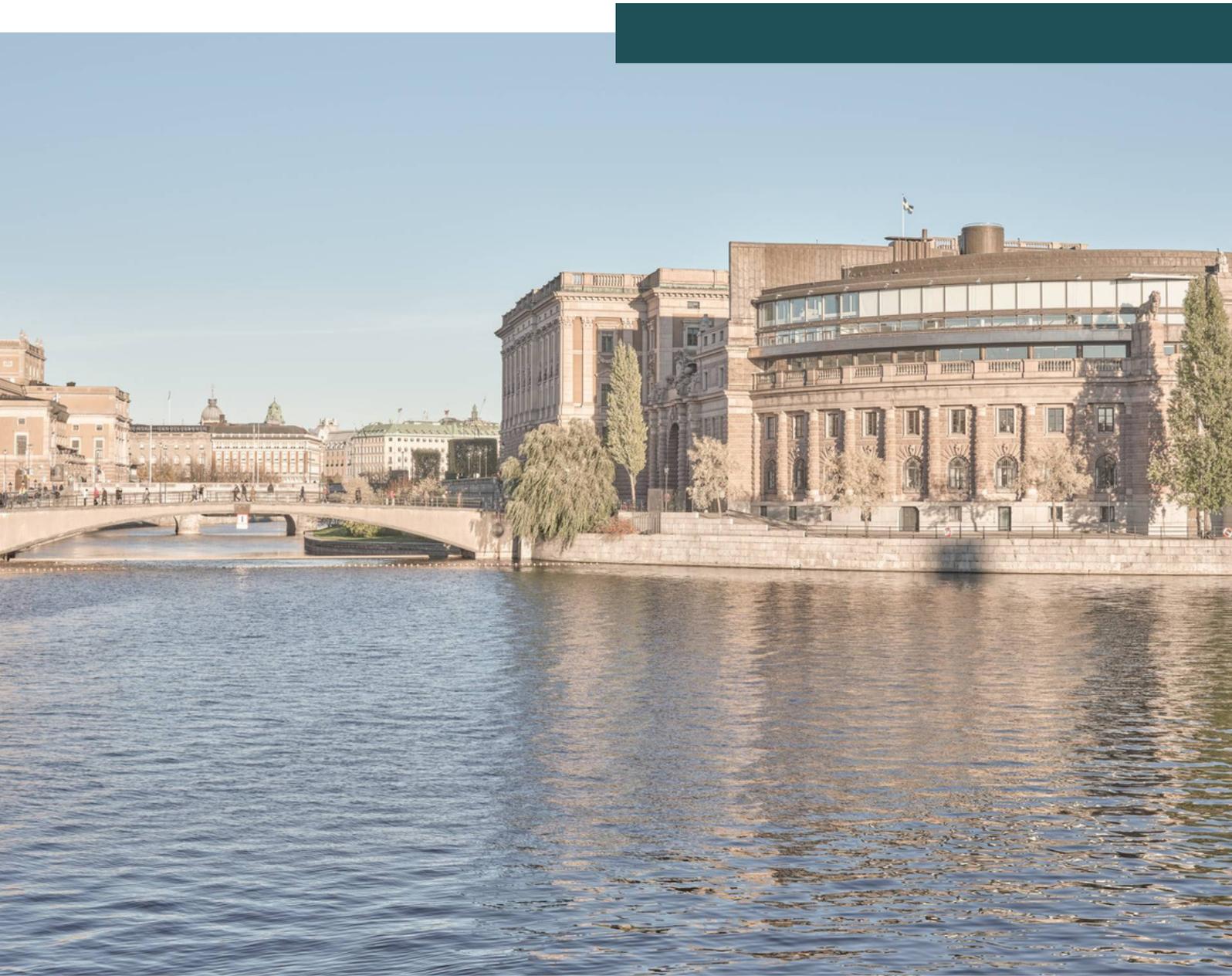


November 2022

The Sweden Report for 2023

Faith in the future for business during
troubling times



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1. Introduction – Sweden in a changing world



Fears have come true

When we launched the first Sweden Report a year ago, we drew particular attention to the risks posed by an increasingly aggressive Russia, not least concerning Ukraine. Unfortunately, these fears have come true.

Russia's full-scale invasion of Ukraine on 24 February 2022 was the final act in destroying the European and global security order built after World War II, which allowed the Cold War to remain cold in Europe. No one knows how the war in Ukraine will end, but the consequences are likely to be long-lasting and prove difficult to heal, both in terms of the cost to human lives and economically. The death toll is already high, and the destruction is extensive.

Should the war end at the negotiating table, the Putin regime will be careful to ensure the outcome is not seen to "humiliate" Russia. Clearly, if the regime outlasts the war, it will stand by its geopolitical ideas and ambitions and seek to wage a culture war under the banner of Western societies being in moral decay. The purpose is to legitimise Russian expansion by military means.

Even if Putin's Russia is deemed the loser – which in November is beginning to look possible – extensive damage from the war and, at the very least, mistrust within Europe and large parts of the world will persist. Re-establishing respect for international law, peace, and security will all take time, even if the political and military defence of Ukraine has gained and maintained widespread support. If dictatorships and warfare are in any sense allowed to prevail, there exist even darker scenarios.

Even in many previously stable democracies, politics is currently characterised by division and a lack of quorum. Populism, fear, and authoritarian nationalism present challenges to established parties and put pressure on both institutions and the very functioning of the political system. As such, the interaction between states also changes. The world around us is currently characterised by enormous geopolitical and security policy dynamism.

Yet even when multilateral cooperation is blocked or weakened, the Biden administration in the U.S. has provided hope for serious commitments or at least a sense of "business as usual." Despite the strong leadership shown against Russia's aggression, the U.S. administration is under political pressure both domestically and internationally. In other leading democracies, administrations are even more shaky for a host of reasons. Moreover, in the rest of the world, the leading BRICS countries in their respective regions (besides Russia, these are Brazil, India, China, and South Africa), despite different political overtones and interests, have shown varying degrees of understanding for Putin's actions. This similarly applies to other leading states in Asia, the Middle East, Africa, and Latin America.

In an increasing number of countries, the state and its political leaders' control of citizens' human rights and freedoms is put first and foremost. This is witnessed most brutally in dictatorships but can also be seen in countries that are, or have recently been, on the verge of becoming democracies.

According to The Economist's Democracy Index of Intelligence Unit, 54.3 per cent of the world's population lived in undemocratic countries in 2021 and only 6.4 per cent lived in full democracies, which includes the Nordic countries.

The wave of democratisation around the world seen during the 1990s has been moving recently in the opposite direction.

Old principles being re-evaluated

In response to the dramatic new situation, Sweden together with Finland applied for membership of NATO. In Germany, the Chancellor has spoken of the "Zeitenwende" to illustrate the major changes in German attitudes to both Germany's own defence commitments and its supply of weapons for other countries' defence needs.



Changing attitudes have turned into actions. Most countries have begun to significantly increase their defence appropriations, as Sweden has. Virtually dismissed until very recently, nuclear power is increasingly in demand as a response to the energy crisis arising from Russia's war in Ukraine.

Re-emergence of geopolitics

The WTO's global free trade regime has been crucial to successful economic globalisation, which has created and spread wealth of historic proportions. Yet this order is now being questioned. The various trade policy tools are once again being nationalised, whilst the globalisation of the economy still continues, albeit in a modified way, by a nascent regionalisation of the supply chains for European companies. Beyond politics, delivery problems due to the pandemic are a key driving force.

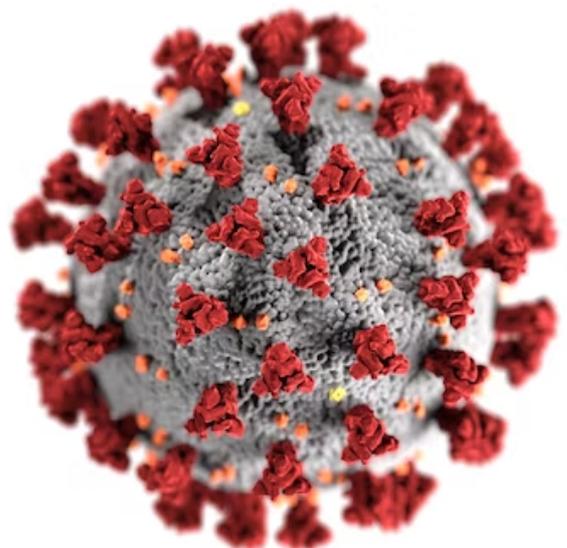
The resurgence of protectionism can be seen in the world's largest economies, the U.S., in China, in recent years. Added to the classic peacetime measures of tariffs and quotas, we can now see direct import sanctions as well as export and investment controls.

Digitalisation, a very real phenomena although still in its infancy, is creating strong pressures for transformation within the economy. Likewise, individuals, companies, and states have each become vulnerable in new ways.

