Fiscal Frameworks: The Swedish experience

Meeting with

The New Zealand Treasury

May 27, 2015

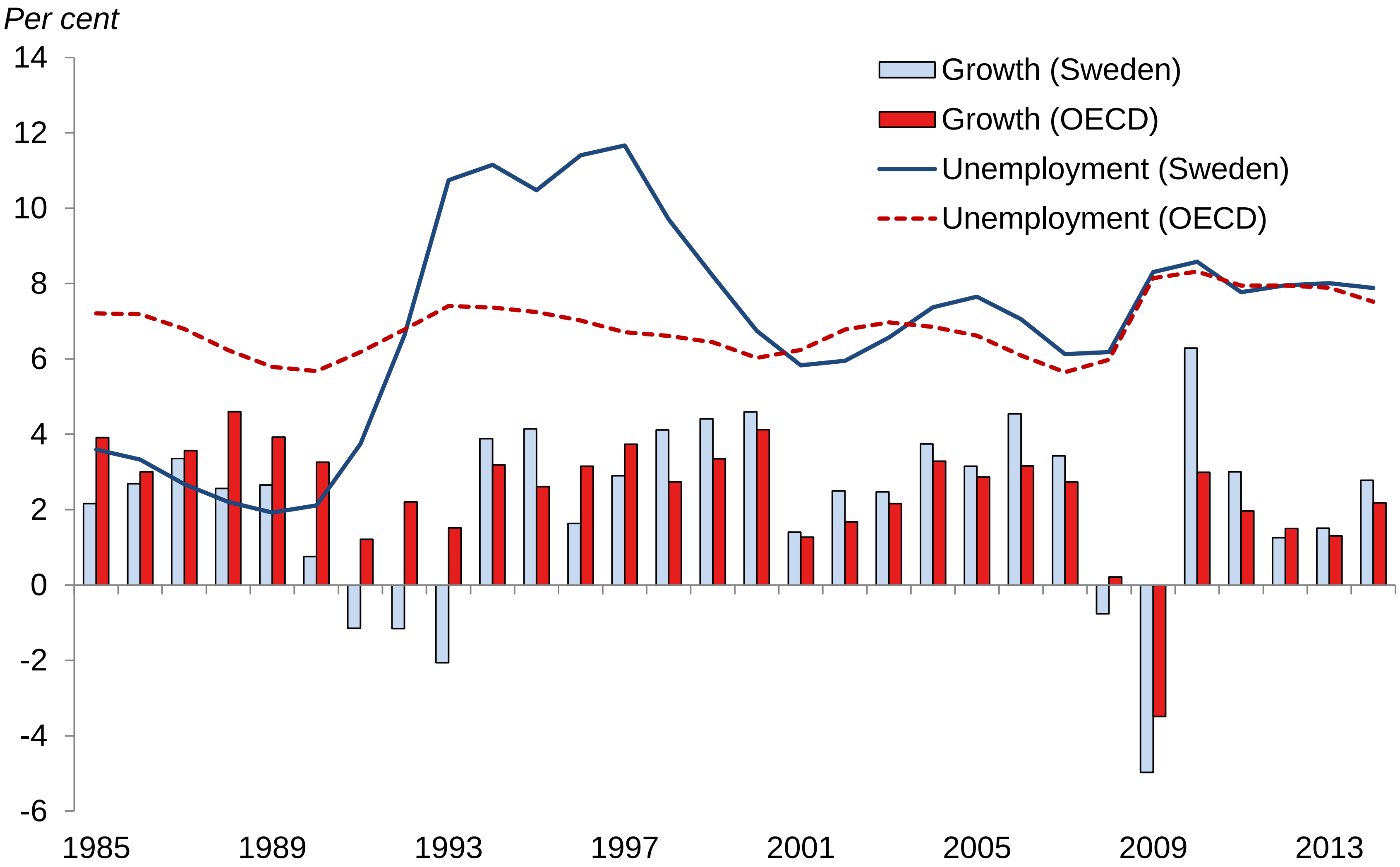
FINANSPOLITISKA RÅDET

SWEDISH FISCAL POLICY COUNCIL

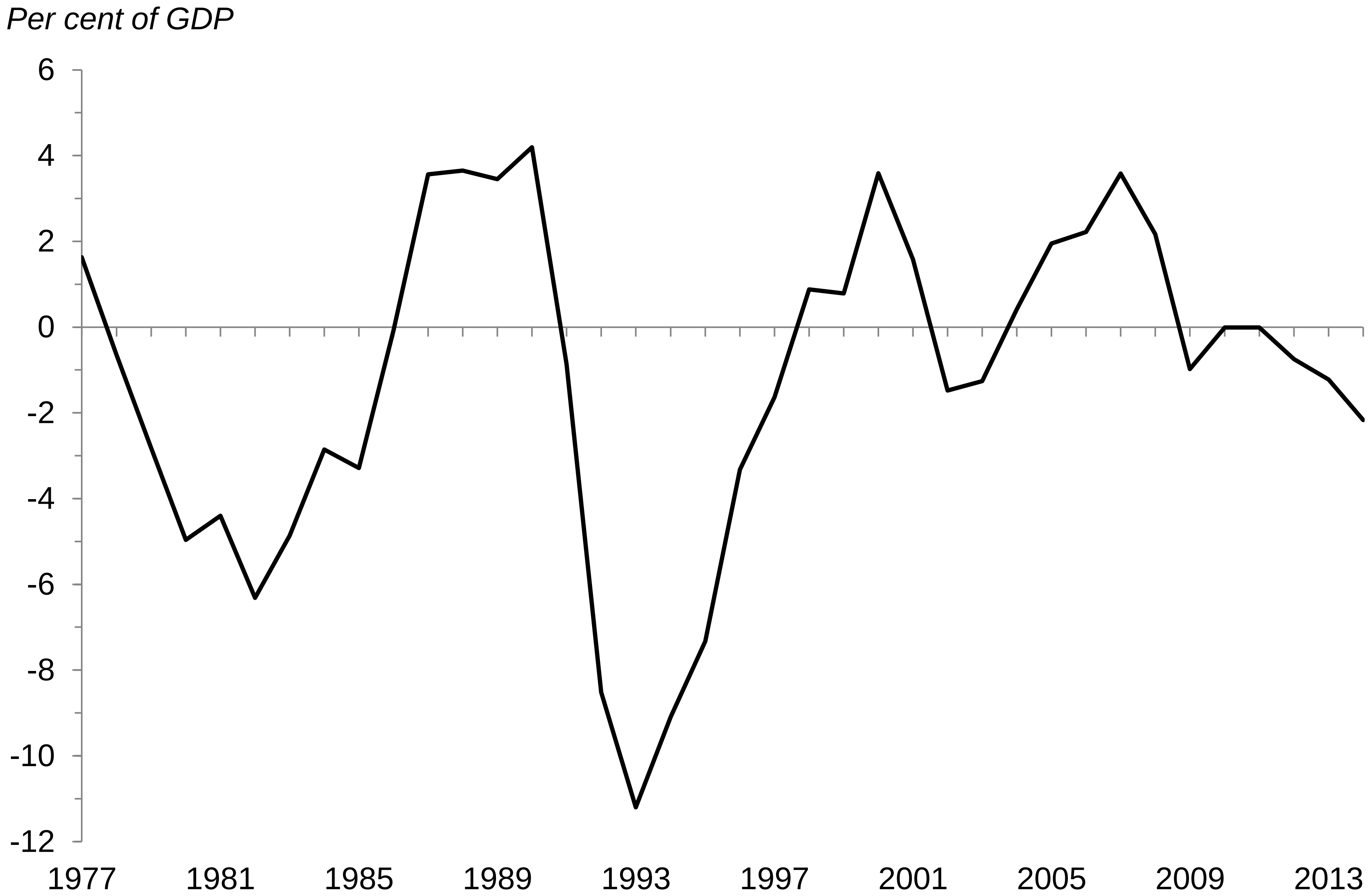
Sweden during the Recent Crisis

- Despite a 5% drop in GDP in 2009 and a typically high fiscal balance elasticity, Sweden:
  - Moderate drop in the fiscal balance;
  - Recovered to pre-crisis GDP in 2010.
- Very different from the crisis in the early 1990s:
- Key explanations for Sweden's good performance:
  - Important reforms were undertaken during the 1990s;
  - No structural imbalances – no domestic amplification mechanisms;
  - Strong budget before the crisis;
  - A strong Finance Minister supported by a politically well-established fiscal framework.

