

# Summary

The main task of the Fiscal Policy Council is to review and evaluate the extent to which fiscal and economic policy objectives are being achieved. Our principal conclusions in this year's report are as follows:

## *Economic conditions and stabilisation policy*

1. The upturn in the Swedish economy is expected to continue both this year and next, and resource utilisation will become more and more stretched. The global economic situation is also improving and the outlook is relatively good.
2. The Swedish Government's active fiscal policy is not well-balanced. In light of the economic situation and the surplus target, the policy should be much more restrictive.
3. A more restrictive active fiscal policy could also contribute to greater macroprudential stability. A properly designed structural policy, e.g. lower interest deductions and a higher property charge, could check both house prices and household debt.

## *The surplus target and the expenditure ceiling*

4. Structural net lending is well below the level required by the current surplus target even though the economy is booming.
5. In the prevailing economic situation, the Government has chosen to weaken the public finances this year. This is remarkable, and the Government needs to justify its policy and explain how it can be reconciled with the fiscal policy framework.
6. There are good grounds for believing that financial net lending in both the pension system and the local government sector – which have been positive until now – will turn negative in the next four years. In order to attain the surplus target, the State portion of general government net lending needs to be bigger than it has been at any time since the target was introduced.
7. There is great uncertainty as to what should be regarded as a long-term level of costs for receiving and integrating asylum-

seekers. For reasons of prudence, the Government should allow in its budgets for the possibility of these costs being higher than projected.

8. The gap to the expenditure ceiling is historically high relative to recent years. The level of the expenditure ceiling therefore provides little support for the surplus target. Such a large gap begs the question as to what the Government regards as an appropriate degree of tax relief. The Government needs to state what it considers to be an appropriate trend in expenditure and a reasonable level of tax relief for the next four years.
9. The Government intends to achieve the surplus target no later than 2020. The surplus target that the Government is referring to appears to be the new proposed target of 1/3 per cent relative to average GDP over the economic cycle, and not the present target of 1 per cent. The Government needs to clarify how it sees the transition from the current surplus target to the proposed lower target.

*Follow-up on the surplus target*

10. The period 2006–2015 may be said to constitute a whole business cycle. Average net lending in this period amounted to 0.3 per cent of GDP. The target of 1 per cent average net lending over the business cycle has therefore not been attained.
11. Even allowing for the fact that this period was marked by an unusually deep and prolonged downturn, the surplus target was not attained; structural net lending averaged 0.7 per cent of GDP in the period 2006–2015.
12. We also note that average net lending has fallen short of the target in every eight-year period from 2005–2012 up to 2011–2018.

*The debt anchor*

13. The Surplus Target Committee has proposed a debt anchor of 35 per cent of GDP. We believe that this provides a sufficient safety margin to weather a serious economic crisis, assuming that real interest rates are low and that long-term growth in the Swedish economy does not fall dramatically.

*Long-term sustainable public finances*

14. The calculations of the sustainability of the public finances up to 2030 carried out by the NIER on behalf of the Council suggest that there is only a slight risk of imbalances.
15. Unless the integration of newly arrived immigrants into the labour market is considerably improved, asylum immigration will place a long-term burden on the public finances.
16. The retirement age needs to be raised gradually in order for public finances to be sustainable in the long term and for income pensions to reach an acceptable level. The custom of retiring at the age of 65 needs to be changed.

*Employment and unemployment*

17. The main problem in the Swedish labour market relates to the big differences in employment and unemployment between people born in Sweden and those born outside Europe. In last year's report, the Council proposed continued investment in training and subsidised jobs, and also that the social partners should consider the possibility of low-skilled jobs paying below today's minimum wage.
18. We believe that the Government will not achieve its target of the lowest unemployment rate in the EU by the year 2020. This is partly because full-time students who are also looking for work account for a comparatively large proportion of unemployment in Sweden, and because immigrants are not being effectively integrated into the labour market.
19. As previously suggested by the Council, the Government should reformulate its unemployment target into separate targets for different groups, such as asylum immigrants, young people with poor qualifications and the long-term unemployed.
20. The Government expects equilibrium unemployment to fall to 6.2 per cent by 2020, while the NIER expects it to be at 6.7 per cent from 2017–2020. The Government should explain clearly the estimates that have been made, and present sensitivity analyses to show how the calculations of

potential GDP and structural net lending are affected by alternative assumptions of equilibrium unemployment.

21. The principal basis for the Government's retrospective assessment of equilibrium unemployment comes from estimates produced by the European Commission. International collaboration on model development is valuable, but the model needs to be reviewed by the Ministry of Finance before it can be further adapted to Swedish conditions.
22. There is a strong suggestion that matching within the labour market has worsened since the financial crisis of 2008–2009. This is especially true of people born outside Sweden, and probably produces a certain upward pressure on equilibrium unemployment.

#### *Forecast evaluation*

23. The Government still has a lower forecast of resource utilisation in the economy in the coming years than most other analysts. This means that the Government's estimate of structural net lending is higher than would otherwise be the case, which then affects one's assessment of whether the target for government net lending has been achieved.
24. The Council's evaluation shows that the Government's projections of major market variables were less accurate than those of the NIER in the period 2007–2016. For most of the variables examined, the Government is also unable to shake off a 'naive forecasting method' for the next two to three years, where the latest known variable is assumed to persist into the future too. There is also a tendency to systematically over-estimate GDP growth and government net lending and to under-estimate unemployment. The Government should be able to produce better forecasts and calculations. This is particularly true of financial and structural net lending, where the Government alone has access to the most up-to-date information.
25. The Government's calculation of the public finances results in a systematic overstatement of financial and structural net

lending over the next two to three years. We believe that the Government should apply an extrapolation method to provide a more realistic picture of how the public finances are likely to develop.

#### *Rent regulation and income distribution*

26. Mobility in the labour market is likely to increase and the conditions for growth should improve following an adjustment of the present system towards market rents. Rent regulation protects those who are already in the rental market at the expense of those outside. Even for those inside the market, this regulation creates problems. It does keep their rents down, but it also restricts their mobility and freedom of choice.
27. No amendment should be made, however, without considering the impact on the distribution of disposable income. Our calculation of the short-term distribution effects shows that a move to market rents would increase rents more for households in higher income bands, but that households with lower incomes would be hit harder in terms of the percentage of disposable income. A move to market rents should therefore be accompanied by other measures, such as increased housing benefits. At the same time, a move to market rents would bring capital gains to property owners. A one-off tax on property owners could help to finance increased housing benefits.

#### *Nomination of members of the Fiscal Policy Council*

28. The Government intends to establish a nomination committee including members of the Riksdag's Parliamentary Committee on Finance. We feel that this could compromise the Council's independence, or at least damage people's faith in its independence. If the Government decides to implement the proposal, it is important that members of the Parliamentary Committee on Finance should not form a majority of the nomination committee, and that the chair of this committee should not be a member of the Riksdag.