We can currently see more than ever that some dictatorships and authoritarian states are willing to use all available means to achieve their political goals, especially if they have the economic strength. Trade dependencies are being used for political purposes, and, moreover, we can also see direct control being taken through investments in and ownerships of infrastructure and strategic natural resources in other countries, information gathering, and the wielding of political influence through both traditional and social media. This can put individual companies in difficult situations.

Pressing inflation

The global recovery from the Corona pandemic has been hampered by the deepening economic repercussions of the war in Ukraine. Energy prices have reached record highs and are fuelling the sharpest inflation in decades, not least on food prices. When supply chains are disrupted - or are simply nervous about possible disruption - production is heavily affected and investments dry up.



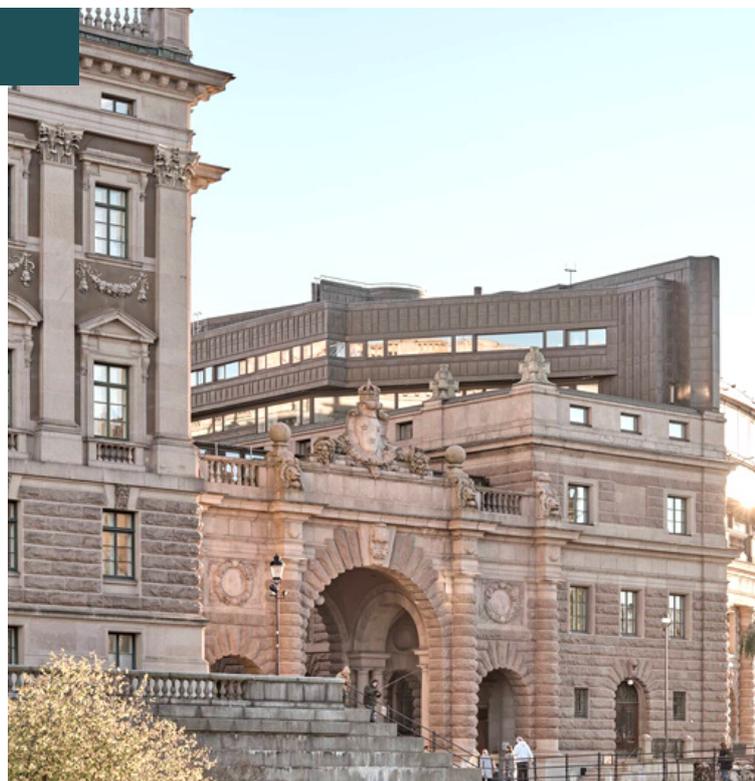
Increasing supply costs, higher mortgage rates, and falling stock prices affect most groups in society, albeit in different ways and to different extents. As both consumers and producers' trust in what they thought they could rely on is tested, cracks then appear in the social contracts that promise order and stability.

Managing the economic crisis brought about by Corona focused on stimulus packages and powerful tools including large public investments in developing, producing, and distributing vaccines. The tools now need to be quickly adjusted and adapted to an economy mired by inflation that otherwise risks becoming ingrained. This change of direction requires sound political insight as well as the will, courage, and drive at the right time.

Sweden following the election

Sweden now has a new government in office after an election that, once again, divided both voters and the country into opposing blocs characterised by increasing chasms between both city and country and women and men. The difference between how women and men voted in the election was greater than ever previously seen.

In recent years, there has been a succession of different societal crises in Sweden and across the rest of the world.



Some challenges can be viewed as particularly Swedish, whilst others are imported. Whatever the reason, voters expect the challenges to be dealt with vigorously and, as such, they have judged their political representatives in the elections accordingly.

There are currently shortcomings in education, health and social care, social segregation based on ethnicity, unemployment combined with welfare dependency, a crimewave with often lethal and indiscriminate violence, a struggling economy due to the pandemic followed by war in Europe - both unprecedented and unexpected events of this century - an energy crisis driving both inflation and interest rate increases of historical proportions and, on top of all this, existential climate change. It is not surprising that there is great concern and many people's faith in the future is wavering.

This lack of faith in the future became apparent in 2021, before the war, when Swedes were asked whether they thought the country was heading in the right or wrong direction in a survey by the SOM Institute at the University of Gothenburg. 57 per cent responded, "in the wrong direction" and only 21 per cent believed that Sweden was heading, "in the right direction." At the same time, the picture was nuanced by somewhat increasing trust in social institutions and there are more positive results in other opinion polls over the past year. All in all, however, a picture emerges of unease, dissatisfaction, and distrust amongst many people in society. Disagreement concerning the state of society is, in itself, problematic.

Need for in-depth, solution-oriented discussions

Against this serious backdrop, there is a need for in-depth discussions concerning the issues in society, the problems, and solutions to them.

Now that voters have had their say, it is time to look to the future. Do the wholesale solutions that many are calling for exist and which of them have the capacity to gain broad support in the Riksdag and across society? Democracy needs constructive dialogues on where we stand and where we are heading as well as how we will get there. As such, for the second year in a row, Rud Pedersen has produced the Sweden Report to lay the ground for fact-based, well-reasoned, and forward-looking conversations about the development of society and the content of politics, as opposed to its forms which often steal the limelight.

We want to offer a basis for an in-depth and nuanced conversation concerning the challenges Sweden faces, including events elsewhere in the world, required reforms, and possible solutions in different areas of society.

In the 2021 Sweden Report, we highlighted a number of global megatrends that will affect both Swedish and international politics for many years to come: migration and population movements, technological changes such as AI, digitalisation and electrification, macroeconomic and political shifts with great power struggles between the US and China, and growing nationalism coupled with the decline of both global production chains and democratic principles.

This year's report has been put together under the shadow of even greater changes and external developments. In this report, we want to highlight three trends within politics as well as politics' ability to address the societal challenges that exist within six fundamental societal functions. This is something companies need to understand and manage.

- More government in business
- Inflation puts pressure on public decision-makers
- Instability is the new normal

2. More government in business



2.1 Trade has become political – strategic rivalries are creating more regulation and higher barriers for trade

Russia's invasion of Ukraine and its subsequent, ongoing effects on relations between the superpowers of the United States and China as well as among growing power bases such as India and Brazil have created a whole new dynamic concerning trade issues. Despite few countries supporting Russia's aggression, many do view their relations with the West as their biggest challenge. The ability to navigate a multipolar world is instead seen as a positive opportunity and not something to be dismissed. Current events will affect international relations for many years to come.

Last year's report noted that large countries, such as China and Russia as well as the United States under President Trump, were questioning whether they should be bound by international conventions. Russia's subsequent invasion of Ukraine fundamentally challenges the rules-based international order. The current situation has not suddenly arisen but has developed over several years. The People's Republic of China repeatedly violates human rights internally, threatens its neighbours, and does not accept the Hague Tribunal's ruling on the South China Sea based on the United Nations Convention on the Law of the Sea. China has been carrying out military blockade exercises against Taiwan, which is a high-tech nation. These exercises, if fully implemented, would have incalculable economic consequences. China's actions in Hong Kong and threats made against Taiwan are examples of the great uncertainty that exists and difficulties that prevail in predicting future developments. The actions of Turkish President Erdoğan in relation to the Swedish and Finnish NATO applications are a similar example.

The decoupling of trade issues from foreign and security policy issues witnessed in the EU over the past quarter of a century has ceased with this development. Political interference and governance in trade is growing and subject to ever more political control via various political decisions including sanctions, trade restrictions, tit-for-tat measures, investment control systems and "anti-bullying" steps, i.e., measures where the EU supports individual Member States under political pressure from China or Russia.

The premise that power provides the right to act leads to institutional insecurity and a lower degree of rule-based international relations, which is to the particular detriment of economically and militarily weak states in need of alliances.

This applies to Sweden, even though many other states are more vulnerable. As is applicable to the state, both regions and municipalities as well as companies need to develop strategies that identify both business risks and opportunities accordingly. It is becoming ever more important to know who you are cooperating with and to carry out risk analyses of production chains and sales markets.

Mechanisms for inbound and outbound investment controls will determine where, when, and how investments can be made. These affect not only companies but also municipalities and regions and will continue to affect international relations for many years to come.



2.2 More regulation for Swedish business

In most countries in the political West, protectionist features in politics exist which go against multilateral solutions even when they appear rational. Self-made, domestic solutions are often given an intrinsic value. Few people object when the security of society and companies is threatened from all sides.

For example, the EU is identifying an increasing number of sectors as being of strategic industrial importance based on a common European interest, through which the EU wants to strengthen its competitiveness vis-à-vis the rest of the world and reduce its dependence on other countries and regions. For the sectors pinpointed, this entails exemptions from state aid rules, targeted domestic and European investments in industry, and possible exemptions from competition law.

This applies, inter alia, to energy and food production, the transport sector, telecoms, the development of cloud services, and the extraction of certain raw materials and minerals that are important, for example, in battery production and various research initiatives. This tendency can also be seen nationally, as happened during the pandemic regarding the procurement of vaccines or national export restrictions on medical supplies.

