Swedish Fiscal Policy 2014

15 May 2014

Meeting with OECD

FINANSPOLITISKA RÅDET

SWEDISH FISCAL POLICY COUNCIL

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.

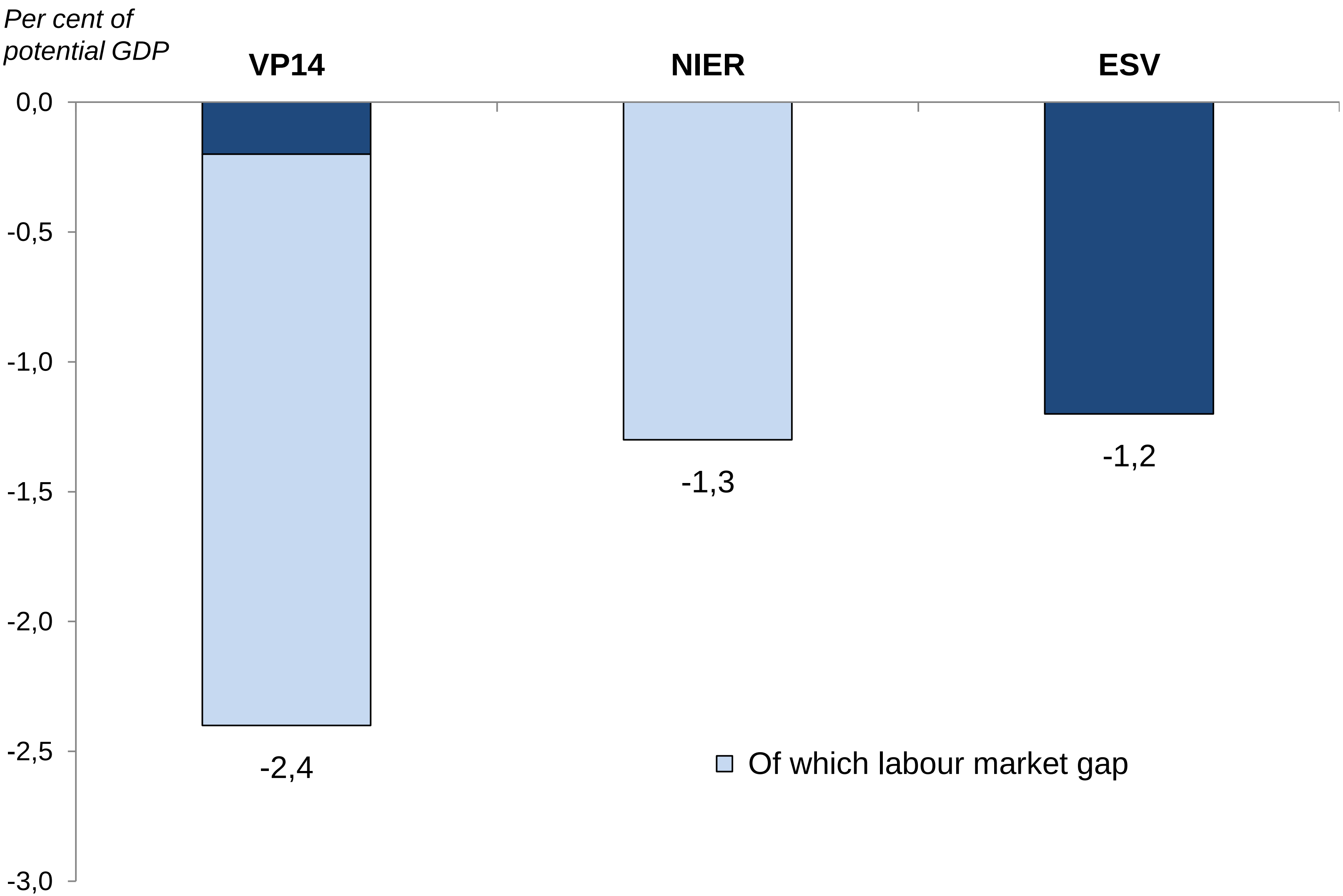
