Swedish Fiscal Policy 2014

3 June 2014
Meeting with IMF – 2014 A IV Consultation
Stabilisation policy

• Given the Government’s assessment of the cyclical situation in the 2014 Budget Bill, the fiscal policy was well-balanced.

• The Council now sees a risk that net lending for 2014 may be lower than the level justified by stabilisation policy considerations.

• Permanent measures imply that a return to a 1 per cent surplus will be more difficult. Quite tight fiscal policy needed to return to surplus.

• The Government’s active stabilisation policy has been well timed.
The surplus target

- The surplus target will not be met. The Government should have declared a deviation from the target.
- The deviation from the surplus target may be justified by the long and deep downturn.
- Long-term fiscal sustainability is not threatened.
- An explicit and valuable commitment is made in the 2014 Spring Fiscal Policy Bill, that net lending will return to 1 per cent in 2018.
- The Government has once again postponed the time when net lending is to reach 1 per cent. Should have provided more justification for this postponement.
Changing the level of the surplus target

- The link between the surplus target and the fiscal policy proposed should be made clearer. Structural net lending should be used to assess whether there is a deviation from the target.
- If there is a deviation, the Government should explain it and present a realistic plan for meeting the target.
- A reduced surplus target is consistent with an acceptable development of net wealth and gross debt, but:
  - Smaller margins in the case of a crisis,
  - Worse consequences if the target is not reached,
  - Only a temporary increase in resources.
- The Council’s overall assessment:
  1 per cent surplus target should be maintained for the time being.
GDP gap 2014 according to spring 2014 forecasts

Per cent of potential GDP

<table>
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<tr>
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<th>VP14</th>
<th>NIER</th>
<th>ESV</th>
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<tr>
<td></td>
<td>-2.4</td>
<td>-1.3</td>
<td>-1.2</td>
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Of which labour market gap

FINANSPOLITISKA RÅDET
SWEDISH FISCAL POLICY COUNCIL
Net lending 2014 according to spring 2014 forecasts

Per cent of GDP

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<tbody>
<tr>
<td>Net lending</td>
<td>-1.6</td>
<td>-2.0</td>
<td>-2.3</td>
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<tr>
<td>Structural net lending</td>
<td>-0.2</td>
<td>-1.3</td>
<td>-1.8</td>
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</tbody>
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Stabilisation policy timing

Expansive measures

-7 -6 -5 -4 -3 -2 -1 0 1 2 3 4 5 6 7
Billion SEK

GDP gap

Low capacity utilisation

High capacity utilisation

Contractive measures

2007

2008

2009

2010

2011

2012

2013

2014

GDP gap (forecast) and proposed measures

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Net lending with a surplus target of 1 per cent

- General government, of which
  - Central government
  - Pension system
  - Local government
Net wealth with a surplus target of 1 per cent

Per cent of GDP

- General government, of which
- Central government
- Pension system
- Local government

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SWEDISH FISCAL POLICY COUNCIL
Net wealth with a target of 0 per cent

Per cent of GDP

- General government, of which
  - Central government
  - Pension system
  - Local government

Per cent of GDP
Additional graphs
Net lending 2014 according to autumn 2013 forecasts

<table>
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<tr>
<th>Per cent of GDP</th>
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<tr>
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GDP gap 2014 according to autumn 2013 forecasts

Per cent of potential GDP

-3.0

BP14

-1.9

NIER

Of which labour market gap
GDP, disposable income and household savings

Per cent of disposable income

2007=100

- GDP (left)
- Real disposable income (left)
- Household own financial savings ratio (right)
Exports, investments and household consumption

Household consumption
Exports
Gross fixed capital formation

2007=100

2007 2008 2009 2010 2011 2012 2013

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Labour force participation and employment rate

Per cent of population

Labour force participation

Employment rate

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The financial crisis compared to the crisis of the 1990s

- Labour force participation 1990 Q1 = 100
- Employment rate 1990 Q1 = 100
- Labour force participation 2008 Q1 = 100
- Employment rate 2008 Q1 = 100
Labour force participation and employment rate adjusted for demographics

Per cent of population

- Actual labour force participation
- Actual employment rate
- Adjusted labour force participation
- Adjusted employment rate
Share of unemployed belonging to vulnerable groups

Per cent of unemployed

- Arbetsförmedlingen (Swedish Public Employment Service)
- AKU (official statistics from Statistics Sweden)