Civil high technology is increasingly being categorised as an area of societal importance like defence technology, as demonstrated by the discussions concerning the deployment of 5G. The world is divided into at least two technological zones, each characterised by the requirements for specific technical standards being developed in a fragmented manner, which leads to new trade barriers.

In Sweden, we can see concrete examples of this development through initiatives for regulations, both as a result of new rules at the EU level and as a result of national decisions. This applies, for example, to:

- The Protective Security Act from 2019
- Regulation on the review of (certain) foreign direct investments
- Upcoming legislation on foreign direct investment
- Council decisions on sanctions
- Restrictions
- Energy supply and stockpiling



In all, political decision-makers will complement economic policy by adding a focus on security for several terms of office to come, which will lead to consequences for the international and Swedish business community. The deteriorating security situation surrounding Sweden and the Nordic region will lead to a more fluid regulatory environment whereby state aid, sanctions, restrictions, and controls will feature as part of the new normal for Swedish companies.

This requires a sound understanding of the interaction between geopolitics and economics, and for companies to develop strategies to both manage risks and identify business opportunities in the new normal.

3. Inflation puts pressure on public decision-makers



3.1 Sweden's economy today

Currently, nearly every economic forecast signals that Sweden, like many other countries, will soon enter recession. A key reason behind this is steeply rising inflation, witnessed by sharp price increases in electricity and food and subsequent hikes in interest rates, which, together with already high levels of indebtedness, results in lower consumption. The high levels of indebtedness of some households and companies, not least real estate companies, adds greater uncertainty and signals ever weaker sentiment and fears of recession. The bleak economic outlook can be seen not least in the Economic Tendency Indicator, which fell by 6 points to 84.6 in October, which is the lowest figure since the financial crisis of 2008/09, except for a few months at the beginning of the pandemic.

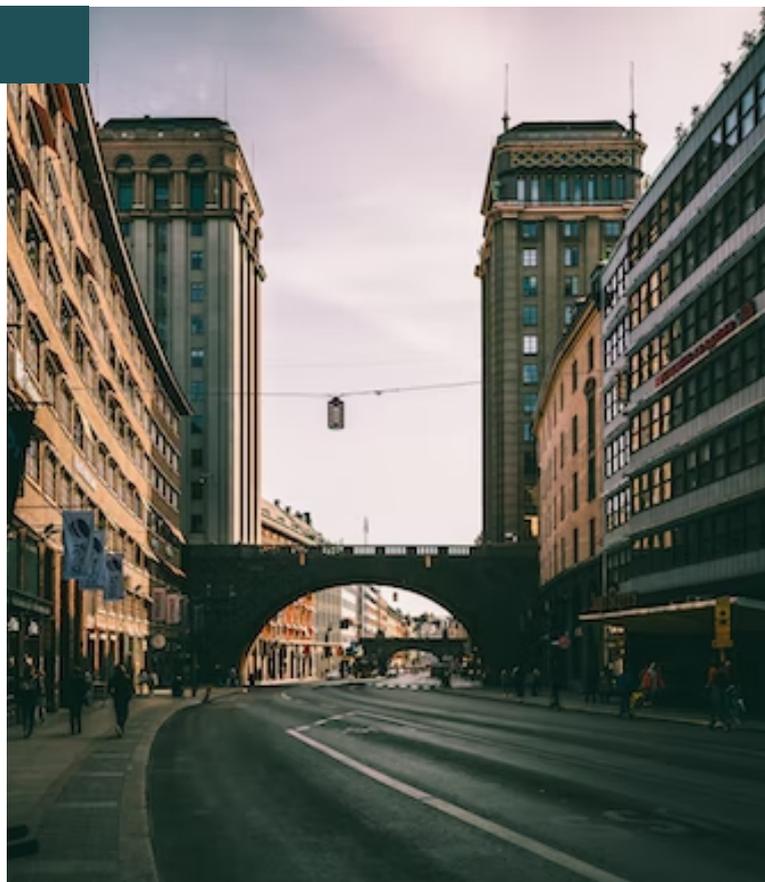
The recession is expected to entail negative growth in the range of 0.1-0.5 per cent of GDP during 2023. Inflation is expected to peak in early 2023 and then begin to recede to eventually meet the 2 per cent target again by late 2023 or early 2024. These forecasts are based on assumptions that the upcoming round of salary negotiations will not create spiralling wage inflation.

In terms of fiscal policy, high inflation imposes restrictions on which measures can be implemented to tackle the recession.

In the current situation, an overly expansionary fiscal policy, normally used to cushion recessions, could have the opposite effect by creating continued inflationary pressures prompting further interest rates hikes which, in turn, hold back both consumption and the recovery of the economy as a whole. This would explain the reasoning behind the government's recently presented budget bill, which was relatively austere and, for example, does not allow for any increase in the national debt. Public debt is forecast to represent 31.8 per cent of GDP in 2022, which is low by both historical standards and compared with other countries.

The labour market has developed strongly over the past two years, with rising rates of employment and falling unemployment. Statistics Sweden's figures for the third quarter of 2022 show the level of employment at 69.2 per cent and unemployment at 7.2 per cent (15–74-year-olds, seasonally adjusted). The looming recession will slow down recent the recent positive trends, with unemployment likely to increase slightly in the coming years. The National Institute for Economic Research forecasts unemployment to rise to 8.0 per cent in 2024 before then receding.

Sweden is entering this period of economic uncertainty in a strong position in terms of public debt and the rate of employment but is vulnerable, like much of the rest of the world. The global economic downturn has had a rapid impact on Swedish exports and is making its effects felt here at home.



3.2 Municipalities and regions

The work undertaken by municipalities and regions accounts for just under half of Sweden's public finances, whereby state-run services and social insurance make up the other half. Education, healthcare, social care, and public transport are the most important services delivered by municipalities and regions. The quality of their work and their economic performance greatly affect the wider economy. Given the new strained economic situation, municipalities and regions are expected to face tough times ahead. The Swedish Association of Local Authorities and Regions (SALAR) estimates that the sector's total annual deficit could be some SEK 20–30 billion in the coming years if costs rise in line with expected price and wage increases. The economic fragility of municipalities and regions can be summarised as follows.

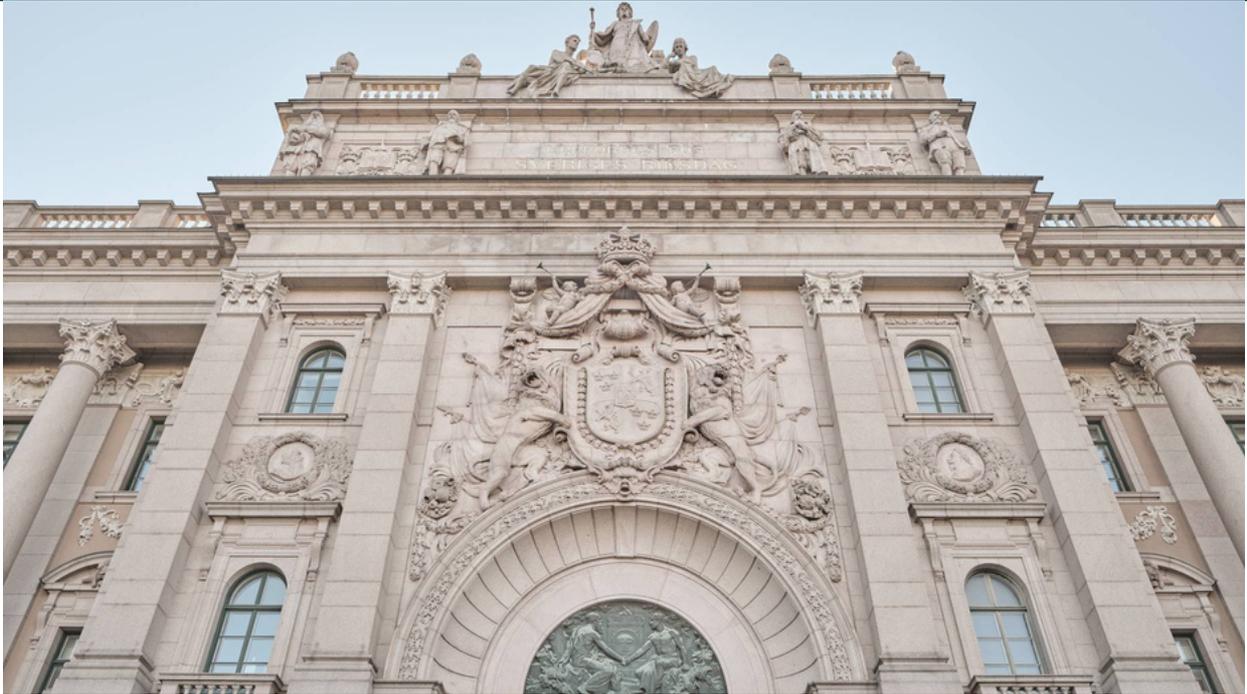
- The Swedish economy is expected to enter recession in 2023 with unemployment expected to rise. This directly affects both municipalities and regions as their main source of funding comprises tax revenues on salaries.
- High inflation is eating into municipalities' income. Prices are increasing sharply, which impacts both revenues and costs for the municipal sector.
- Pension costs will increase significantly due to inflation and, according to SALAR, will be over SEK 40 billion higher in 2023 than in 2022 and will continue to increase further in 2024.
- The municipal sector's expenditure is expected to grow faster in 2022 and 2023 than average increases over the past ten years. The increased expenditure is expected to be partly financed by the municipalities and regions reducing their surpluses. As a result, both the municipal sector's financial savings and earnings will fall rapidly in 2022 and 2023.
- The intake of refugees is expected to decrease in the coming years, however, the long-term costs for municipalities and regions will remain.
- The corona pandemic has resulted in healthcare backlogs and long waiting times across many regions with operations postponed.



