

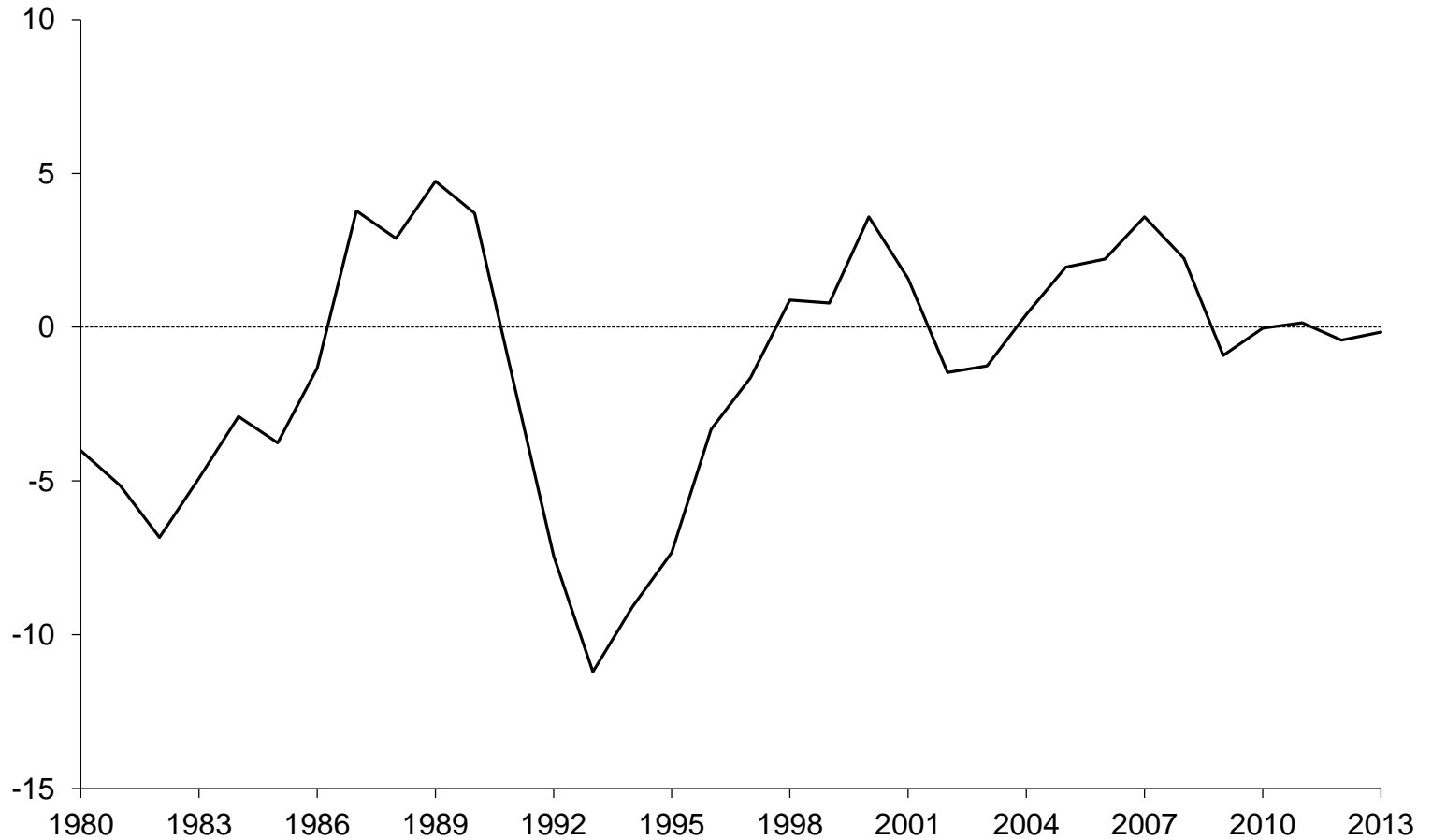
# The Swedish Fiscal Policy Council

Erik Höglin and Joakim Sonnegård

Meeting with Keiko Takahashi (Japanese Ministry of Finance) and  
Masaaki Kurihara (Japanese Embassy in Stockholm)