Growth and Unemployment 1985–2014

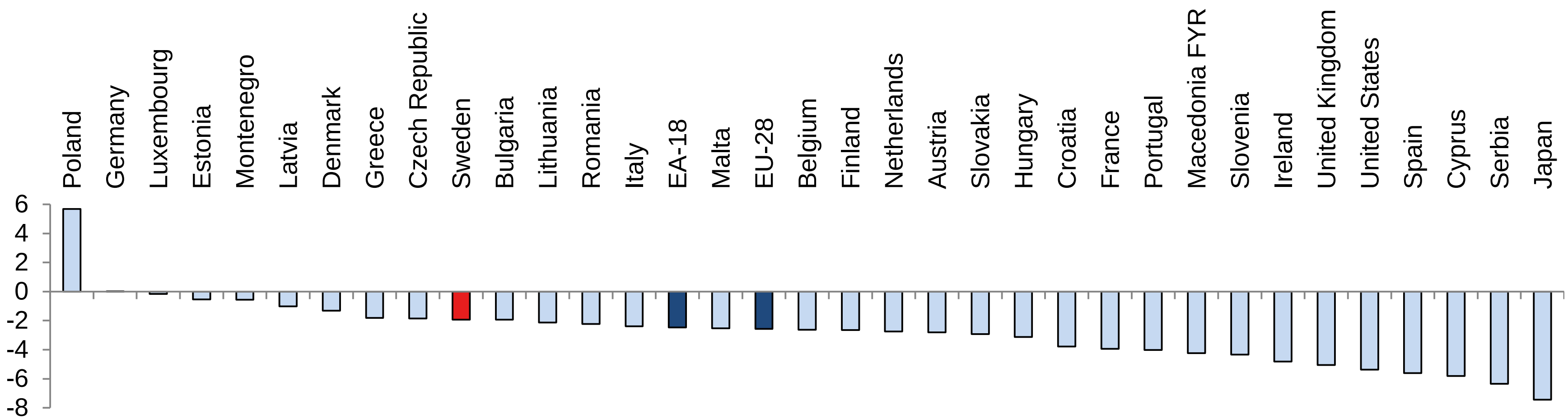


General Government Net Lending 1976–2014

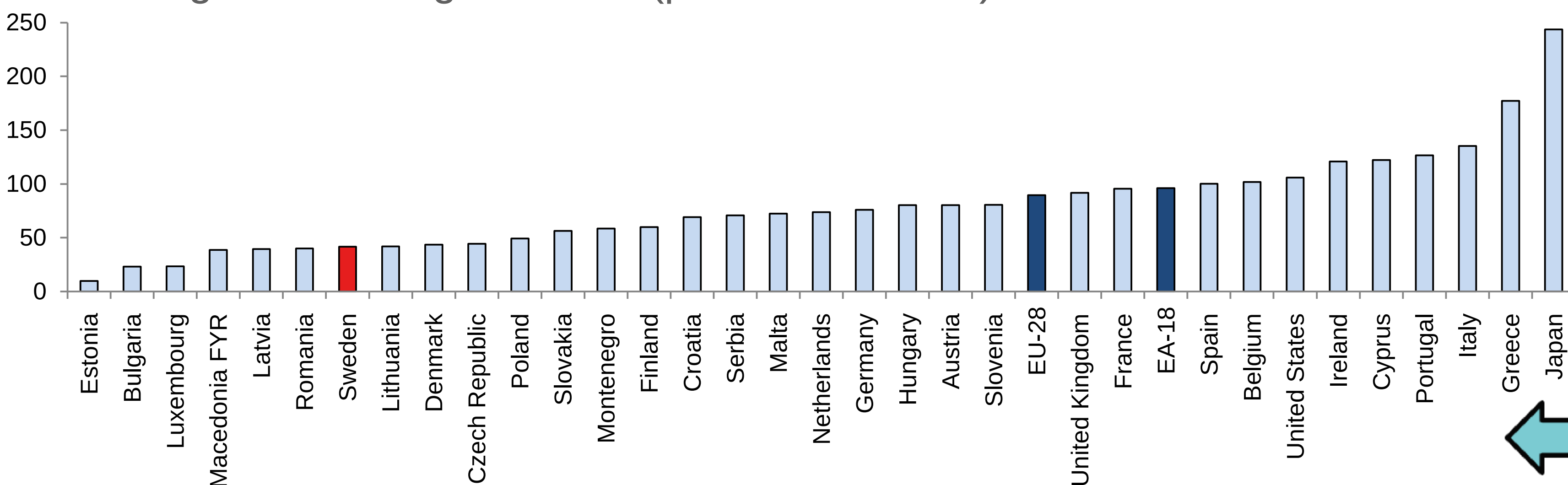


Public Finances 2014

General government net lending (per cent of GDP)



