The Fiscal Policy Council: a short introduction

Meeting with National Audit Office of Finland

Helsingfors

25 September, 2013

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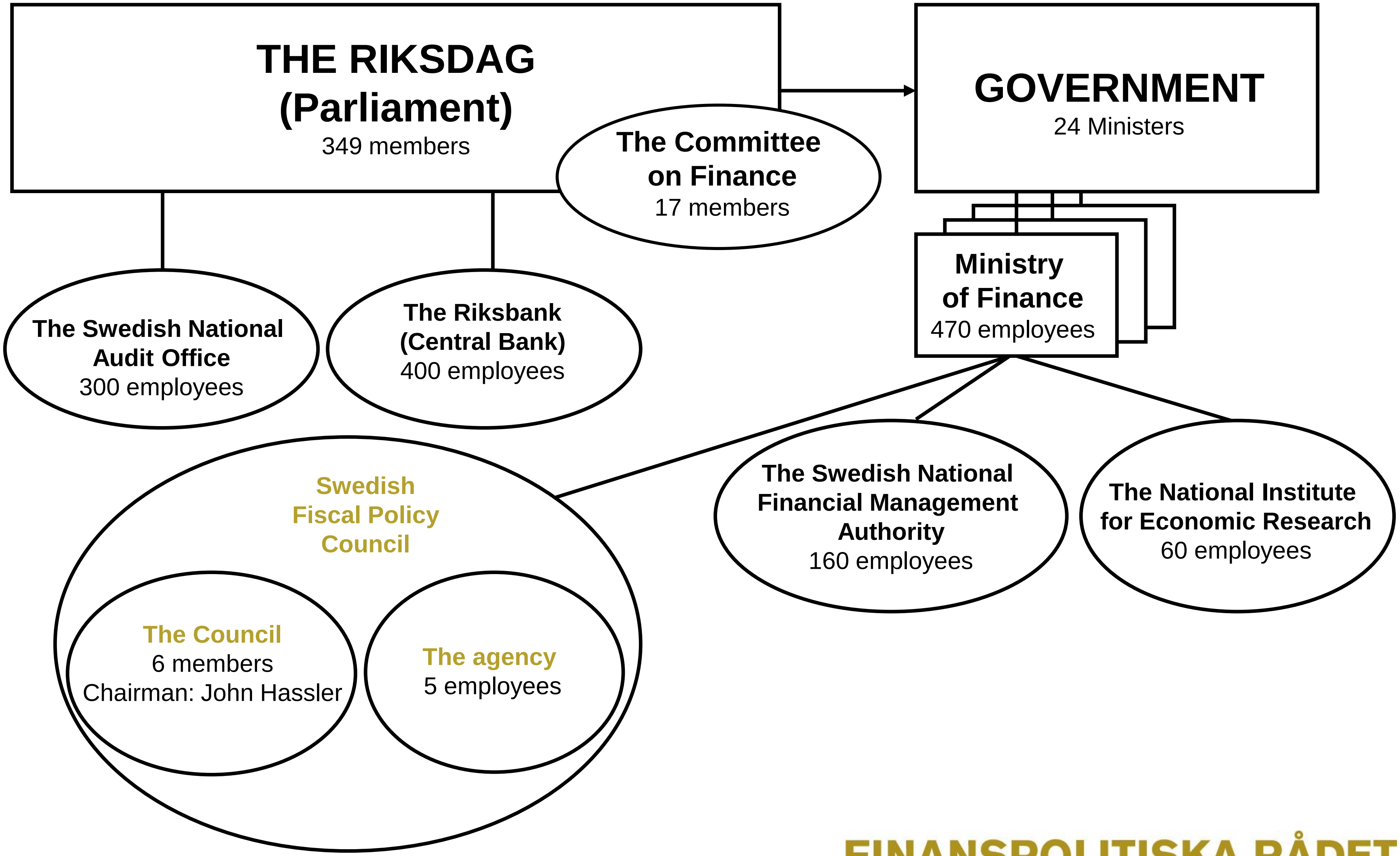
SWEDISH FISCAL POLICY COUNCIL

