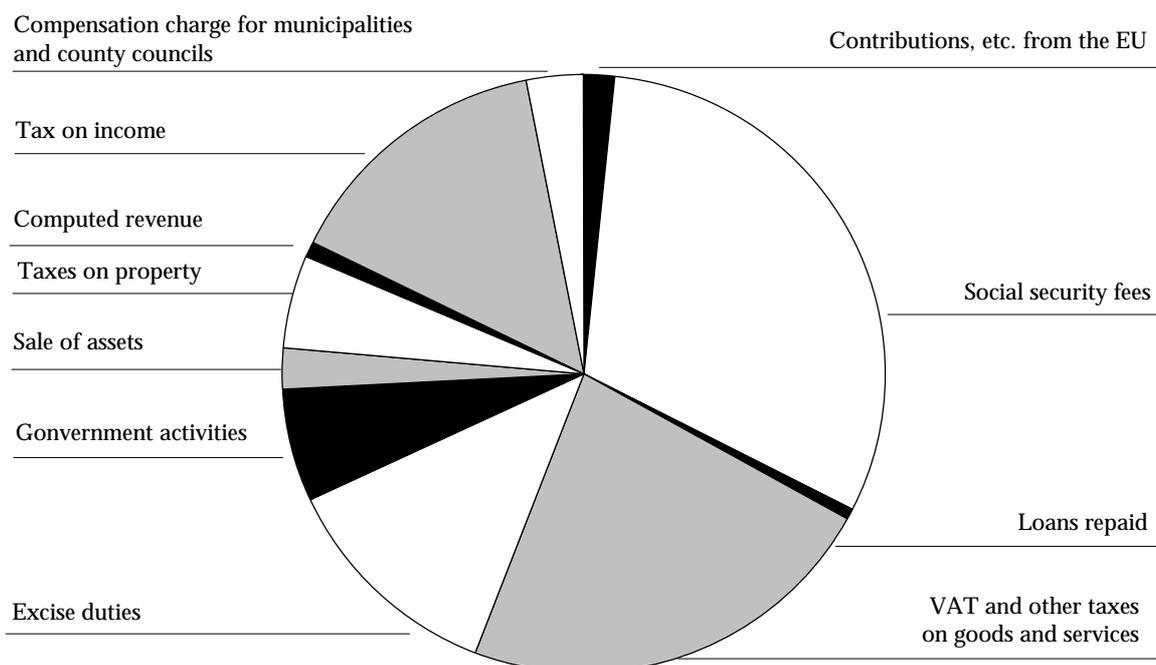
This expenditure area includes Sweden's contribution to the EU budget in accordance with the EU treaty. Expenditure for 1998 is calculated according to the Commission's budget proposal. This contribution may be changed in the course of the year due to the actual amounts of customs and import dues collected, the outcome of the EU budget in previous years, supplementary budgets at community level, the rate of exchange and other adjustments to the contribution.

The expenditure area is estimated at SEK 19,645 million in 1998. This contribution has been revised in relation to the estimates presented in the Spring Budget Bill. These changes largely resulted from the adjustment of assumptions on the development of customs and import duties, and also by adjustment of the assumptions for development of the value-added tax base and gross national product, taking into consideration the European Commission's budget proposal for 1998.