The surplus target

- 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



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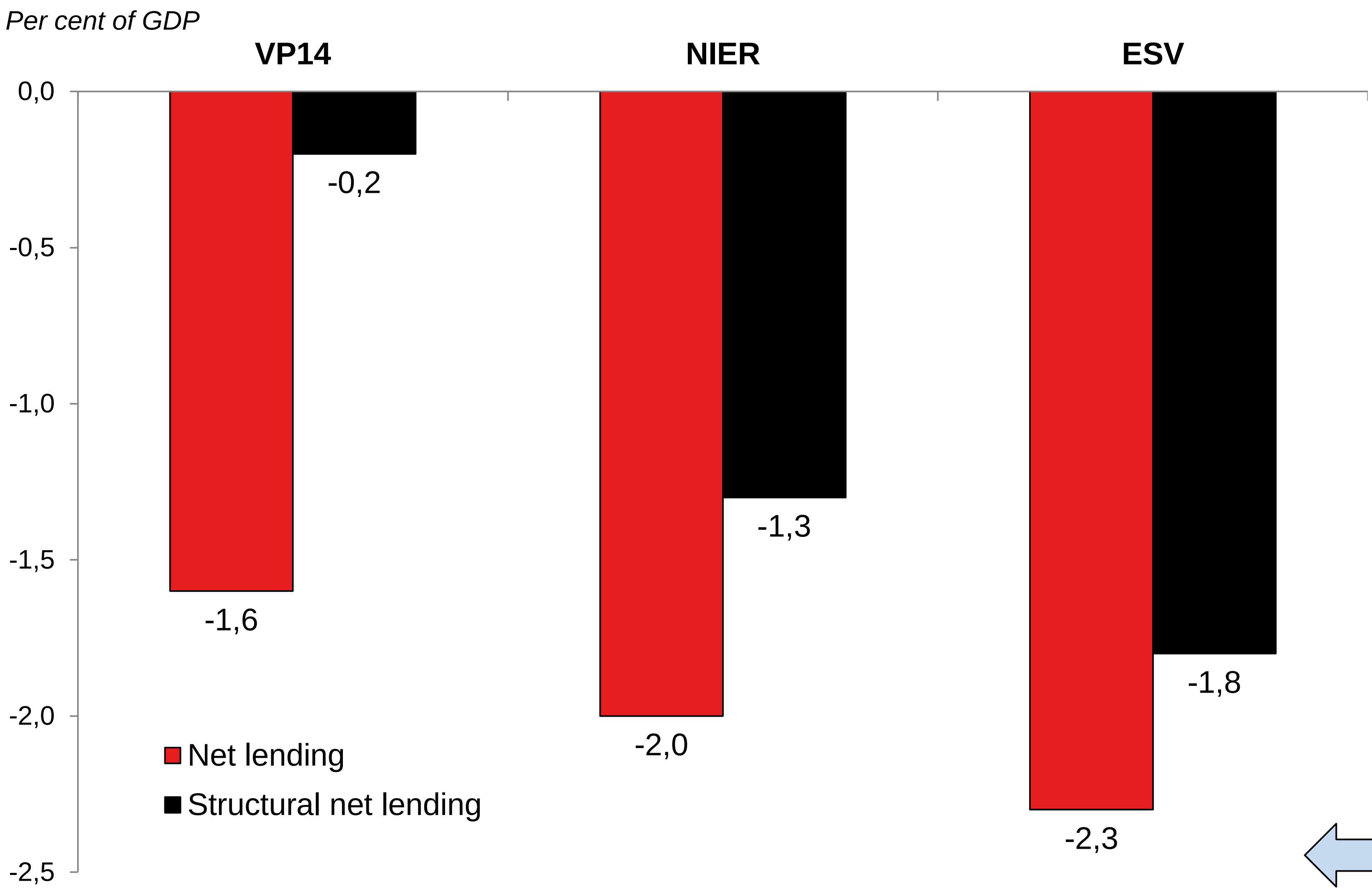
Net lending 2014 according to spring 2014 forecasts