The Swedish Fiscal Framework

- Top-down budget process (preparation in Government as well as decision in Parliament);
- A fiscal *surplus target* for general government net lending of 1% of GDP, on average, over the business-cycle;
- Central government *expenditure ceiling* set 3 years in advance; decision by Parliament;
- Balanced budget requirement for local governments;
- Since 2007, a Fiscal Policy Council with a broad remit (to facilitate transparency and accountability).
- *Note: The strength of this framework depends on the political will to respect it…*

The set-up of the 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 900 000 €;
- 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:
   - Annual report in May (this year May, 15);
   - More information on ***www.finanspolitiskaradet.se***.

Themes in the reports

- Increase the clarity of the surplus target (net lending of 1% of GDP over a business cycle):
  - Underlying fundamental objectives
  - Too many indicators
- Criticism of circumventions of the expenditure ceiling;
- Critical evaluation of the fiscal sustainability calculations;
- Request for additional discretionary fiscal stimulus in the current recession (but less of permanent measures);
- Critical evaluation of the Government's labor market reforms;
- The economic reporting of the Government.

Do we make any difference?

- IMF, July 2013:

  "In its short life, the FPC has influenced fiscal policy. At a key moment, it influenced the policy debate and contributed to promoting a more cyclically adjusted budgetary policy. To sum up, the council's recommendations tended to be taken into account by the government in many cases, even if reluctantly on occasion, and sometimes with a time lag."

Topics from 2013 report

No further stimulus in the Budget Bill or Spring Bill

- General government net lending is expected to decrease from -0.7 % (of GDP) in 2012 to -1.6 % in 2013.
- The decline in net lending can almost entirely be attributed to the automatic weakening of net lending following the economic downturn.
- Structural net lending, which is adjusted for the automatic effects of the cyclical situation, is virtually unchanged between 2012 and 2013.
- The fiscal policy in the Budget Bill for 2013 and the 2013 Spring Fiscal Policy Bill does not provide any further stimulus to total demand.

No further stimulus in the Budget Bill or Spring Bill

- From a purely stabilisation policy perspective, a more expansive policy would have been justified in 2013.

- However, the different components of demand are not directly interchangeable – a fall in export demand, as is the case now, can only partly be compensated by increased domestic demand.

- Also, the scope for more expansive fiscal policy is limited: expansive measures need to be supplemented with budget improvements when the economic upturn has begun, in order not to jeopardise the surplus target.

Fiscal policy generally well balanced

- The Council's overall assessment is that fiscal policy is generally well balanced.

- ***However:*** the conflict between the short-term stabilisation policy perspective and maintaining the surplus target, which is formulated over a business cycle, should be given more attention in the Government's bills.