General government gross debt (per cent of GDP)



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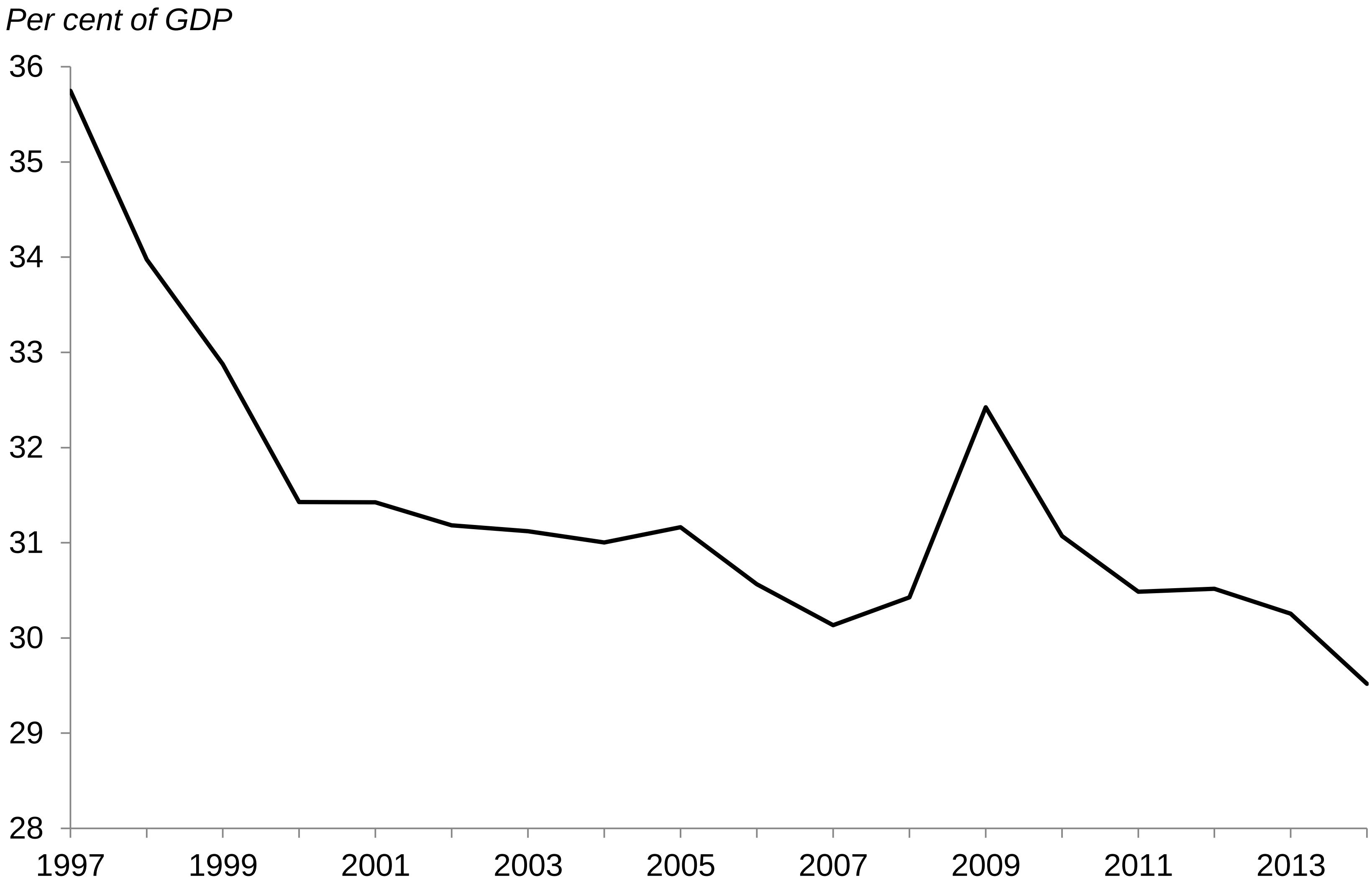
A Comprehensive Makeover during the 1990s