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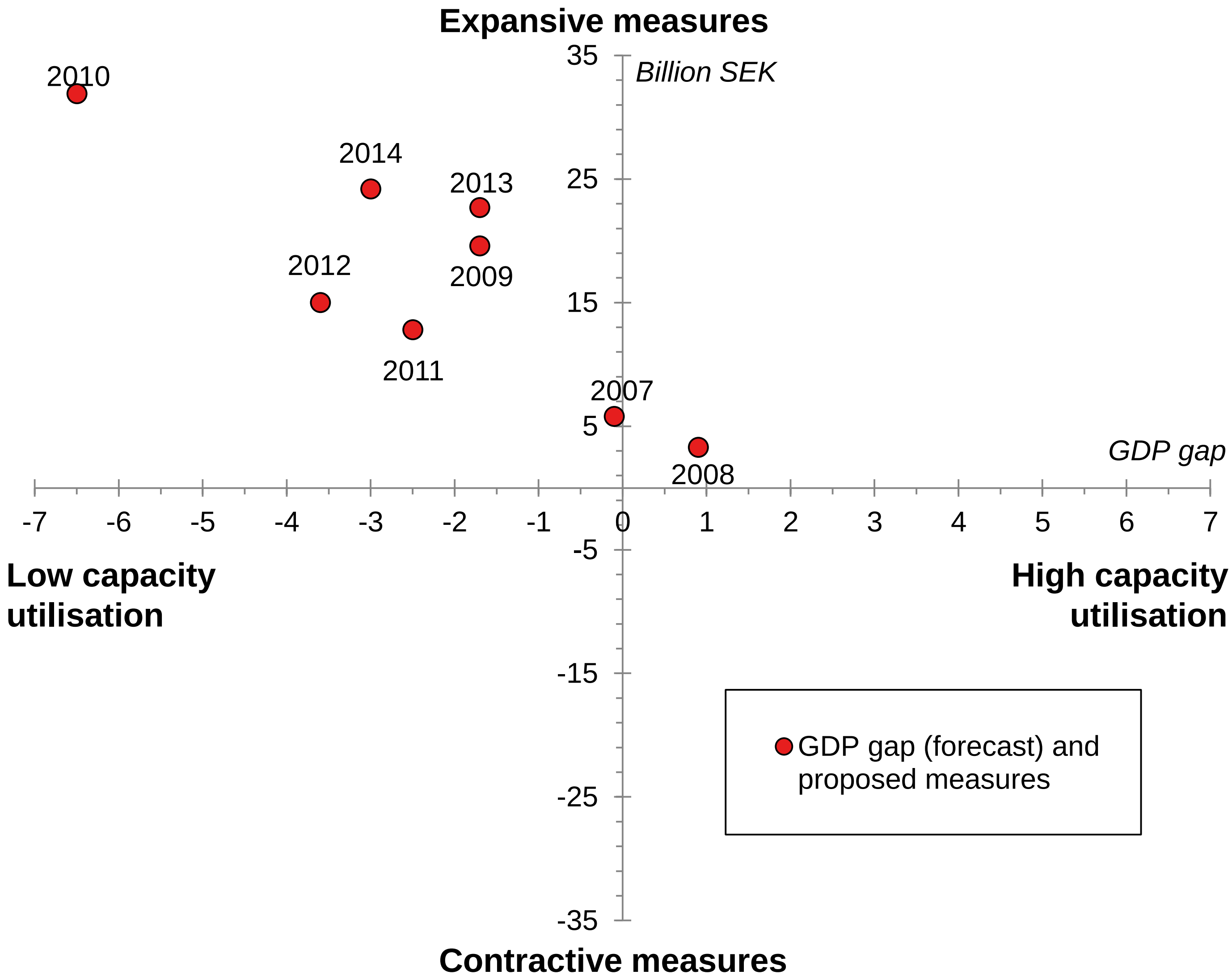
Stabilisation policy timing