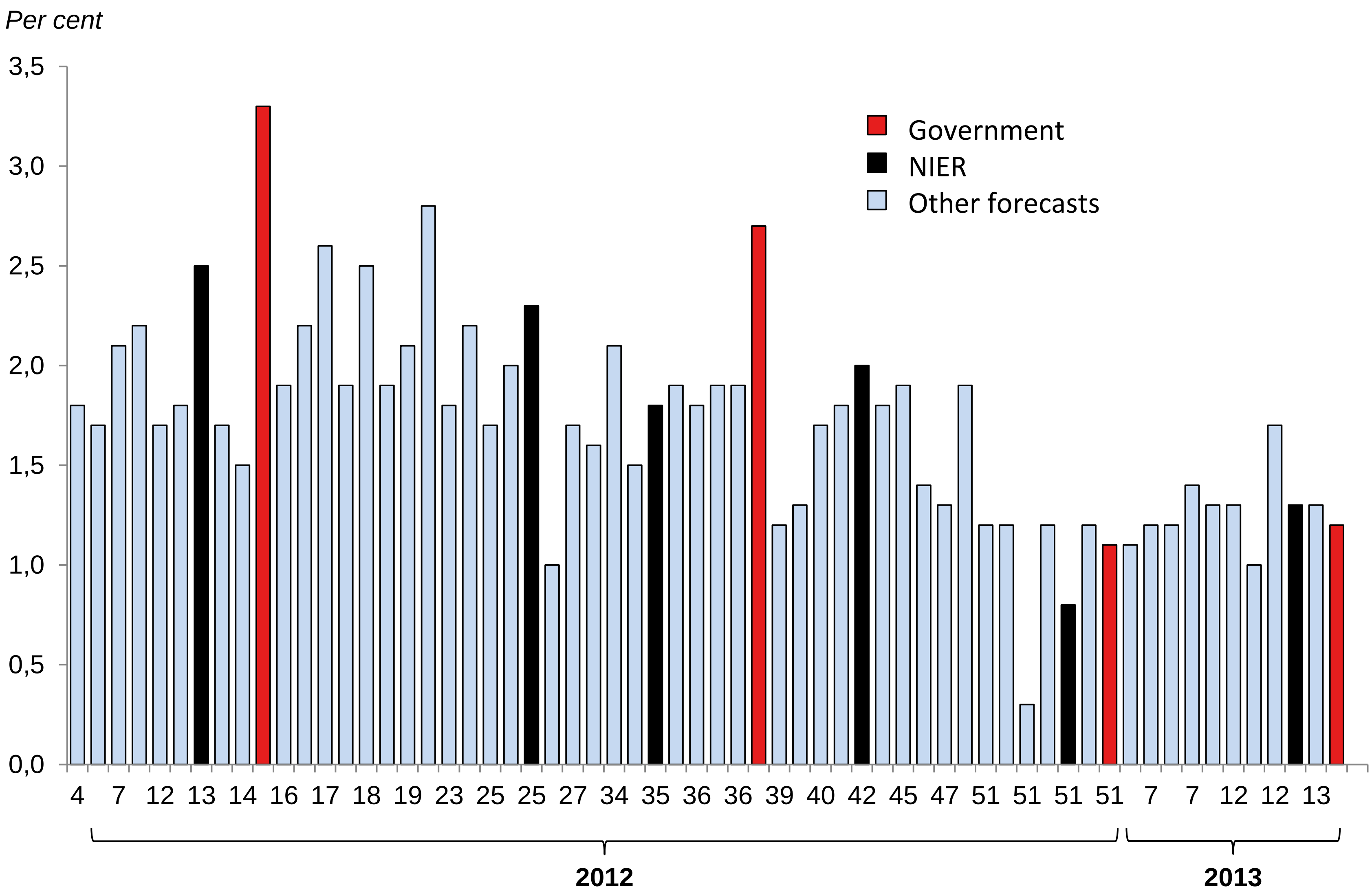
The surplus target will not be met

- The indicators reported by the Government suggest that the surplus target will not be met.
- In the Council's view, there is a clear deviation from the surplus target.
- Estimates from the National Institute of Economic Research and the Swedish National Financial Management Authority show that correcting the deviation will require a tight fiscal policy.

No plan for returning to surplus

- A deviation from the surplus target need not damage the credibility of fiscal policy as long as there are:
  - convincing arguments for the deviation and
  - a clear plan for returning to surplus.
- The Government should present a clear strategy for meeting the surplus target.