- EU membership in 1995;
- Election periods extended to 4 years;
- A new tax system;
- A new monetary-policy framework;
- Tough fiscal consolidation (1993-1998, ~ 11% of GDP);
- A new fiscal framework;
- A new contributions-defined pension system;
- Reforms of wage bargaining;
- Deregulations of product and service markets;
- General labour market reforms (<u>since 2006</u>).

The Swedish Fiscal Framework

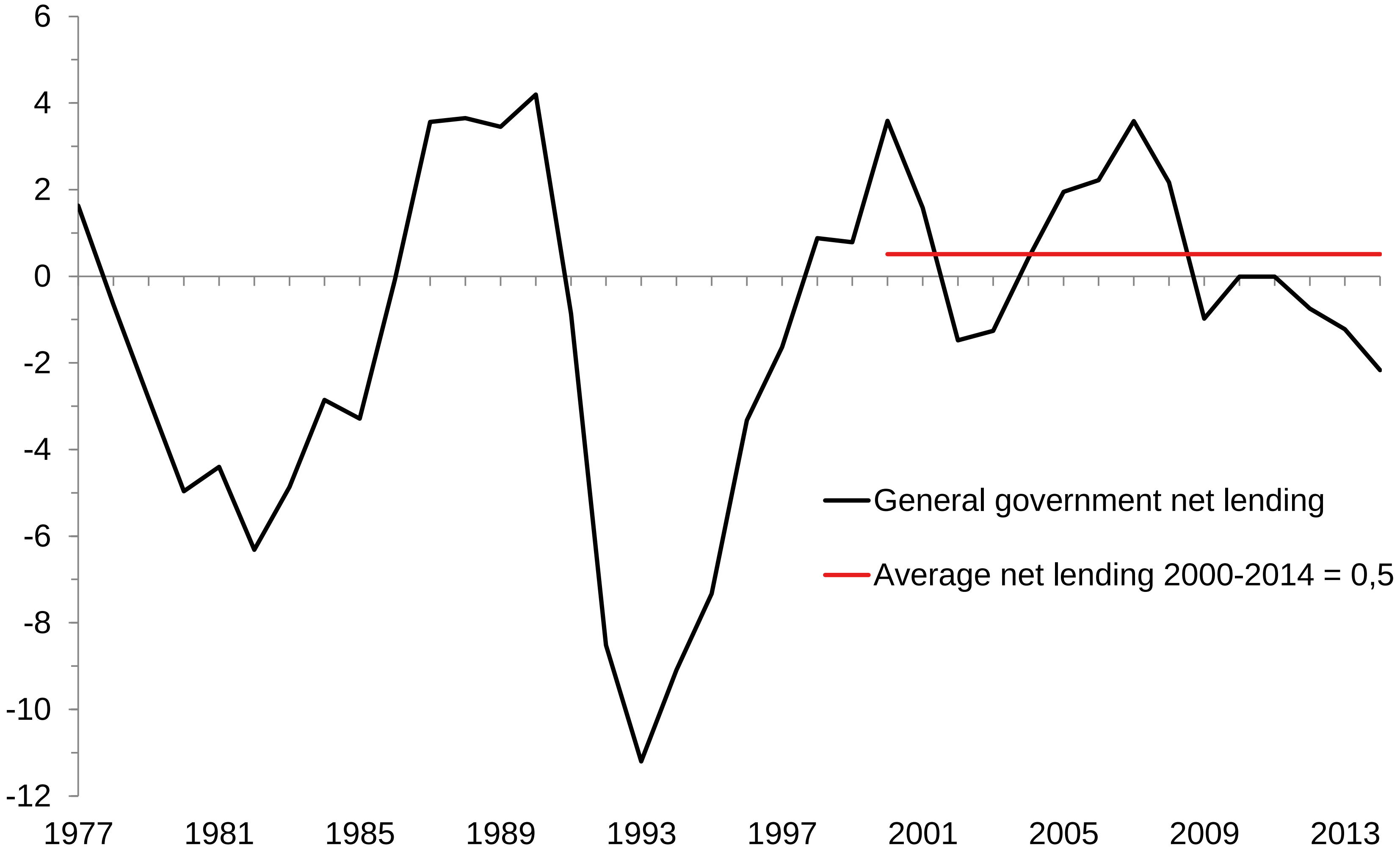
- A *top-down* approach for the adoption of the budget in the Parliament;
- Central government *expenditure ceiling* set 3 years in advance; decision by Parliament;
- A fiscal *surplus target* for general government net lending of 1% of GDP, on average, over the business-cycle;
- Balanced budget requirement for local governments;