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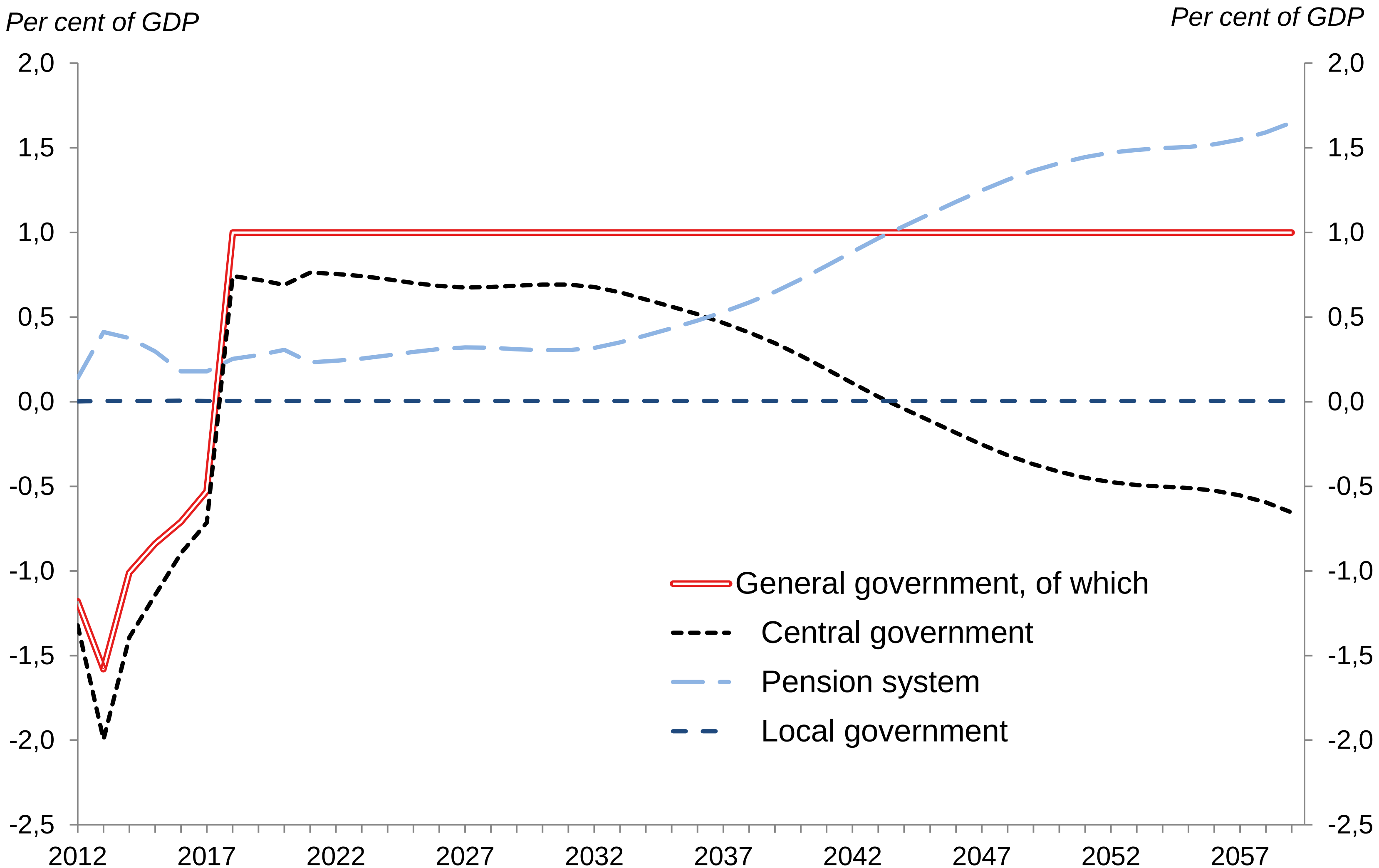
Net lending with a surplus target of 1 per cent