- Demographic changes represent significant challenges for the municipal sector. Between 2021 and 2031, the number of over 80-year-olds is forecast to increase by 263,700 whilst people of working age (25–66-year-olds) will only increase by 253,100. We can already see difficulties in recruiting qualified staff, not least in healthcare in northern Sweden. As such, there will be fewer people to provide for an aging population – an intractable equation.

In presenting its budget for 2023, the government announced that the general state subsidies to the municipalities and regions will increase by SEK 6 billion. The government is of the view that this increase is both weighed against and should be seen in the light of other state commitments requiring large resources such as defence and the judicial system. However, the level of these appropriations will continue to be the subject of much discussion in and critique from Sweden's municipalities and regions.

4. Instability is the new normal – outlook for the coming four years



For decades, Swedish politics has been characterised by institutional stability, regardless of which parties hold office. State governance has generally functioned well, and decisions have been predictable due to robust legislative preparatory processes. In our view, this has set us apart somewhat from other countries, where governments could be viewed as weak, unstable, or ephemeral.

Today's Sweden is very different with public institutions facing an array of challenges and political parties under constant scrutiny. The 2018–2022 term was unlike any previous, with three no-confidence motions and their subsequent reshaping of government. In addition, the government has twice been forced to govern based on the opposition's budget.

Sweden is facing societal problems and challenges to which voters demand solutions. These challenges include:

- National, structural challenges – gang violence has escalated, and, in the calendar year to 11 November 2022, there have been 57 fatal shootings in the country
- House building is lagging
- Infrastructure (both railways and roads) lacks capacity
- Electricity supply uncertainties
- Patient backlogs and other shortcomings within healthcare
- Economic challenges – soaring energy prices and double-digit inflation

In addition, there are international security and geopolitical challenges.

The election results are a clear signal that the electorate lacks faith in the traditional political parties' ability to manage the challenges and problems that exist in society. This is exemplified by the Sweden Democrats gaining just over 20 per cent of the national vote as well as making inroads in both the municipalities and regions. There has been lacking a sufficiently clear agenda for relevant, viable policies and coherent reforms. Politicians have appeared either weak or incapable of solving the problems people experience in everyday life as well as in the delivery of core public services.

The fact that a populist party has managed to gain such high voter support during a period of low inflation, low interest rates, and high real wage increases provides an indication of the risks presented by politics' inability to deal with the issues important to voters.

A comprehensive political discussion is still lacking. In the run-up to this year's elections, neither of the two main government alternatives presented elaborate proposals for reforms, instead they sought open mandates which would then require negotiations based on a limited number of ideologically inspired priorities.

The political conflict can be found within the perspective taken on each issue, which then prevents broad agreements being reached.

As such, political conflicts then concern the choice of narrative surrounding the issue rather than parties competing to earn support for concrete, credible solutions. The tone of the debate has been, and remains, harsh. The new government has a narrow majority. Public opinion is divided meaning proposals from "the other side" are met with deep scepticism.

Chasm between the city and the countryside – is Sweden becoming "normal"?

In Sweden in recent decades, we have become accustomed to urban voters, especially in the Stockholm and Skåne regions, leaning to the right politically. More sparsely populated parts of the country have largely voted for the left. The battle for power on the national level has largely been connected to the battle for Stockholm.

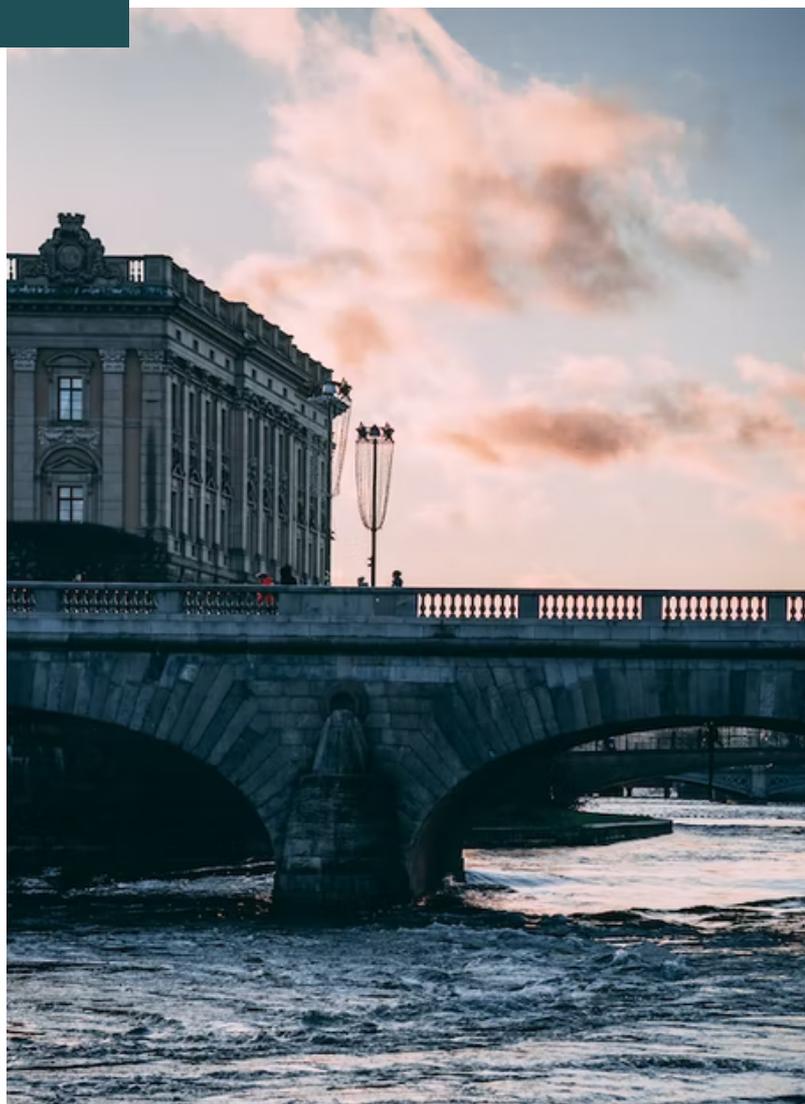


In a study (The urban-rural polarisation of political disenchantment: an investigation of social and political attitudes in 30 European countries) carried out across a number of EU countries as well as the UK, Switzerland, and Norway, researchers at the University of Cambridge studied voting patterns in elections between 2002 and 2018. The study revealed that voters in sparsely populated areas tend to lean to the right and in urban areas to the left. Rural voters have a higher degree of mistrust of political solutions, which traditionally aligns with the political right.

In the United States, most people are aware that the Democrat's strongholds are in big cities such as New York or Los Angeles whilst the Republicans are strong in sparsely populated areas. The development in Europe is largely the same, and, as such, Sweden has been the exception to date.

In the 2022 election, the Social Democrats gained ground in major cities and have formed governing coalitions in seven of the country's largest municipalities despite losing office nationally. Is Sweden becoming "normal", i.e., like other established democracies?

Does this election reflect a trend that is redrawing the political map of Sweden? We can easily look over the water to Denmark, where the Social Democrats and parties further to the left are traditionally stronger in Copenhagen, whilst right-of-centre parties are stronger in Jutland.



According to data from the University of Cambridge study, immigration could be a key issue explaining this development, whereby the issue is met with significantly more scepticism by rural voters. This scepticism towards both immigration and political solutions appears fertile ground for the political right to make inroads. The opposite is true for urban areas to the benefit the political left.

Politics needs to keep up with global developments in order for Sweden to manage structural challenges such as in housing supply, labour market mobility and skills transitioning, and permit processes and predictable conditions for investments particularly in sectors such energy, mining, and infrastructure.

5. Six fundamental societal functions that politics needs to address



Belief and confidence in both democratic institutions and political representatives is judged on how they manage the trust placed in them to deliver on fundamental social commitments. We have identified six areas of society, which are all crucial for Sweden's growth and welfare and where the need for long-term political decisions is increasingly urgent.

5.1 Healthcare

Digital healthcare

Digitalisation is one of the strongest trends within healthcare. The corona pandemic drove this development and healthcare heads were forced to make rapid changes ranging from working methods to amending outdated reimbursement models. Digital healthcare can help with accessibility issues in sparsely populated areas and create greater patient participation in receiving care and treatment. There is potential for digital services to relieve the burden in primary healthcare. For patients with chronic illnesses, digital services entail a more flexible way to remain in contact with their healthcare provider.