Expenditure Ceiling 1997–2014



General Government Net Lending 1976–2014

Per cent of GDP



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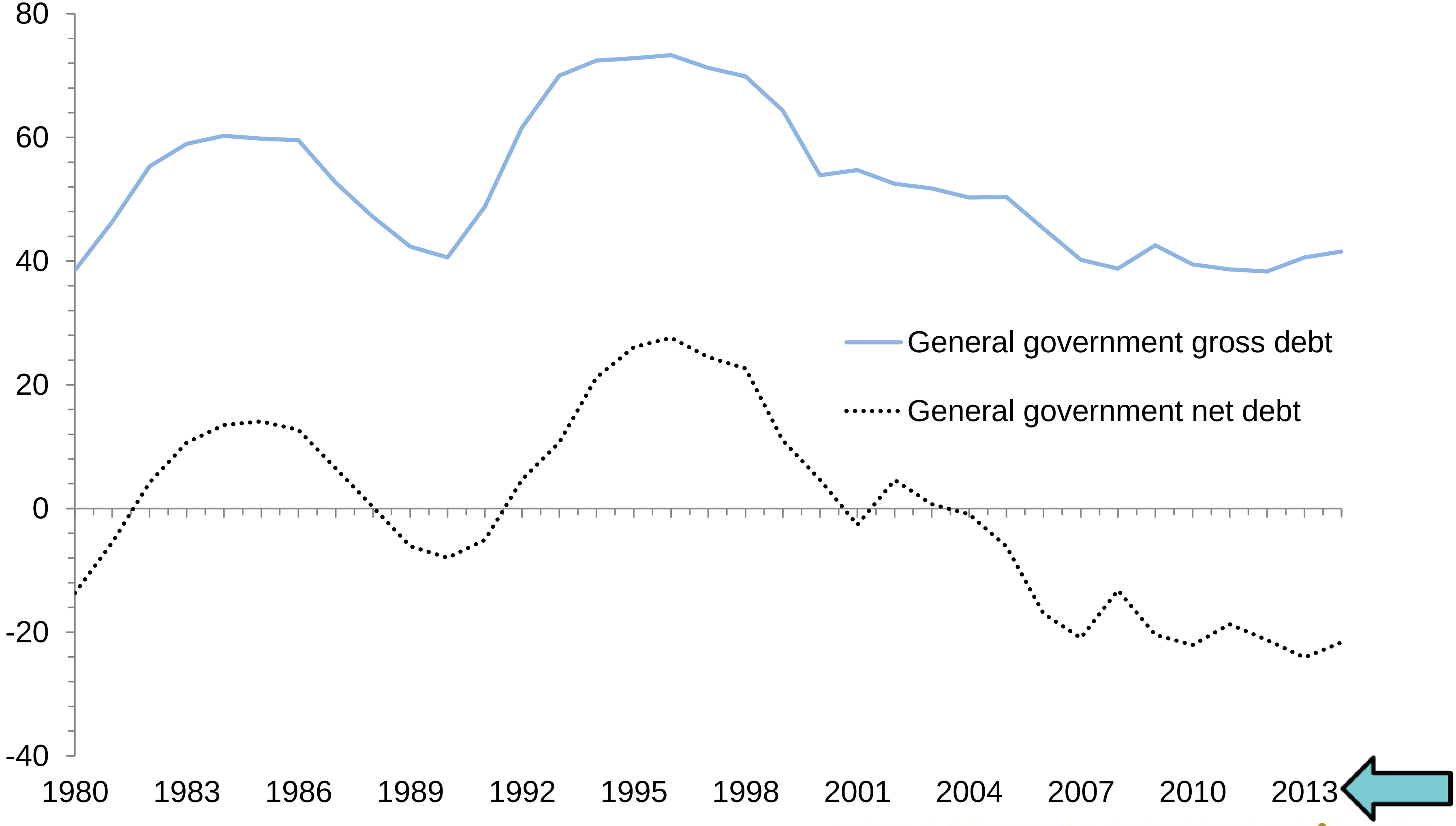
General Government Gross and Net Debt 1980–2014