Growth forecasts for 2013



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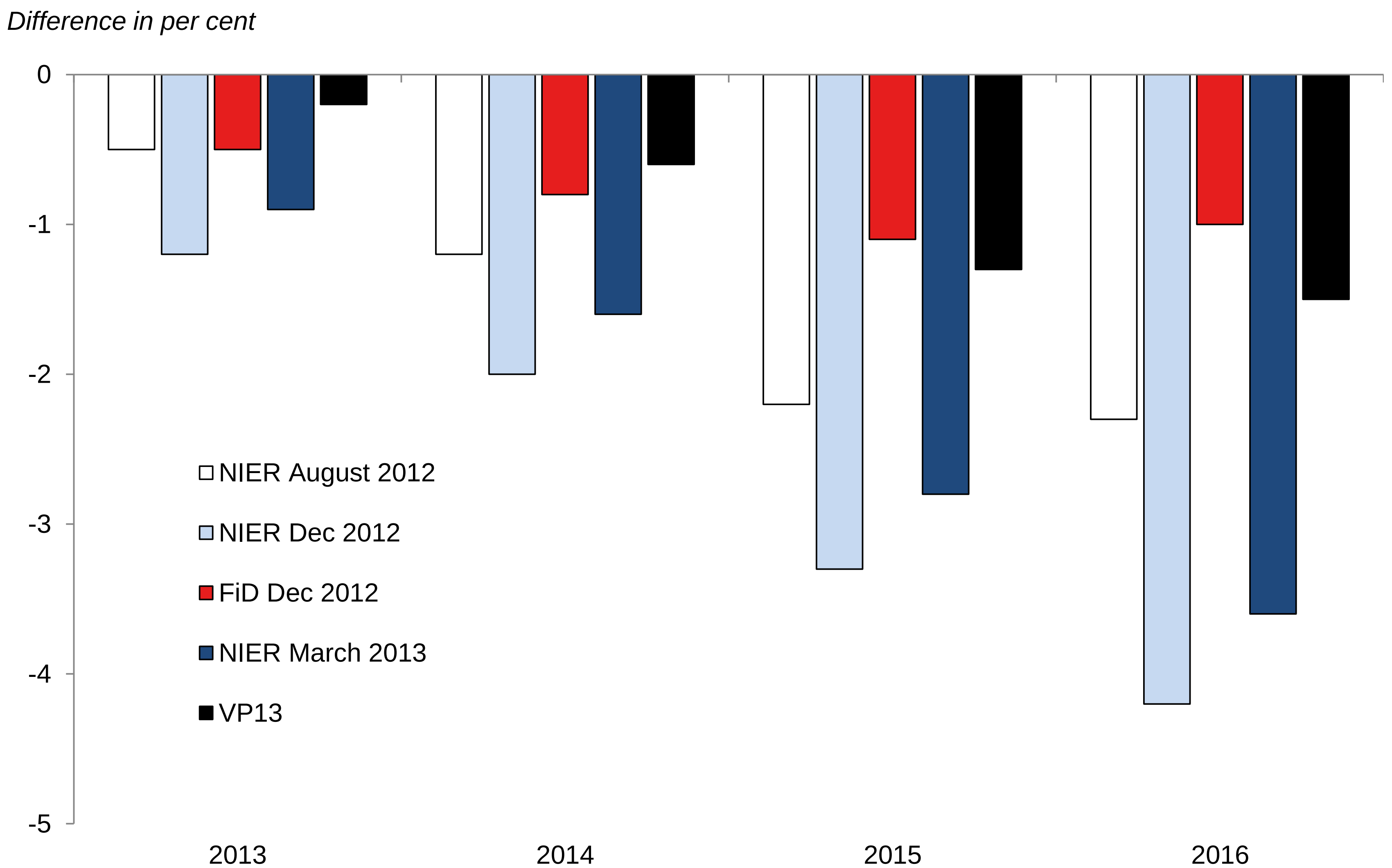
The Budget Bill for 2013 based on too optimistic forecasts

- The macro forecast in the Budget Bill for 2013 deviated sharply from other institutions’ forecasts.
- Significant deviations should be reported and justified in detail.

Potential GDP compared with BP13



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Budgetary projections

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