The Fiscal Policy Council

Meeting with Denmark’s Fiscal Council
Stockholm
23 January, 2015
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.
THE RIKSDAG
(Parliament)
349 members

The Committee on Finance
17 members

GOVERNMENT
24 Ministers

Ministry of Finance
470 employees

The Swedish National Audit Office
300 employees

The Riksbank (Central Bank)
400 employees

The Swedish National Financial Management Authority
160 employees

The National Institute for Economic Research
60 employees

The Council
6 members
Chairman: John Hassler

The agency
5 employees

Swedish Fiscal Policy Council

The Swedish National Audit Office
300 employees

The Riksbank (Central Bank)
400 employees

The Swedish National Financial Management Authority
160 employees

The National Institute for Economic Research
60 employees

The Council
6 members
Chairman: John Hassler

The agency
5 employees

Swedish Fiscal Policy Council
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. Analyse 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](http://www.finanspolitiskaradet.se).
The Swedish Fiscal Framework
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- 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;

- Financially stable pension system;

- Since 2007, a Fiscal Policy Council with a broad remit (to facilitate transparency and accountability).
The Surplus target

- Net lending surplus of 1 percent of GDP
- Average over the business cycle
- Entire public sector, central and local gov’t as well as pension system
- Evaluated with several indicators but:
  - Difficult to define the business cycle
  - Judgemental
- Target in place since 2000, but currently questioned for being too strict
The Expenditure ceiling

- Nominal ceiling for Central Gov’t expenditure
- Covers all expenditure except interest on national debt
- Set by parliament on a three year rolling basis
- Can be changed by parliament but at a potentially high political cost
- Compliance monitored monthly and reported to parliament twice per year
Has the fiscal framework worked?

- Generally successful:
  - Top-down approach is followed;
  - Expenditure ceilings have not been breached (but there has been some creative bookkeeping);
  - Surplus target has been met – at least until now…
  - Broad political support: opposition wanted more spending during crisis;
General Government Net Lending 1993–2018

Per cent of GDP

1 per cent surplus target

Per cent of GDP

-12 -10 -8 -6 -4 -2 0 2 4 6


General government net lending

Average net lending 2000-2014 = 0,5
Expenditure Ceiling 1997–2017

Per cent of GDP

- 1997
- 1999
- 2001
- 2003
- 2005
- 2007
- 2009
- 2011
- 2013
- 2015
- 2017

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SWEDISH FISCAL POLICY COUNCIL
Expenditure ceiling and government expenditure

Per cent of GDP

- Expenditure ceiling
- Government expenditure
Government expenditure

- Government expenditure, nominal (left axis)
- Government expenditure, % of GDP (right axis)

SEK billion
Per cent of GDP

1997 1999 2001 2003 2005 2007 2009 2011 2013 2015 2017
Fiscal balance over various periods, ending 2018
Average over each period

Procent av BNP
Konjunkturjusterat sparande
Varför ska vi intressera oss för konjunkturjusterat sparande?

- Kan ge insikter om utvecklingen i de offentliga finanserna på (medel)lång sikt
- Indikator på diskretionär finanspolitik
- För Sverige:
  - Indikator för uppfyllande av överskottsmålet
  - Inom EU, Medium Term Objective för finansiellt sparande uttrycks i konjunkturjusterade termer (MTO för Sverige: finansiellt sparande som lägst -1 procent av BNP)
Konjunkturjusterat sparande 2013–2015

<table>
<thead>
<tr>
<th>Procent av BNP</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>FiD</td>
<td>0,1</td>
<td>-0,9</td>
<td>-0,4</td>
</tr>
<tr>
<td>OECD</td>
<td>-0,4</td>
<td>-0,8</td>
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<tr>
<td>EU-KOM</td>
<td>-0,3</td>
<td>-1,5</td>
<td>-1,1</td>
</tr>
<tr>
<td>KI</td>
<td>-0,7</td>
<td>-1,6</td>
<td>-1,2</td>
</tr>
</tbody>
</table>
Aggregerad metod (FiD)

• $s = \frac{S}{Y}$

• $s^s = \frac{S^s}{Y^*}$

• $s^s = s - \varepsilon \left(\frac{Y - Y^*}{Y^*}\right)$

• $\varepsilon = 0,55$

➤ Girouard och André (2005): $\varepsilon = 0,55$

➤ Flodén (2009): $\varepsilon = 0,53$
Dis-aggregerad metod (KI)

- KI tar hänsyn till den cykliska utvecklingen i olika skattebaser och utgiftsbaser, inte bara den cykliska utvecklingen i BNP.

\[ S = \sum_{i} \frac{T_i}{B_i} \left( \frac{B_i}{Y} \right) Y + E_U - E_O - rD \]

\[ S^{S} = \sum_{i} \frac{T_i}{B_i} \left( \frac{B_i}{Y} \right)^* Y^* + E_U \frac{U^*}{U} - E_O - rD \]

\[ S - S^{S} = \sum_{j} \frac{T_i}{B_i} \left( Y \left( \frac{B_i}{Y} \right) - Y^* \left( \frac{B_i}{Y} \right)^* \right) - \frac{E_U}{U} (U - U^*) \]

- Konjunkturjusteringen beror på BNP-gapet, skattebasernas avvikelse från jämvikt som andel av BNP och arbetslöshetsgapet.
Strukturellt sparande

Procent av potentiell BNP
BNP-gap

Procent av potentiell BNP

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SWEDISH FISCAL POLICY COUNCIL
Strukturellt sparande

Procent av BNP/potentiell BNP

BP15

KI augusti 2014

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Differensen i strukturellt sparande mellan BP15 och KI augusti 2014 dekomponerad

![Diagram showing the difference in structural savings between BP15 and KI in August 2014, decomposed.](image-url)
Differensen i strukturellt sparande dekomponerad i olika delgap

**Procent av BNP**

- Sysselsättningsgap
- Medelarbetstids- och produktivitetsgap
- Övrigt

![Diagram showing differences in structural saving decomposed into different gaps over the years 2000 to 2014.](image-url)
Prognoser för strukturellt sparande – differensens dekomponerad

Procent av BNP

2014 2015 2016 2017 2018

Faktiskt sparande
BNP-gap
Engångseffekter/extraordinära k-vinster
Metod