There are, however, pitfalls – contacting an online doctor within primary care is still very much an urban phenomenon. Digital healthcare risks driving "unnecessary" healthcare consumption, according to the Swedish Agency for Health and Social Care Analysis. As such, digital healthcare needs to develop further and contain quality assurances. The new government will first and foremost need to ensure a reasonably level playing field with a more reasonable remuneration model.

Moreover, the development of digital services needs to be harmonised with new national legislation for basic primary care and, for example, the responsibility of primary care providers for coordinated investments. The new government is promising a unified, shared digital infrastructure for the Swedish healthcare system that replaces and complements the 21 regions' existing infrastructure. However, this may prove to be an initiative that is easier said than done.

Systemic challenges

There are a number of systemic challenges and issues, the outcomes of which will be crucial for the future organisation and financing of healthcare. Demographic developments, seen chiefly by an increasingly ageing population living longer, the care and treatment of patients with chronic diseases, and the supply of skilled personnel continue to be the major healthcare challenges, and these are not restricted to simply issues of funding.

Challenges in public health

The major endemic diseases diabetes, cancer, cardiovascular diseases as well as mental health issues cause both suffering and premature deaths. Meanwhile, only between 3 and 4 per cent of the public healthcare budget is allocated to preventive care for such diseases according to a report from PwC (2019). In line with an increasing interest in people taking greater responsibility for their own health and having greater involvement in healthcare processes as well as a clearer overall focus on patient influence, the issue of disease prevention will become central.

How far should public responsibility for an individual's health extend in the future and how much room exists for personal responsibility?

Mental health illnesses are growing, particularly so following the pandemic. This is currently seen as a societal problem with resulting promises for reforms and new resources. The Tidö Agreement contained a pledge for a national strategy for mental health and suicide prevention as well as the establishment of a national research programme.

Strengthening primary care

Strengthening primary care in Sweden will be absolutely central in the coming years and a key response to demographic developments. Healthcare provision will need to be nearer the patient for continuity to be maintained and allow the system to be streamlined. The new government has identified this as a priority area. Strong primary care needs a strong base upon which it can be built and developed.



Only somewhere between 26 and 35 per cent of the population are registered permanently with one doctor according to the Medical Association and Health and Social Care Analysis. In Norway, Denmark, the Netherlands, Germany, and France, the corresponding figure is 93–98 per cent.

The transition to more local care will mean more visits to both health centres and patients' homes. The development we currently see in healthcare is that care and treatment once provided in larger hospitals is moving to local primary care or even patients' homes and the care provided increasingly uses fewer resources in treatment areas ranging from rehabilitation to very advanced care.

In light of these developments, the issue of resource allocation between inpatient care, specialist care, and primary care will become increasingly relevant in the coming years. Both existing governance systems and the reasoning behind the reimbursement system within healthcare will need to be reviewed.

Follow-up to the Corona Commission's conclusions

The Corona Commission's report highlighted shortcomings in the organisation of Sweden's healthcare and its decentralised model is subject to growing scrutiny. After all, a population of around 11 million is a relatively small base to share among 21 principal healthcare providers.

According to the Tidö Agreement, an inquiry will be commissioned to analyse and set out the pros and cons of the current system and then submit proposals for the possible introduction of partial or complete state responsibility for healthcare in the long term. This was promised despite two of the coalition parties – the Moderates and Liberals – showing little interest in implementing state-level responsibility for the healthcare system.

Meanwhile, very few of the Commission's proposals, if any, have been latched onto by national politicians or led to bills or specific legislative proposals.



Long- and short-term skills supply

The greater part of all health and medical care is currently delivered by the municipal sector, and awareness of municipalities' large role in this respect has increased, inter alia, as a result of the pandemic. At the same time, municipalities lack the necessary experience in managing this. Nevertheless, the provision of healthcare will become increasingly important in the coming years. Good healthcare governance and delivery requires knowledge, better political governance, and long-term plans for the supply of skills. This could, for example, be a question of making places/beds available to a greater extent for the healthcare profession during education and training at municipalities' sites. There are currently several initiatives at the national level that point in this direction, one of which is the appointment of a national coordinator for placements in both regions and municipalities.

A development towards using more welfare technology within elderly care can help ease staffing issues and could additionally offer a solution to the large skills shortage that prevails across the healthcare sector, which is expected to worsen. Within ten years, the proportion of people aged over 80 will increase by 50 per cent, while the working-age population will increase by a mere 4 per cent. SALAR's analysis indicates that the healthcare sector already lacks thousands of staff.

Life Sciences

Over the past 15 years, the number of clinical drug trials in Sweden has steadily decreased. That government should act to reverse this negative trend by providing the right conditions for the sector.

A remarkable number of inquiries were initiated by the Ministry of Health and Social Affairs during the latter part of 2022. The new government can either choose to allow these to continue, terminate them or change their directives through, for example, supplementary directives. Inquiries perceived as "political" or ideological will most likely discontinue at short notice.

In summary – the issues that politicians need to get a grip of in the coming years are the future organisation of healthcare, the supply of skills, how Sweden can maintain a prominent position as a life sciences nation, working methods in healthcare, and health data and health data's use by both public and private providers. For digital healthcare, the challenge is real interoperability, i.e., seamless IT systems supporting healthcare processes to ensure patients' care can be delivered to meet individuals' specific needs.



5.2 Transport and spatial planning

The planning and construction of infrastructure is regulated by the building of houses, businesses being set up, other spatial planning, and climate change. This is because these all create the prerequisites for people's mobility, commuting to work, and goods transportation as well as for how municipalities and regions are formed and developed.

State investments in infrastructure have long been set out in 12-year plans that are revised every four years, whereby the Riksdag agrees on financial frameworks and the government confirms the plan during election years following several rounds of extensive consultations.

The national plan for the period 2022–2033 consists of a total of SEK 881 billion over 12 years, of which SEK 799 billion consists of appropriations and the remaining SEK 82 billion represents train track fees, congestion charges, and co-financing.

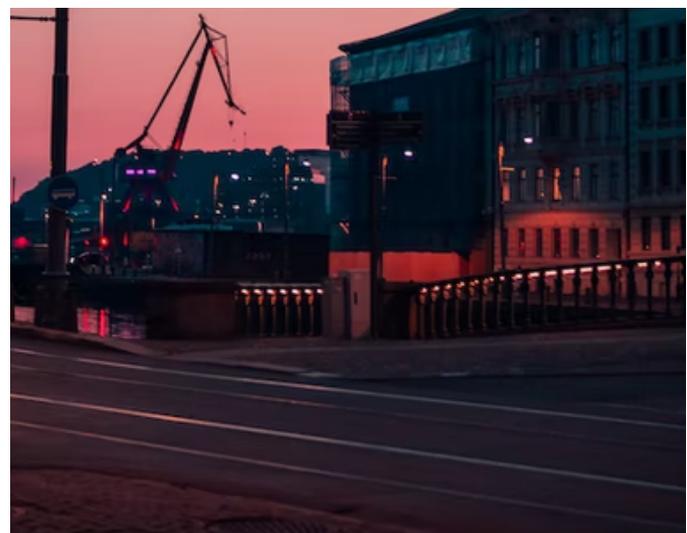
SEK 165 billion is allocated to the operation and maintenance of state railways, SEK 197 billion to the operation and maintenance of state roads, and SEK 437 billion to the development of the transport system, whereby the largest investments are in railways.

The investments will contribute to increasing accessibility, growing regional labour markets, developing regions, increasing cohesion of the country, improving competitiveness, and achieving the climate goals.

"A card laid is a card played" is a central premise, which is important when municipalities, regions, and companies make long-term commitments based on existing plans. The prerequisites cannot then be allowed to be completely changed.

Amongst the largest investments in developing the transport system are:

- The first part of the new main lines (no longer referred to as "high-speed lines") consists of the routes Järna–Linköping (Ostlänken), Lund–Hässleholm, and Gothenburg–Borås and SEK 104 billion has been allocated accordingly, most of which to Ostlänken. The new government has signalled a halt to the new main lines in the parts beyond the scope of the current plan. Even concerning the three parts mentioned above, there is now uncertainty due to both statements by leading government representatives and aspects of the recent budget. The government says a new analysis is required.



- Other railway investments include building four tracks between Uppsala and the county border between Uppsala and Stockholm, Gävle-Kringlan, Sydostlänken, a double track between Maria-Helsingborg, the western main line Laxå-Alingsås, and the Norrbotniabanan line to Skellefteå. In addition, capacity will increase on the coastal line Växjö-Räppe and the Mittbanan Östersund-Storlien.
- Freight routes specifically prioritised for maintenance include Malmbanan (where several parts have been brought forward), Luleå-Hallsberg, Stockholm-Hallsberg-Gothenburg, and Stockholm-Malmö.
- For roads, the Stockholm bypass and the Södertörn cross-link will be completed and the appropriation for the Skellefteå bypass will be expanded, plus there are investments in the motorways E16, E18, E22, and national roads 25 and 26.
- There is also a special investment for maintaining roads in sparsely populated areas.
- The state is to invest in two new icebreakers to enable year-round sea transportation.
- For shipping, Hjulstabron is to be rebuilt, the shipping fairways to Gothenburg and Luleå are to be dredged, and the locks in Trollhättan and Södertälje are to be upgraded.

