PRESS RELEASE

The Fiscal Policy Council on the public finances and the Government’s view of the surplus target

On October 13th, the Finance Minister presented the Government’s assessment of the economic situation, the public finances and the surplus target. In view of the Government’s assessment, the Fiscal Policy Council wishes to present its view of the public finances and the surplus target.

Coffers not empty

Sweden and other countries have experienced a protracted economic downturn and the previous government has conducted an expansive fiscal policy that has led to a deficit in the public finances. In the Council’s opinion, the fiscal policy during the crisis has generally been appropriate. The tax reductions in last autumn’s Budget Bill are, however, difficult to justify from a stabilisation policy perspective.

Despite the expansive fiscal policy, the public debt ratio has been stable during the economic downturn. The current deficit does not present any threat to long-term fiscal sustainability.

In light of the long economic downturn, we consider the public finances to be in good shape, particularly compared with other countries.

No reason to deviate from the surplus target

Returning to surplus after a period of expansive policies presents a considerable challenge for fiscal policy. The conduct of an expansive fiscal policy partly based on permanent tax reductions makes the return to a surplus of one per cent more difficult.

In the Government’s forecast, the economy will be in equilibrium in 2017–18. In order to adhere to the fiscal framework, it is our opinion that there needs to be a plan for achieving at least a one per cent surplus in the public finances once the cyclical situation is normal. From a stabilisation policy perspective, postponing the return to a one per cent surplus is not justified. Planning that leads to net lending that is well below one per cent when the economy is in equilibrium is a breach of the fiscal framework.

Sweden has in the past proven capable of eliminating a deficit following a crisis. It is important to maintain confidence in this capacity and not defer problems. The Council has earlier pointed out that the surplus target will not be met and has questioned the Government’s postponement in spring 2014 of the return to a one per cent surplus. A further delay now in the return to the surplus target that is not justified by stabilisation policy damages fiscal policy credibility.

The surplus target should be kept unchanged

In spring 2014, it was the Council’s opinion that for the time being, it was appropriate to maintain the current level of the surplus target, which according to the National Institute of Economic Research will not lead to the elimination of the government debt but will mean that it will slowly approach 20 per cent of GDP. We see no reason to change our opinion.

Stabilisation policy’s major challenge is to prevent a cyclically justified deficit from becoming permanent. The purpose of the fiscal framework, of which the surplus target is an important part, is to provide support for eliminating temporary deficits. No matter what the surplus target is, it will always be politically difficult to eliminate temporary deficits. Short-term difficulties in living up to the surplus target are not, however, a valid argument for lowering the target.
**Further information**

The Fiscal Policy Council is composed of John Hassler (Chairman), Irma Rosenberg (Deputy Chairman), Anders Björklund, Hilde C. Bjørnland, Yvonne Gustafsson and Oskar Nordström Skans.

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The Fiscal Policy Council is a government agency tasked by the Government to examine whether fiscal policy meets its fundamental objectives. These objectives include long-term sustainable public finances, the surplus target and the expenditure ceiling. The Council is also to assess whether fiscal policy is in line with healthy long-term sustainable growth and long-term sustainable high employment. The Council is also to analyse the effects of fiscal policy on the distribution of welfare in the short and the long term. A further task is to examine the clarity of Government budget bills and the quality of the supporting information on which the Government bases its assessments. The Council is to promote more public debate in society about economic policy. The report Swedish Fiscal Policy is published once a year.