27. The Contribution to the European Communities	A	Sweden's contribution to the Community budget	19 645 000
SEK 000s			

Government Revenue

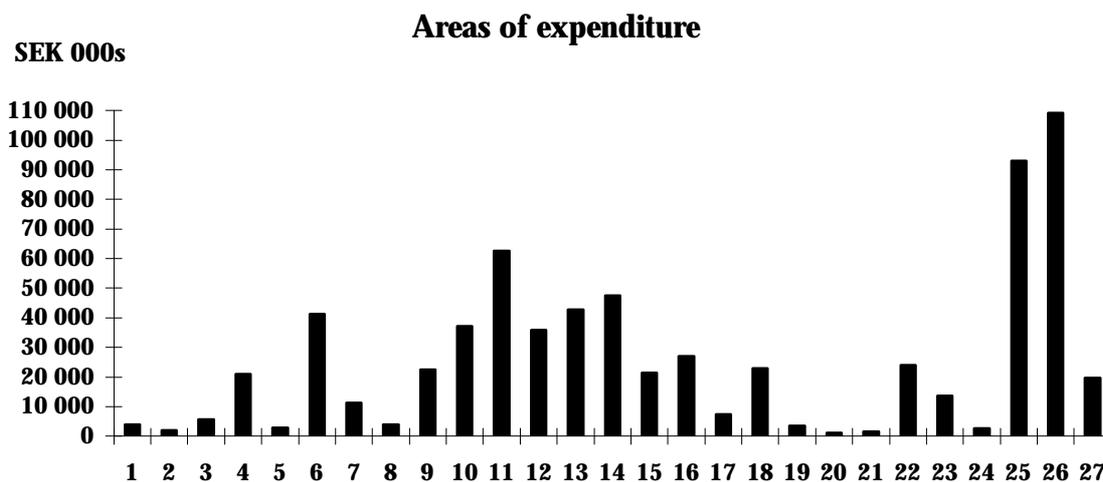
REVENUE	SEK 000s
Tax on income	34 100
Tax on income – legal entities	58 964
Other revenue	5 765
Social security fees	208 777
Estate tax	24 240
Other taxes on property	10 865
VAT	154 884
Excise duties	83 430
Compensation charges for municipalities and county councils	20 966
Income from government activities	39 704
Income from sale of assets	15 001
Loans repaid	2 690
Computed revenue	5 337
Contributions etc. from the EU	11 249
Total	675 972



Taxes account for the major part of central government revenue and interest payments are still the largest item of expenditure.

1998 Government Budget summary

AREA OF EXPENDITURE	SEK 000s
1. The Swedish political system	3 977
2. Economy and fiscal administration	2 063
3. Tax administration and collection	5 662
4. Justice	21 034
5. Foreign policy administration and international co-operation	2 811
6. Total defence	41 244
7. International development assistance	11 343
8. Immigrants and refugees	3 864
9. Health care, medical care, social services	22 500
10. Financial security in the event of illness and disability	37 192
11. Financial security in old age	62 701
12. Financial security for families and children	35 814
13. Financial security in the event of unemployment	42 723
14. The labour market and working life	47 542
15. Study support	21 334
16. Education and university research	27 051
17. Culture, the media, religious organisations and leisure	7 335
18. Planning, housing supply and construction	22 826
19. Regional balance and development	3 605
20. General environment and conservation	1 178
21. Energy	1 583
22. Communications	24 101
23. Agriculture and forestry, fisheries, etc.	13 726
24. Business sector	2 698
25. General grants to municipalities	93 049
26. Interest on Central Government Debt. etc.	109 125
27. Contribution to the European Community	19 645
Total areas of expenditure	687 815
Take-up of funds previously allocated	5 000
Total	692 815



General Government revenues and expenditures 1998

SEK 000s	Central Government	National Pension Fund	Local Government	Total consolidated*
Revenue	656.4	135.8	421.3	1135.9
Taxes and charges	589.3	90.8	300.7	980.0
Capital income	28.1	45.0	9.8	83.0
Transfers from the General Government	1.3	0.0	76.4	
Other revenue	37.8	0.0	34.5	72.2
Expenditure	665.4	111.2	426.8	1 125.7
Transfers to households	244.0	125.3	37.8	407.1
Transfers to the General Govern- ment	76.4	0.4	0.9	
Other transfers	78.7	0.0	37.8	116.5
Consumption	141.9	0.2	318.6	460.7
Investments	19.8	-15.0	23.7	28.5
Interest expenditure	104.5	0.3	8.0	112.8
Financial savings	-9.0	24.6	-5.5	10.2
<i>Central Government Debt</i>	1 463.4			
<i>Consolidated gross debt</i>				1 361.4
Per cent of GDP				
Revenue				61.7
Taxes and charges				53.3

SUMMARY

Expenditure		61.1
Financial savings		0.6
Central Government Debt	79.4	
Consolidated debt		73.9

* *Net of transfers between sectors.*

Note: The table is arranged according to the presentation of the public sector finances in the National Accounts. This presentation differs in several ways from the one in the Government Budget Bill, with respect to both revenue and expenditure. Sweden's objective of a surplus refers to the public sector fiscal balance, as it is presented in the National Accounts. The financial savings is the measure that is used in the EU when assessing the public finances of a Member State.