One of two significant challenges for the government, parliament, and the Swedish Transport Administration in particular is that several large projects commence late in the planning process and are, to date, not fully funded. As such, large parts of the next phase in the projects become locked, which risks weakening confidence in the planning system.

The second challenge concerns steeply rising costs, as highlighted by the National Audit Office and other authorities. If this trend continues at the current pace, it will be impossible to implement all the investment objects within the agreed framework. Some objects will then need to be abandoned, which poses the question: which ones? Will it be already incurred costs, a conscious prioritisation or something other that will determine any decisions to cancel plans? There are already voices from several quarters calling for the need to quickly revise the plan due to these increasing costs as well as a debate on how much should be invested in both road and rail maintenance, respectively.



The latest decision on the National Plan is lacking in some areas which should have been managed better in order to achieve a well-thought-through development and stimulate the transformation of the transport sector.

The plan provides for a number of inquiries regarding initiatives that are not currently included, but are expected to be developed so as to receive decisions in the next plan and include the following:

- Rail services from Gothenburg to Norway and Stockholm to Oslo
- Additional Öresund connection
- The Arlanda inquiry, land connections to Arlanda and the state's responsibility for airports
- Development of public transport in the metropolitan regions of Stockholm, Gothenburg, and the Öresund area
- Capacity at Stockholm Central and Tomtebodavägen railway yard

Perhaps the new government heralds a major revision of the national plan for 2022–2033. Uncertainty on this point alone can have a major impact on the regions and businesses concerned. Uncertainties concerning objects, budgets, and timeframes have direct effects on preparations and commitments. The building of Swedish society embarked on by the then centre-right government before the 2014 election has still only partially begun.

5.3 Food production and supply

Food issues higher on the political agenda

In recent years, issues of food production and consumption have found themselves ever higher on the political agenda. In line with reports from, inter alia, the IPCC, Intergovernmental Panel on Climate Change, ([IPCC Report 2019](#) och [IPCC Report 2021](#)) on the impact of food production on the environment and climate as well as the increasing proportion of lifestyle-related diseases in the population, there is a need for measures and instruments. Both production and consumption need to become more sustainable, and, as an incentive for change, there are calls for measures such as meat and sugar taxes. Public health-related taxes on consumption have been introduced in some countries, but only to a limited extent. Finland introduced a sugar tax and then abolished it due to border difficulties, however it is now considering its reintroduction.



Food security is currently higher on the political agenda than has been seen for many years due to the recent exposure of its vulnerabilities. This is primarily due to neither natural disasters nor climate change, but instead how supply chains are structured.

Vulnerabilities exposed

The pandemic already exposed vulnerabilities in the international food system, however, as a result of Russia's war in Ukraine, these vulnerabilities have become acute due to the concentration of raw goods production and other crucial inputs. Russia and Ukraine account for around a third of the world's ammonia and potassium exports, which are key ingredients in fertilisers. In addition, the two countries account for some 30 per cent of global exports of wheat and barley. In addition, Ukraine is the world's largest producer of sunflower-based products. In addition to the shortages and increased costs seen for inputs, the Russian blockade of the Ukrainian port of Odessa meant a global shortage of food resulting in increasing prices for consumers. Add the recent crop failures, droughts, and floods in other large food-producing countries, there is now increasing pressure on producers, consumers, and entire communities.

In an era characterised by sharp rises in inflation, weak property and stock markets, and drastically increasing electricity and fuel prices, rising food prices have undoubtedly hit household finances hard.

As such, the issue of food security has landed high on the political agenda, however for quite different reasons and due to other driving forces than could be seen just a couple of years ago. In Sweden, direct steps to mitigate increases specifically in food prices have been dismissed to date. Instead, the focus has concerned discussions on lowering electricity and fuel prices and adjusting the requirement to pay back the capital part of home loans to alleviate the financial burden on households. In addition, some countries have introduced, or are discussing imposing, restrictions on exporting food, which risks adding further difficulties to an already strained situation.

Need for increased resilience in the food supply chain

Sweden's upcoming NATO membership will place new demands on the country's degree of civic preparedness that can support military preparedness in times of crisis.



Article three of the NATO Treaty, the so-called resilience clause, states that the parties:

"separately and jointly, by means of continuous and effective self-help and mutual aid, will maintain and develop their individual and collective capacity to resist armed attack"

which could entail new demands on the security of supplies of, inter alia, food, water, energy, and transport. The previous government, led by Magdalena Andersson, initiated a number of inquiries to ensure adequate preparedness, including one concerning the role of the business community in such. More initiatives may well come in the autumn of 2022, both in view of the ongoing Swedish NATO membership process and once Ulf Kristersson has appointed a minister with special responsibility for the total civil defence.

5.4 Energy, the environment, and climate

Need for increased energy supply resilience

Russia's invasion of Ukraine has highlighted the complexity and vulnerability of the European energy system. Concurrently, politicians on both sides of the Swedish political divide have placed great hopes in the electrification of both transport and industry in order to tackle climate change. The current high energy prices, therefore, place huge demands on politicians' ability to manage ingrained behaviour patterns in terms of consumption levels and expected prices.

Many voices have been raised over the past year calling for the operation of existing nuclear power plants to be extended (as opposed to being shut down), investments in new reactors, and new nuclear technologies such as small modular reactors to be allowed. A number of business representatives are demanding long-term rule changes to allow for investments in Sweden that cater for consumers' demands for lower electricity prices to help manage their private economy. In addition, several companies have requested emergency support packages to help manage liquidity issues and avoid bankruptcy. The energy crisis is hitting food companies in southern Sweden hard. Municipal services are also affected by the crisis, and, during the autumn of 2022, several municipalities have begun to consider whether to close down certain services such as sports halls and swimming facilities to save on electricity and, in turn, reduce costs.



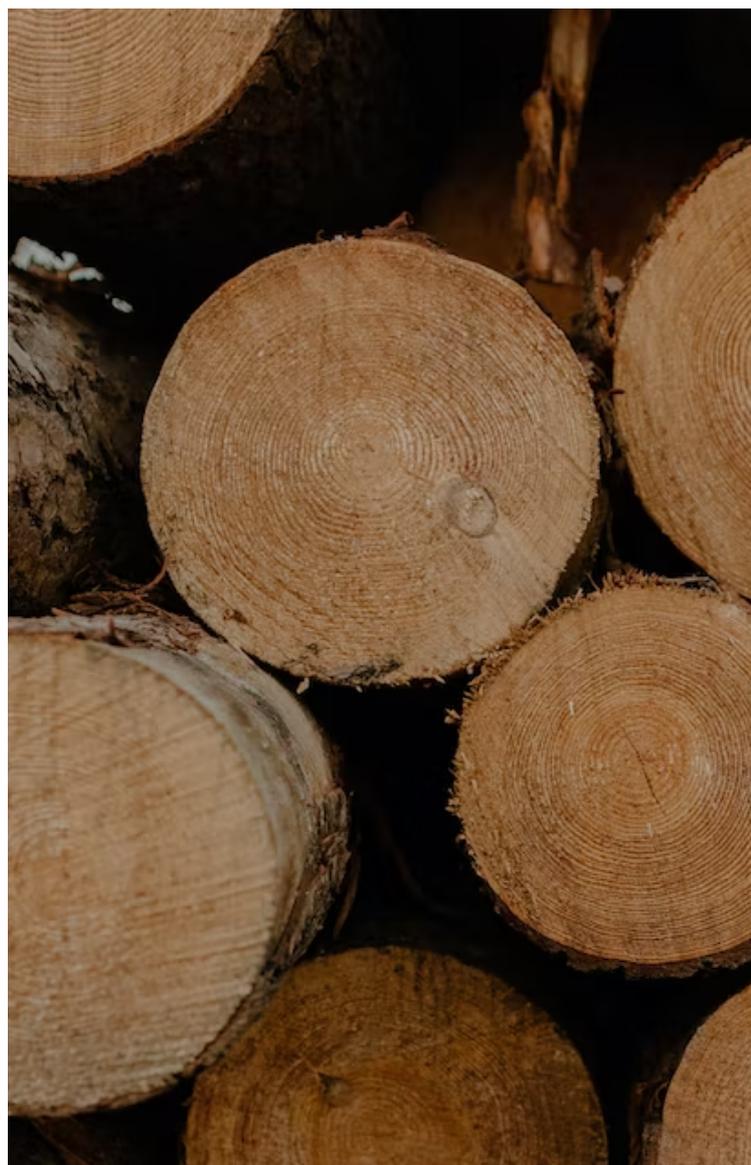
The new government faces major challenges in meeting the demands from the business community, municipalities, and households for lower electricity prices and to likewise create the prerequisites for the transition to a more sustainable society.