Per cent of GDP



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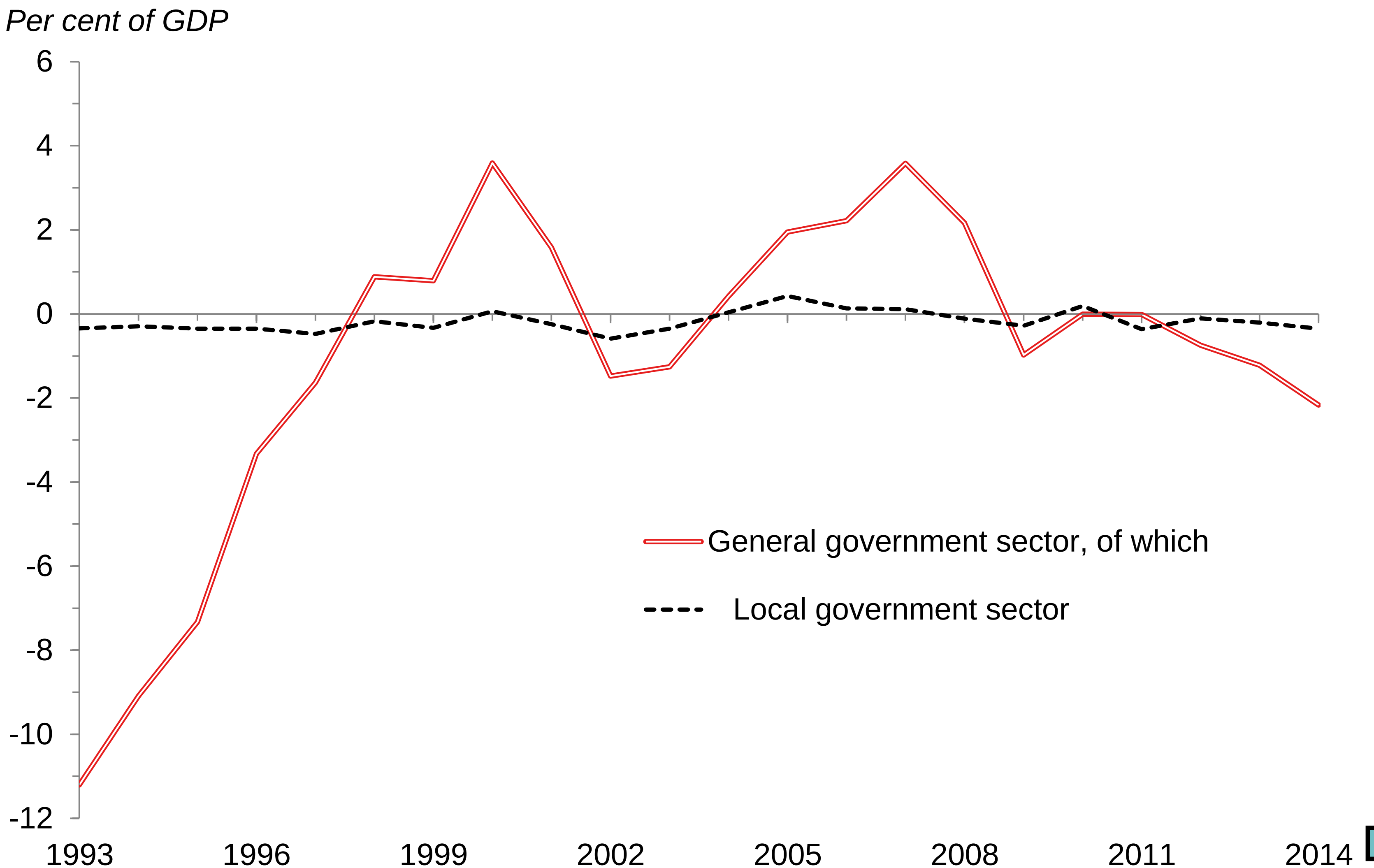
General Government Net Lending 1993–2014



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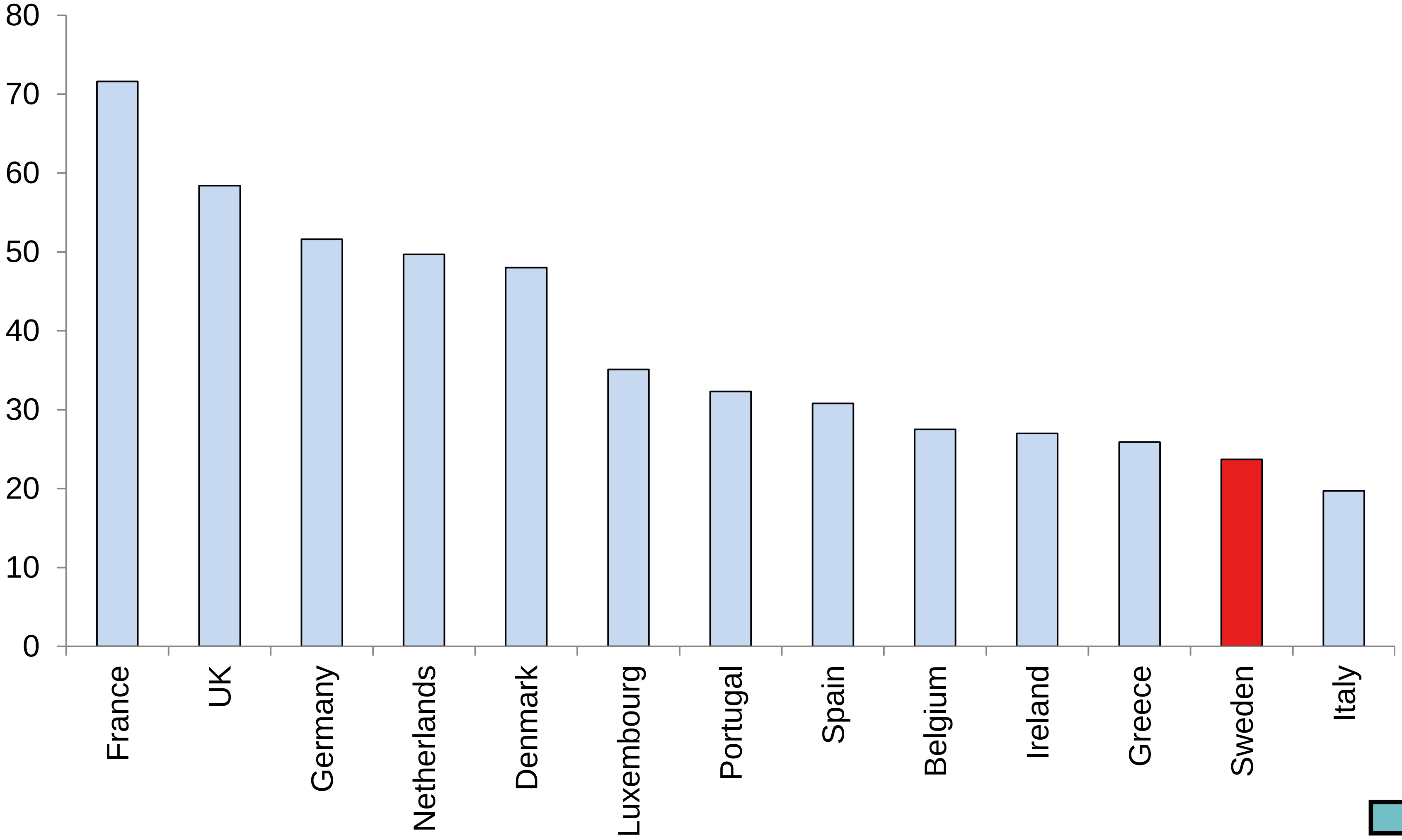
The Swedish Fiscal Framework