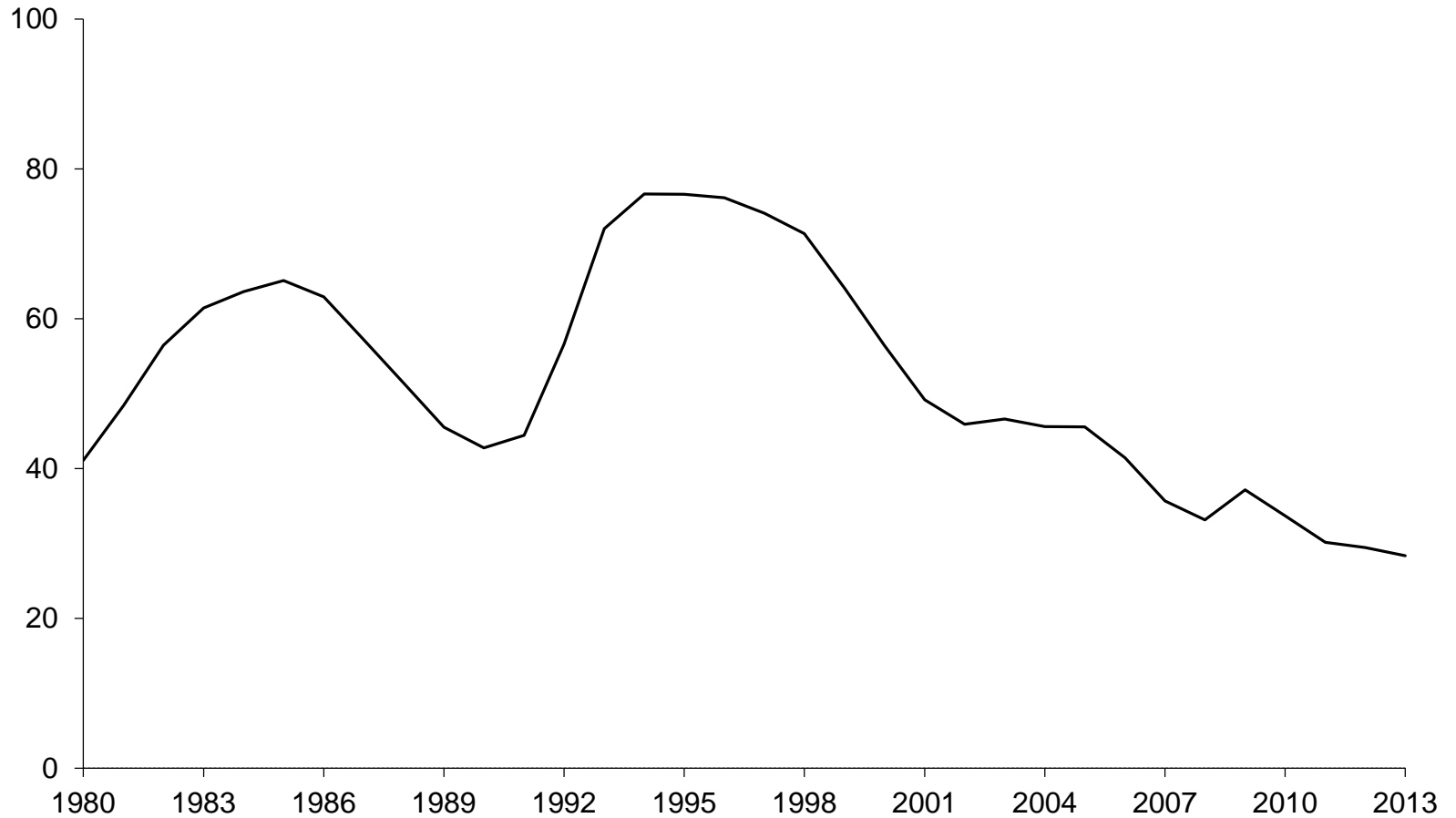
Jan 17, 2012

## General government net lending in Sweden, per cent of GDP



Source: National Institute for Economic Research.