Despite the energy crisis, energy efficiency has only belatedly come into focus. Instead, the focus has been on providing financial support to cope with consumption rather than reducing it. When the previous Social Democratic government was forced to govern on the opposition's budget, the government was forced to remove support for energy efficiency measures.

Solutions needed to reduce emissions

The Moderates, Christian Democrats, and Sweden Democrats have all criticised the increased use of biofuels as a response to the obligation to reduce fossil fuel consumption as this has greatly affected fuel prices. During the election campaign, these parties pushed the line that they want to lower the reduction obligation, which also appeared in the Statement of Government Policy, which stated the reduction obligation will be lowered to the EU's minimum level on 1 January 2024. This will clearly have consequences for biofuel producers wanting long-term commitments from government not to move the goalposts, with these commitments being seen as necessary for enabling large investments and, above all, for Sweden's ability to achieve the climate goals by 2030 in line with the Riksdag adopting a 70 per cent reduction of fossil fuels compared to 2010.

Once the reduction obligation levels are reduced, other tough measures will be needed to reduce emissions to then reach the climate goals. The biggest item in the new government's budget was to temporarily reduce the tax on petrol and diesel, whilst also announcing the scrapping of the climate bonus for electric cars. If the Moderates want to be the party that leads the Green Right, huge pressure is now building to find measures that compensate the emission increases that a lowering of the reduction obligation will entail.



Focus on business and innovation

The Moderates' line is that climate policy begins and ends with energy policy and that business is itself an important environmental movement. This can be seen, not least, in the ministerial restructuring that has taken place, whereby the Ministry of Environment will now be part of the new Ministry of Climate and Enterprise. The government says it wants to take a holistic approach to energy policy to ensure the clean, stable supply of electricity at reasonable prices. An initial step outlined in the Tidö Agreement was to amend the energy policy target to have 100 per cent fossil-free electricity by 2040 instead of 100 per cent renewable. The new target allows for the use of nuclear power, hydropower, and wind power. In the coming term, the government is likely to initiate a number of inquiries in the energy field to enable new nuclear power, to review the functioning of the electricity market, and to promote energy research.

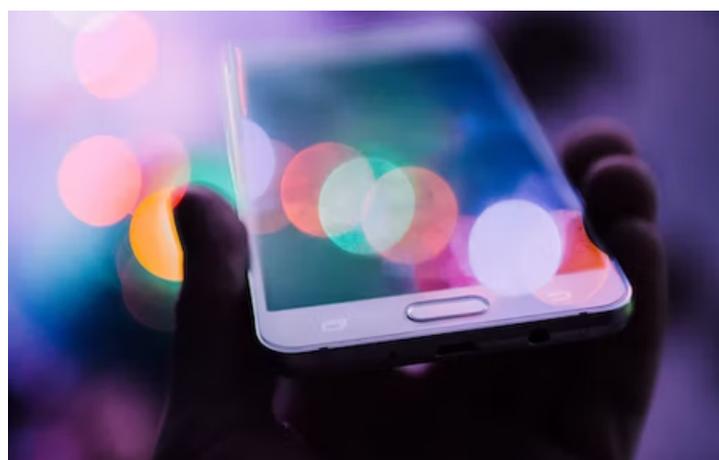
5.5 Digitalisation continues

Swedish society and political decision-makers alike have high hopes that digitalisation will play an important role in solving the various challenges facing society. Digitalisation is prevalent in everything from energy and climate issues to healthcare and education. Efficiency measures and improvements from digitalisation are expected by both the private and public sectors and, not least, by citizens.

However, if technological developments and digitalisation are to make significant contributions, more extensive prerequisites need to be in place than can be seen today. This concerns, not least, research and education where resources need to be increased both from private and public sources. Even in the issue of broadband expansion, more needs to be done to satisfy demands.

Sweden is losing ground in public sector digitalisation

Sweden has recently fallen in the European Commission's annual Digital Economy and Society Index (DESI), this year from third to fourth place in the weighted index. Regarding digitalisation of the public sector, Sweden sits roughly in the middle amongst other EU countries and is in 15th place for e-government. The fact that the current digitalisation strategy dates from 2017 also indicates that digitalisation issues have been a relatively low priority for both the Riksdag and government in recent years.



What puts Sweden far ahead in terms of digitalisation on an overall basis is the development that has taken place, and continues to take place, within the business community. A slightly increased commitment from the state has been discernible, for example through the recently appointed government inquiry on data sharing in public administration. If the state wants to play a bigger role in digitalisation in the future, it needs to get a much larger grip of the issues at hand.

Lower Swedish influence on the international digitalisation agenda

As above, Sweden is similarly lagging behind in terms of how we affect the digital agenda in Europe and beyond. This is at a time when technical standards and developments are becoming ever more divided between different parts of the world, a development that has been ongoing for some years but has further accelerated due to Russia's invasion of Ukraine. As such, being engaged in developments to ensure and maintain the role of Sweden and Swedish companies in a digitalised world is of vital importance. At the same time, there are difficult issues concerning the development of and investments in Swedish digital infrastructure, not least in terms of direct investments and foreign interests.

At present, Sweden occupies a somewhat contradictory position regarding cloud services and data management. On a European and global level, Sweden advocates a high degree of free trade and cooperation, including in the above issues. As such, Sweden generally opposes the concepts of "strategic autonomy" put forward by France in particular. And yet, a major discussion exists within Sweden concerning the possibility of building up a domestic, possibly state-owned, cloud service for authorities, municipalities, and regions. Similar ideas additionally exist regarding the issues of e-identification, electronic wallets, and so on. Therefore, a strategically important question for the future will concern the type of role the state should take in an ever more digitalised society.



Should the state develop and build its own digital infrastructure, or should it focus on setting standards and enacting legislation to obtain the best possible benefits from developments taking place both in Sweden and in the outside world? Perhaps the clearest indication is found in the recent Statement of Government Policy, which mentions cooperation with the US as an important aspect of digitalisation and technological development.

5.6 War in Europe – equipping the armed forces for NATO membership

The political parties' reactions to Russia's war are a telling exception to the ongoing disagreements on both the reality of, and solutions to, the many other issues on the political agenda.

As early as March 2022, the parties in the Riksdag were able to agree on rapid extra funding and support to military defence, with the defence budget set to amount to 2 per cent of GDP within a few years. Similarly, donating weapons to Ukraine was swiftly agreed upon, which is the first time such a transfer has been made to a country at war since 1939. In May, the historic step was taken to abandon military nonalignment and apply for membership of NATO, following a U-turn by the Social Democrats on the issue. The Sweden Democrats had also previously changed tack and aligned with the left-of-centre parties on the question.

As such, there existed a substantial majority in the Riksdag for accession to the alliance. The Left Party and the Green Party both uphold their disapproval of NATO but have, in practice, accepted the change without significant opposition.

At present – in November 2022 – the question of NATO membership concerns when accession can be realised in light of conditions Türkiye wants to impose on Finland and, in particular, Sweden. Regardless of the timetable, planning for both the necessary rearmament and integration into NATO has commenced.

The budgetary expansion of both military and civil defence (with a minister in special charge for the first time) is also being accelerated, partly because this is both a stated ambition of the new government and because inflation is particularly strong in defence equipment as rearmaments are underway throughout Europe.

This, of course, creates new business opportunities for domestic and international companies to deliver defence capabilities and security for society.



6. Demands on politicians, companies, and others looking to create a new sense of faith in the future



In the Sweden Report for 2022, the challenges and conclusions for Swedish politics were summarised as follows. The picture forms the basis for what now needs to be done.

Challenges

- Politics has become **introverted and short-sighted** as important questions lack obvious answers and necessary parliamentary majorities. The corona pandemic, as well as societal problems such as crime and migration issues, are setting the political agenda. Business needs and economic development are falling by the wayside.
- **Issues of credibility.** When core public services fail to deliver what people can reasonably expect, it undermines confidence in both politics and the future.
- **Stability problems.** When governments collapse and decisions result from long nights of negotiations in which parties are forced to concede and make compromises, it makes politics less predictable and rational. Decisions often come from negotiations held behind closed doors, which lack clear support and understanding. Together with differences of opinion within the government base and unclear majorities, this creates unstable, unpredictable, and sometimes surprising policy content.
- **Competition challenges.** When Sweden does not compare itself with other economies and measures are taken solely for domestic political reasons, the gaze turns inwards, whilst the economic and political dynamics of the outside world still have a great impact.
- **Cohesion problems.** When Sweden is divided geographically and population-wise, places and regions are left behind and people lack jobs and knowledge.

Conclusions

- Politics needs to set a course for Sweden for the coming years.
- Some issues need to be urgently addressed. At the same time, there are long-term, structural issues that also need addressing. Everything needs to be put into a narrative concerning the work ahead in the coming years.
- Companies dislike uncertainty and unpredictability. For long-term investments to be made, the prerequisites must be known, e.g., regarding the electricity supply. Political instability increases the risks of investing in Sweden.