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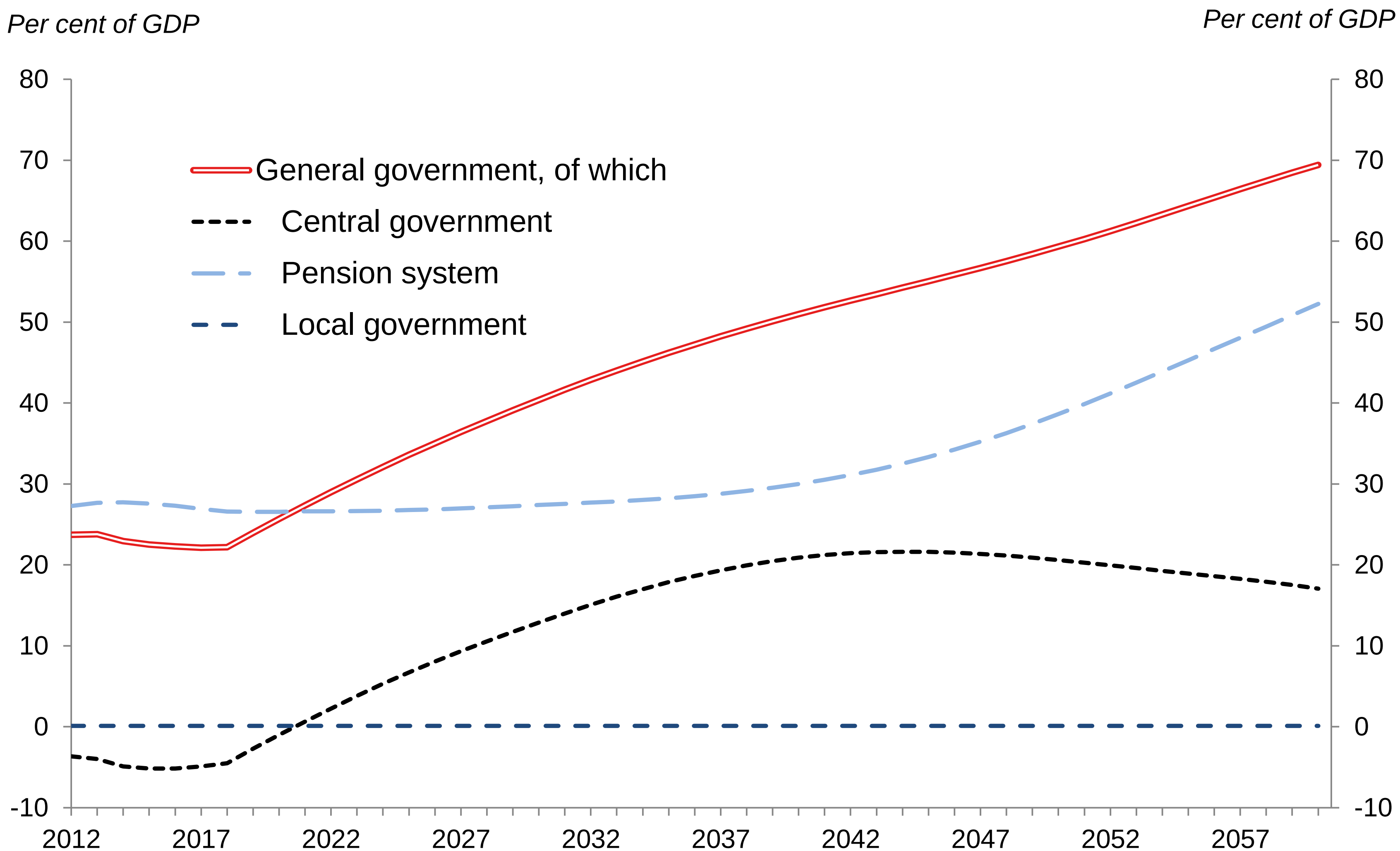
Net wealth with a surplus target of 1 per cent