## General government gross debt in Sweden, per cent of GDP



Source: National Institute for Economic Research.

# The Swedish fiscal framework

- Top-down approach for the central government budget
- Surplus target for government net lending
- Central government expenditure ceiling
- Balanced budget requirement for local governments
- Fiscal Policy Council

# The Budget Process

- The General Government Expenditure Ceiling
  - Equals the Expenditure Ceiling + forecast local government expenditures
- The Local Government Balanced Budget requirement (since 2000)
  - Revenues  $\geq$  expenditures
- The Surplus Target (since 2000)
  - Public finances are required to show a surplus of 1 per cent over the course of a business cycle for the whole public sector
  - Motivation: a buffer for economic fluctuations and demographic changes
- EU Fiscal Rules – Stability and Growth Pact
  - Medium-term objective: close to balance or surplus
  - Deficit ceiling: three per cent of GDP
  - Debt ceiling: 60 per cent of GDP (or decreasing debt ratio)

# The council's background

- Theoretical considerations rather than acute problems
- Government Commission in 2002: requirements on fiscal policy in the event of euro membership
- Positive reactions from the liberal-conservative parties (Anders Borg)
- Negative reactions from the Social Democrats, the Left and the Greens:  
"another body providing false scientific clothing  
for the government's right-wing policy"
- Both budget discipline and the fiscal framework are consequences of the fiscal crisis in the 1990s

# Different approaches to Fiscal Policy Councils

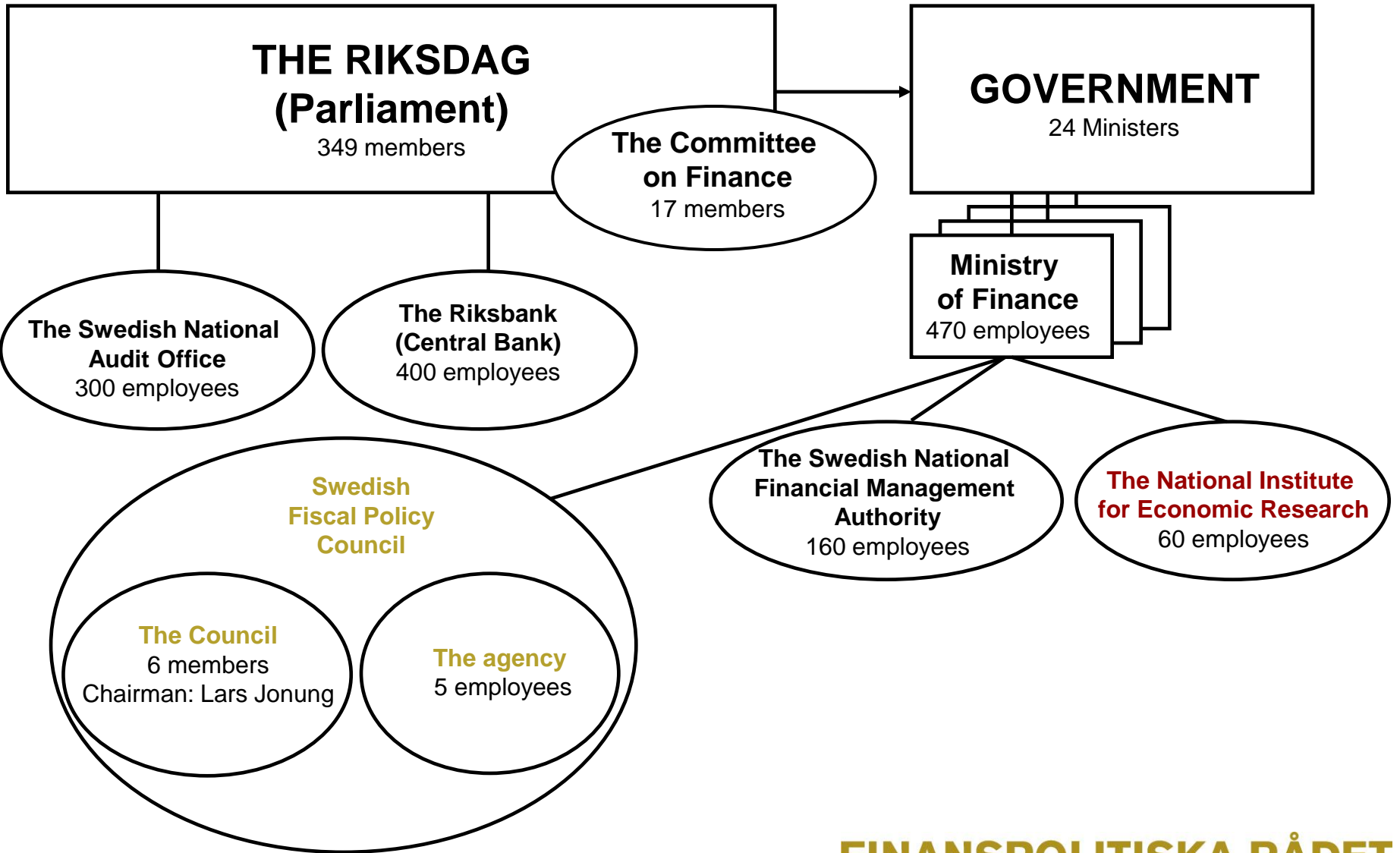
1. Delegation of decisions to independent Fiscal Policy Committee
  - deviation of annual budget target from medium-term budget objective.
  - the use of one or several fiscal policy instruments as stabilisation policy tool.
2. Policy recommendations from independent Fiscal Policy Council.
3. The government should base its budget on the macroeconomic forecasts of an independent Fiscal Policy Council.

