Swedish Fiscal Policy 2014

15 May 2014
Meeting with OECD
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>
<thead>
<tr>
<th></th>
<th>VP14</th>
<th>NIER</th>
<th>ESV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gap</td>
<td>-2.4</td>
<td>-1.3</td>
<td>-1.2</td>
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Of which labour market gap

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Net lending 2014 according to spring 2014 forecasts

Per cent of GDP

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<tr>
<th></th>
<th>VP14</th>
<th>NIER</th>
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<tbody>
<tr>
<td>Net lending</td>
<td>-1.6</td>
<td>-2.0</td>
<td>-2.3</td>
</tr>
<tr>
<td>Structural net lending</td>
<td>-0.2</td>
<td>-1.3</td>
<td>-1.8</td>
</tr>
</tbody>
</table>

- Net lending
- Structural net lending
Stabilisation policy timing

Expansive measures

Billion SEK

GDP gap

Low capacity utilisation

High capacity utilisation

Contractive measures

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


-35 -25 -15 -5 5 15 25 35

GDP gap (forecast) and proposed measures

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Net lending 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 surplus target of 1 per cent

Per cent of GDP

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