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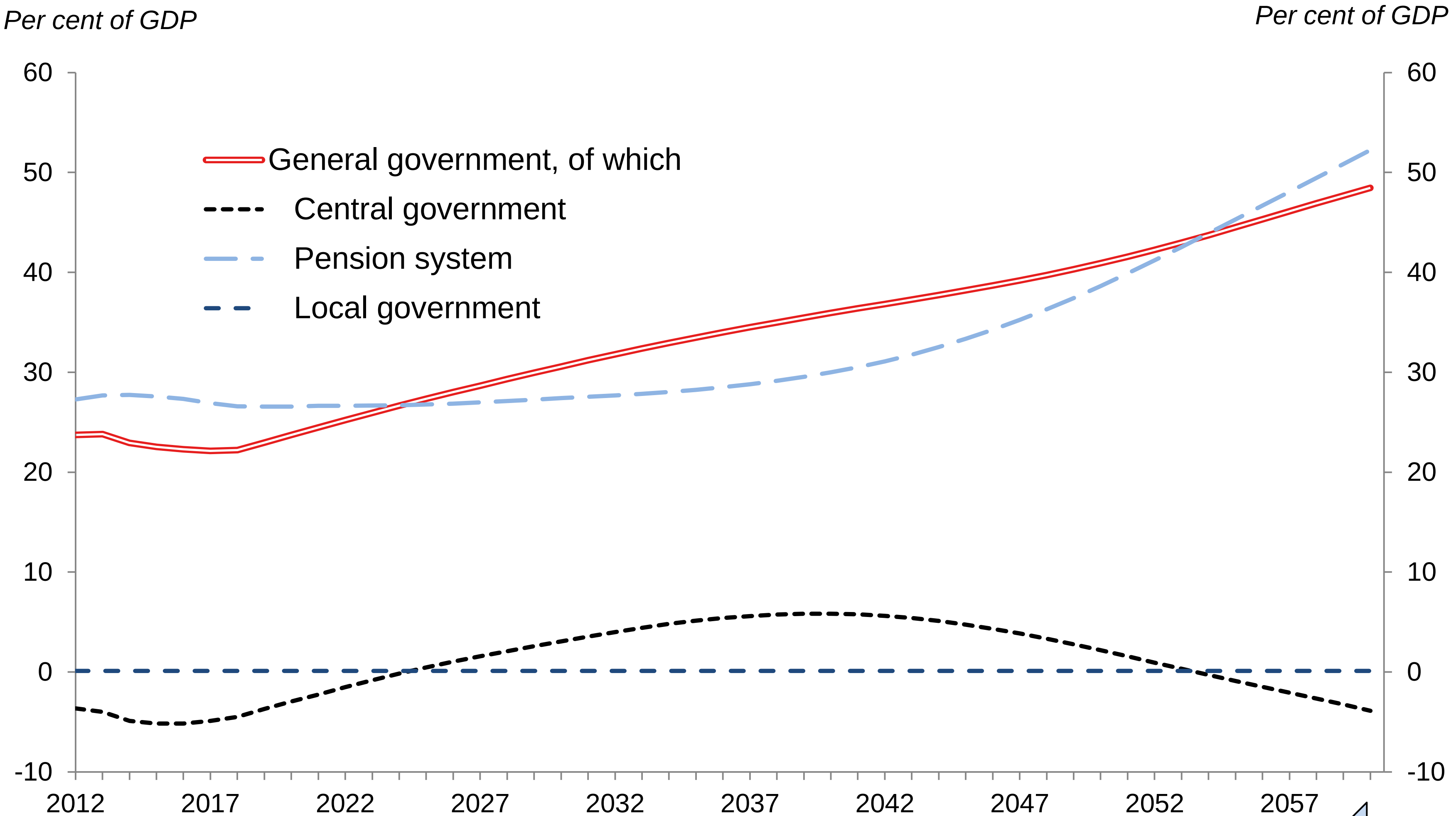
Net wealth with a target of 0 per cent



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