More government in business – take the opportunity to show what is possible

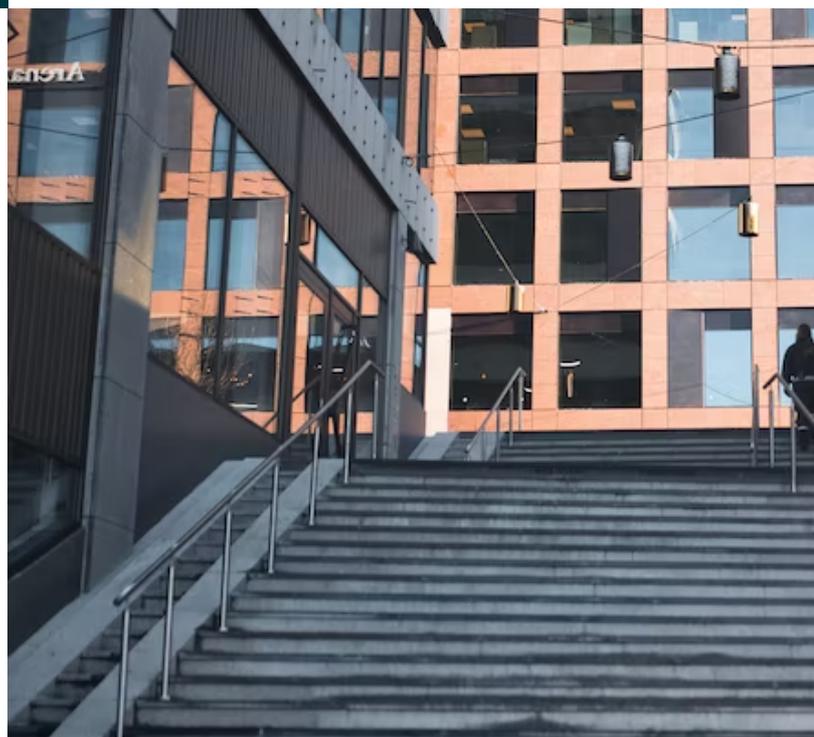
In an uncertain world, the interdependence between business and the public sector is clear. Everyone simply taking care of themselves is insufficient. The importance of dialogue, often on very specific issues, increases.

To enable this, public bodies, political parties, businesses, and social partners need to develop new ways to work efficiently, knowledgeably, and respectfully relative to each party's responsibilities.

State governance is motivated by security requirements, which are then fulfilled unequivocally. This does not necessarily mean that public decision-makers have sufficient knowledge of the workable solutions.

The way forward

Based on the three trends identified in this report, we believe that there are possible ways forward. It is well known that crises provide an opportunity for new, previously impossible solutions. The business leaders and politically elected officials who are ready to tackle these challenges decisively can break new ground. As Winston Churchill said during the establishment of the United Nations from the devastation of the Second World War – **"Never let a good crisis go to waste"**.



Many of the solutions proposed by politicians are better suited to appeasing voter groups than actually solving the problems at hand. Companies and other stakeholders should step forward, show what they need, and highlight what works for them. There are plenty of technical solutions that either contribute to streamlining work processes and, as such, improve the use of resources, or help reduce emissions and climate impact. This applies not least in the areas of society we have highlighted in this report; healthcare, infrastructure, food security, energy supply, digitalisation, and defence. By outlining the possible solutions to meet the challenges and solve the problems, faith in the future can be restored.

Inflation is putting pressure on public decision-makers – put the power of innovation in Swedish business to use

Unemployment increased during the corona pandemic yet, following which, there has been a shortage of skills in many professions, and this has pushed up salaries. The combination of high inflation and subsequent wage-increase demands can be a toxic cocktail for the Swedish economy as our competitiveness is crucial for long-term economic development. A Competitiveness Commission could help us all in seeing the bigger picture and thinking more long-term. Such a commission should also include a comprehensive tax reform, which has not been an issue any fragile coalition government has dared address to date.

The Tidö Agreement states that the government wants to take a holistic approach to energy policy to ensure a clean and stable supply of electricity at reasonable prices. In addition, the government would like to see a new energy policy goal of 100 per cent fossil-free electricity in place by 2040. The goal is based on using nuclear power, hydropower, and wind power. However, in order to achieve this goal and create stable and long-term ground rules for business, a new energy policy based on broad political support is required. In this respect, Swedish businesses should contribute by putting constructive pressure on politics to unite and adopt a comprehensive approach to the work.

Both the previous and new governments want to prioritise the green industrial transition to meet the climate challenges and see a leading international role for Sweden in doing so. Individual companies – existing and not yet started – are therefore in the driver's seat. The focus of the policy, preferably having gained broad support, must, therefore, be to facilitate and enable green entrepreneurship. It is important both to secure energy supplies and ensure a legally secure and applicable regulatory framework.



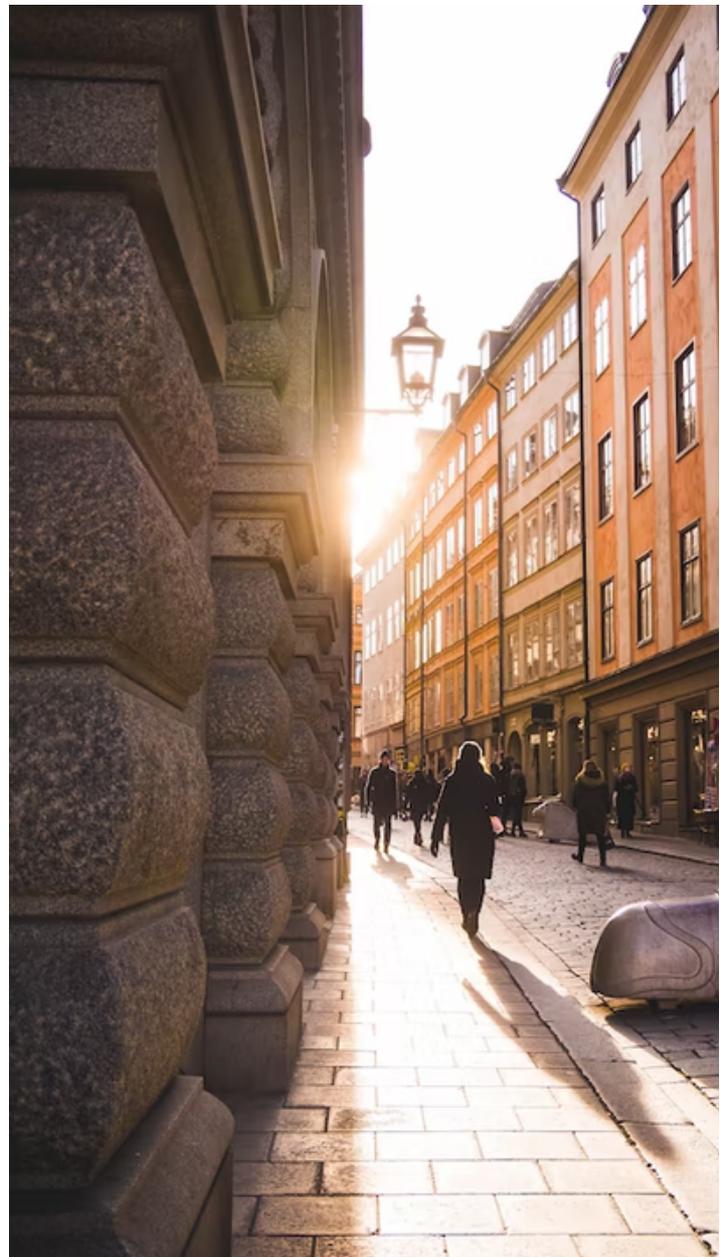
Well-chosen public investments, especially in education and transport infrastructure, are perhaps the most important ingredients, along with reforms for permit processes to make them faster, easier, and more rational accompanied by a holistic view of society's needs. The green industry and the economy are, above all, a knowledge economy, however, even here, we still see the need for raw materials and "hard" technology.

Despite the focus on the green industrial transition, both the energy crisis and the looming recession provide additional reasons to stimulate household investments in climate- and energy-saving measures with subsidies, which, if well-targeted, need perhaps only be short term.

Instability is the new normal – don't let it remain the case

Right now, most political parties are licking their wounds following a divisive and fierce election campaign. This was then followed by another, somewhat protracted government formation process, which, in turn, has sown the seeds for a new tug-of-war in the coming years within the government, the opposition, and between them. A majority coalition exists in the Riksdag, whilst, concurrently, we have many other constellations in the regions and municipalities.

Despite a polarised debate and continued distrust – both in public opinion and between the parties – consensus on at least some issues, as well as compromises on other issues, are necessary. In order to achieve this, platforms for dialogue are needed that make it possible to find the way forward on cross-cutting or limited issues. Rud Pedersen hopes to contribute to this important democratic conversation.





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