- Since 2007, a Fiscal Policy Council with a broad remit (to facilitate transparency and accountability);
- Directive 85/2011/EU;
- Fiscal Compact;
- The budget process was among the weakest in EU before the reform. Now it's among the strongest.
- *Note: The strength of this framework depends on the political will to respect it…*

Structural Index of the Strength of the Budget Processes 1992



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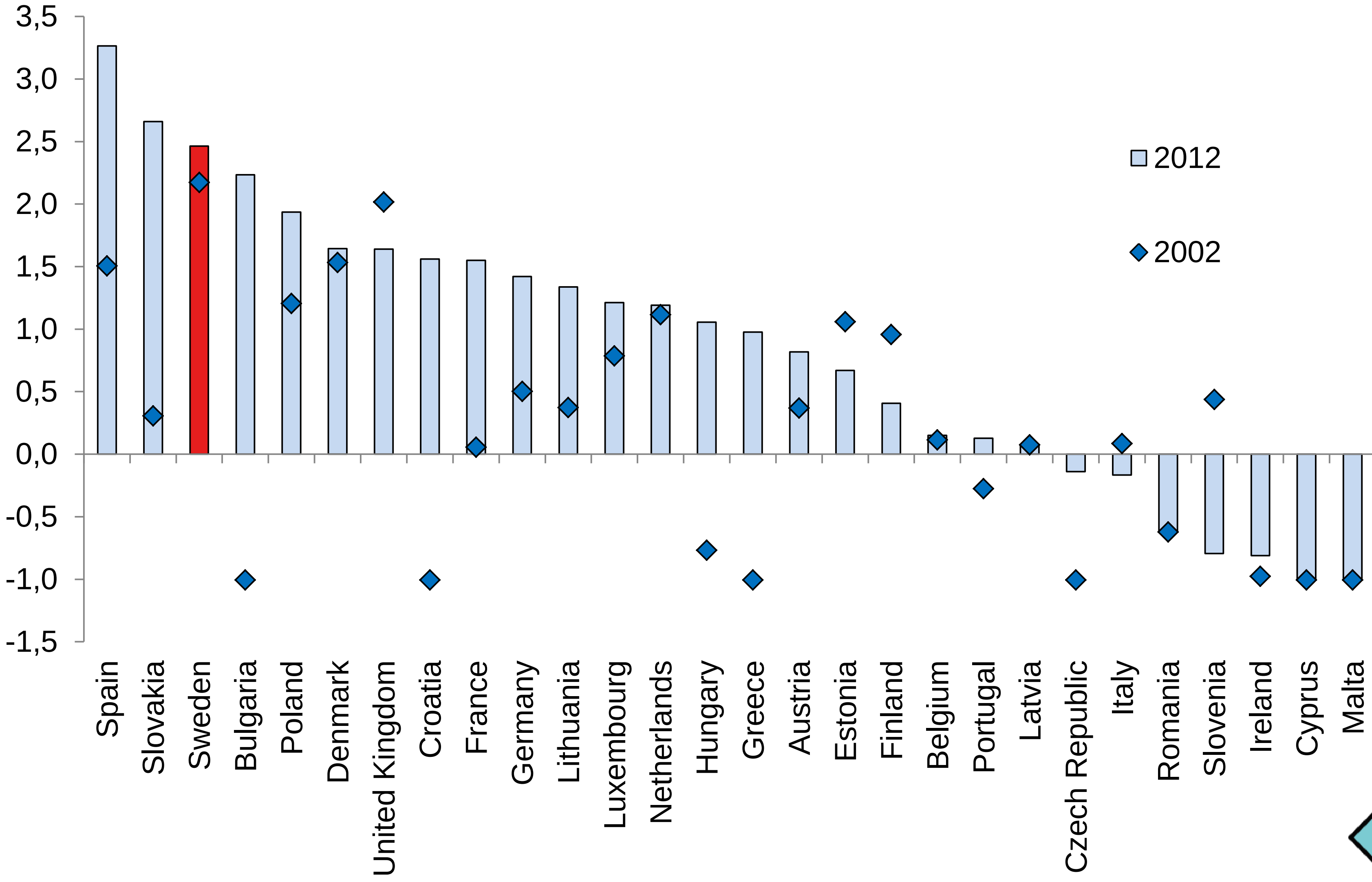
Fiscal Rule Index 2002–2012