Sweden: focus on *ex post* evaluation, some *ex ante* evaluation.

# The set-up of the council

- Established 2007
- An agency under the government
- Six members
  - academics
  - policy making experience
- Supplementary activities to ordinary jobs (mostly academic positions)
- Small secretariat: five persons
- Annual budget 900 000 €
- Independence: no informal contacts with the government





# The tasks of the Fiscal Policy Council

1. Evaluate whether fiscal policy meets its objectives:
    - long-run sustainability
    - surplus target
    - the expenditure ceiling
    - stabilisation issues
  2. Evaluate whether developments are in line with healthy sustainable growth and sustainable high employment
  3. Monitor the transparency of the government budget proposals and the motivations for various policy measures.
  4. Analyse the effects of fiscal policy on the distribution of welfare.
  5. Contribute to a better economic policy discussion in general.
- Annual report in May (this year May, 14).
  - More information on [www.finanspolitiskaradet.se](http://www.finanspolitiskaradet.se)

# Members

Lars Jonung (chairman). Professor of Economics at Lund University

John Hassler (deputy chairman). Professor of Economics at Stockholm University

Michael Bergman. Associate Professor of Economics at University of Copenhagen

Steinar Holden. Professor of Economics at University of Oslo

Eva Lindström. Former Auditor General

Helena Svaleryd. Associate Professor of Economics at Uppsala University

# Themes in the reports

- Increase the clarity of the surplus target: net lending of one percent of GDP over a business cycle
  - underlying fundamental objectives
  - too many indicators
- Criticism of circumventions of expenditure ceiling
- Critical evaluation of fiscal sustainability calculations
- More discretionary fiscal stimulus in the current recession (but less of permanent measures)
- Critical evaluation of the government's labour market reforms
- The economic reporting of the government

# The council's impact

- Extensive media coverage
- Formal response in the spring fiscal policy bill
- Impact on actual policy
  - what is the counterfactual?
  - fiscal stimulus in 2010
  - less effect on "budget tricks"
  - more transparent sustainability calculations
  - some effect on surplus target
  - some effect on economic reporting