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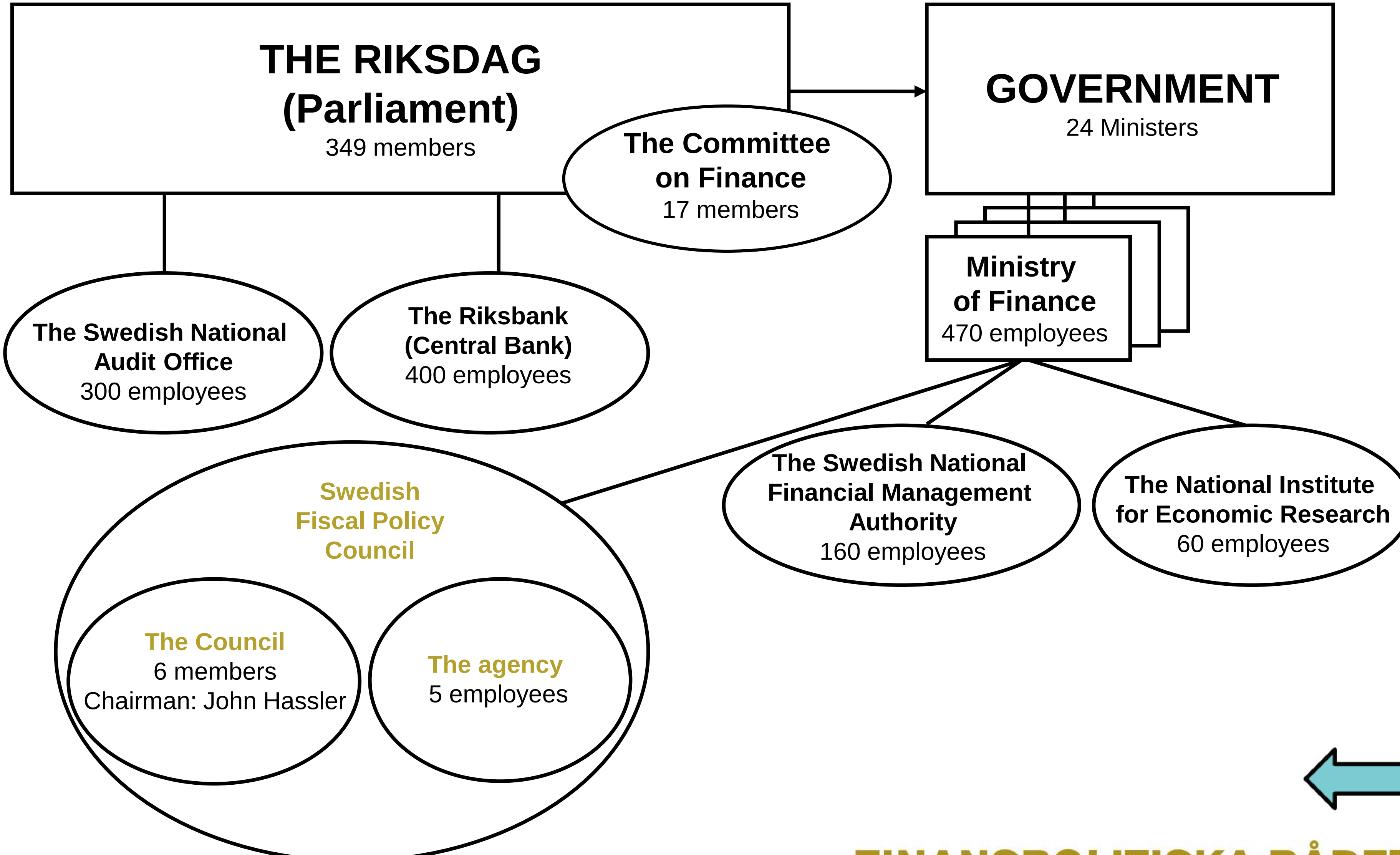
The set-up of the Fiscal Policy Council

- Established in 2007;
- An agency under the Government;
- Six members:
  - Academics;
  - Policy-making experience;
- Supplementary activities to ordinary jobs (mainly academic positions);
- Small secretariat: five persons;
- Annual budget ~1 000 000 €;
- Provisions to safeguard the Council's independence, such as a stipulation that the Council itself proposes its members to the Government.



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The tasks of the Fiscal Policy Council

1. Focus on *ex post* evaluation, with some *ex ante* evaluation;
2. Evaluate whether the fiscal policy meets its objectives:
   - Long-run sustainability;
   - Surplus target;
   - The expenditure ceiling;
   - Stabilization issues.
3. Evaluate whether the developments are in line with healthy sustainable growth and a sustainable high employment;
4. Monitor the transparency of the government budget proposals and the motivations for various policy measures;
5. Analyze the effects of fiscal policy on the distribution of welfare;
6. Contribute to a better economic policy discussion in general.

Has the fiscal policy framework worked?

- Generally successful implementation:
  - Top-down approach is followed;
  - Spending ceilings have not been breached (albeit some minor, and politically costly, examples of creative bookkeeping);
  - Surplus target has been met – at least until recently…;
  - Broad political support: opposition wanted more spending during crisis, but less than 1% of GDP;
  - The Fiscal Policy Council has increased the transparency and facilitated a higher quality of the political discussion.

THE END